

## Globus Spirits Limited

January 07, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	225.06 (reduced from Rs.241.81 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed with outlook revised from positive
Long-term/Short-term Bank Facilities	15.00 (reduced from Rs.16.0 crore)	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Reaffirmed with outlook revised from positive
<b>Total</b>	<b>240.06</b> <b>(Rs. Two hundred forty crore and six lakh only)</b>		

*Detail of facilities or instrument in Annexure-1*

#### Detailed description of the key rating drivers

CARE has reaffirmed the ratings assigned to Globus Spirits Limited (GSL) with revision in outlook from positive to stable on account of moderation in sales volume of Indian made India Liquor (IMIL) in the key markets and continuous financial supports to the loss making subsidiary company viz., Unibev Limited which is expected to moderate the debt protection matrix of GSL in near to medium term.

The ratings continue to draw strength from experienced promoter and management team of the company, its significant presence in the Country Liquor (CL) segment, experience in bottling for large Indian Made Foreign Liquor (IMFL) players, improvement in the operations at Bihar Unit and improvement in financial performance with comfortable gearing ratios and debt coverage indicators in FY19 and H1FY20.

The ratings, however continues to remain constrained by exposure to subsidiary company, volatility in the input prices with limited pricing power and highly regulated nature of Alcohol industry.

#### Positive Rating Sensitivity

- The ability of the company to improve its operating margins (i.e. PBILDT) beyond 12% and Return on Capital Employed (ROCE) beyond 15% on sustained basis.

#### Negative Rating Sensitivity

- Any un- envisaged incremental debt funded capital expenditure deteriorating its capital structure and debt coverage indicators from the current levels.
- Any adverse regulatory changes having significant impact on GSL.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

##### Experienced promoter and management team

The main promoter, Shri A.K. Swarup (the MD of GSL), an IIM Kolkata alumni has over two decades of experience in alcohol & distillery industry. He is ably assisted by a group of experienced personnel having wide experience in the alcohol industry.

##### Significant presence in the Country Liquor segment (IMIL) followed by Industrial Alcohol

The alcohol industry in India comprises Beer, Wine, Brandy, IMFL and IMIL/ Country Liquor (CL). CL segment contributes maximum revenue to the turnover of GSL and contributed about 47% of the total income in FY19 (~42% in FY18). The company supplies CL in North Indian States, specifically, Rajasthan, Haryana & Delhi where it has a strong market share of ~24-25%. The Haryana CL market (once a key market of GSL), experienced low sales volumes during the last four fiscals, primarily due to reduction in market size for branded CL and smaller market being made available for the same number of players which resulted in decline in the overall sales volume. Further, in FY19, there has been decline in Rajasthan Market on account of change in the State Government Policy which has made mandatory for CL sellers of the state to procure minimum 30% of total volume sales from Rajasthan State Ganganagar Sugar Mills Limited (RSGSM). This led to decline in market for private players in the state.

GSL entered the West Bengal CL Market by achieving COD for its ENA unit in February 2017 and has received good acceptance of its brand 'Goldee'. Higher margins in West Bengal coupled with good alcohol prices and lower raw material

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

prices have added in delivering healthy operating profits. Given the strong growth potential in the state, GSL plans to improve its market share through stretching of distribution channels which would remain a key rating sensitivity. Apart from having major presence in the CL segment, GSL also has a presence in the bulk alcohol segment which contributed around ~40% of the net sales in FY19 (~32% in FY18). Though the margins from this segment are lower than the CL segment, it provides a steady source of revenue for the company.

#### **Experience in bottling high quality IMFL for large IMFL players**

Apart from foraying into the IMFL market of its own, GSL manufactures IMFL brands for established players in the industry like for Allied Blenders & Distillers (ABD) at its Rajasthan plant. The company also has a franchise bottling agreement with United Spirits Ltd (USL) for bottling of Bagpiper Whisky in the state of Haryana and West Bengal. Since the liquor industry is regulated by the government in terms of distribution, bottling contracts for the franchise is of strategic importance.

#### **Improvement in the operations at Bihar Unit in H1FY20**

Pursuant to Patna High Court order, Bihar Government permitted manufacturing of ENA in Bihar for sale outside the State. Accordingly, the company has resumed operations in Q3FY19 with an annual capacity of 28 million litres. Till September 30, 2019, Bihar Unit has produced 13.1 million litres of ENA and operating at ~94% of capacity utilization on an annualized basis. Further, in H1FY20, Bihar unit has registered Rs.60.43crore on sale of 12.2 million litre of ENA.

#### **Improvement in financial performance with comfortable gearing ratios and debt coverage indicators in FY19 and H1FY20**

During FY19, GSL registered Total Operating Income (TOI) of Rs.988.01crore registering growth of 15% over FY18 TOI of Rs.855.67crore primarily driven by increase in the average sales realization of country liquor and Industrial Alcohol coupled with increase in the sales volume of the Industrial Alcohol attributable to the scaling up of operations at West Bengal Plant (COD-Feb 2017) and recommencement of operation at Bihar Plant in Q3FY19. PBILDT margin improved to 9.79% (Rs.96.77 crore) in FY19 from 8.41% (Rs.71.93 crore) in FY18 mainly due to increase in average sales realization of ENA and country liquor coupled with better absorption of overhead expenditure incidental to higher production of ENA in FY19 (128.7 million in FY19 vis-a-vis 113.7 million in FY18). Accordingly, GCA improved and continued to remain comfortable at Rs.71.88 crore in FY19 (Rs.45.19 Cr. in FY18) as against the principal repayment of Rs.29.45 crore in FY19 (Rs.22.89 crore in FY18). Further, Interest coverage ratio improved to 3.68 times in FY19 from 2.65 times in FY18.

Capital structure of the company continues to remain comfortable with improvement in the overall gearing ratios to 0.56x as on March 31, 2019 from 0.66x as on March 31, 2018. Further, reduction in overall debt levels coupled with higher GCA led to significant improvement in the debt coverage indicators. Accordingly, total debt/GCA ratio improved to 3.20x as on March 31, 2019 as against 5.57x as on March 31, 2018.

During H1FY20, the company has achieved a total income of Rs.574.26 crore (H1FY19: Rs.460.07 crore) registering a ~25% growth on y-o-y basis. GSL reported a PAT of Rs.23.08 crore and GCA of Rs.44.99 crore vis-à-vis principal repayment of Rs.11.25 crore in H1FY20.

#### **Key Rating Weaknesses**

##### **Exposure to the loss making subsidiary company**

GSL has entered into the Indian Made Foreign Liquor (IMFL) through Unibev Limited (UL) which is a subsidiary (GSL has 90.91% stake) of GSL. GSL has made investment of Rs.4.95 crore in the form of equity in FY17. This apart, GSL has also supported UL through loans and advances as and when required. GSL has total exposure (equity and loans & advances) in the subsidiary to the tune of Rs.19.48crore as on March 31, 2019 as against Rs.7.24crore as on March 31, 2018 which further increased to Rs.31.35crore in H1FY20. Further, the management has maintained that GSL will keep supporting UL during initial stage of operation.

UL has reported total operating income of Rs.7.23crore in FY19 (Rs.0.16crore in FY18) and loss of Rs.6.85crore in FY19 (loss of Rs.1.38crore in FY18). Loss resulted in negative net-worth of Rs.7.90crore as March 31, 2019. Till October-2019, UL has launched three brands namely Laffaire, Governor's Reserve and Oakton and expanded its footprints in eight (8) states. Therefore, moderation in the debt protection matrix of GSL in near to medium term is contingent upon the quantum of supports to UL.

##### **Volatility in input prices with limited pricing power**

GSL uses grain as a raw material for its production. Since grains are seasonal products and its production depends on the vagaries of nature, the price of the same may vary depending on the production. Accordingly, GSL is required to store it

for a period of around two months. On the other side, limited pricing flexibility for its final product (as most of the liquor market is controlled by government distribution channel) profitability of the company gets affected.

### Highly regulated nature of Alcohol industry

The organized alcohol industry is dominated by very few large players. Further, high taxation and heavy regulation also make the industry dynamics complex. Government levies various duties like excise duty, sales tax, license fee, state-level import and export duty, bottling fee, welfare levy, assessment fee, franchise fee, turnover tax, surcharge etc. which varies from state to state. There is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. Moreover, the complexity of the industry further lies in the different types of distribution models followed in various states like government-controlled agencies, private distribution system and auction. The regulations at State levels are prone to frequent changes and be sudden and uncertain. The direction or timing of any regulatory changes being difficult to predict, industry is vulnerable to such unanticipated changes.

### Liquidity Position: Adequate

Adequate liquidity is marked by sufficient cushion in accruals (GCA of Rs.71.88crore in FY19) against repayment obligations of Rs.29.45crore and moderate cash and bank balance of Rs.1.57 crore in FY19. Its fund based bank limits are utilized to the extent of 26% only in last 12 months ending October 2019. Hence, its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year. However, current ratio of the company is below unity as on March 31, 2019 which is attributable to the higher windows to pay the creditors'.

### Industry Outlook

India has a young demographic profile with a median age of 28 years and around 67% of the population is within the legal drinking age. These two indicators coupled with growing disposable incomes, increasing rural consumption, greater acceptance of social drinking and relatively lower per capita consumption, are all factors that make India one of top markets for global spirit and offer significant growth opportunities for the industry.

**Analytical approach:** Standalone

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

### About the Company

Globus Spirits Limited (GSL), promoted by Shri Ajay Kumar Swarup of Delhi, is engaged in the business of manufacturing, marketing and sale of branded IMFL, IMIL and Bulk Alcohol comprising of Rectified Spirit and Extra Neutral Alcohol (ENA) and also involved in franchisee bottling to cater to renowned brand owners. GSL successfully operates four modern and fully integrated grain based distilleries at Behror (Rajasthan), Samalkha (Haryana), Panagarh (West Bengal) and Bihar having a combined capacity of ~161 million litres per annum. The company derives majority of its revenue from IMIL segment (~47% of its revenue) with major brands being 'Nimboo' for IMIL segment.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	855.67	988.01
PBILDT	71.93	96.77
PAT	7.02	30.57
Overall gearing (times)	0.66	0.56
Interest coverage (times)	2.65	3.68

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

Rating History for last three years: Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	39.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	Dec-2023	53.44	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	15.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	Dec-2023	9.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	Dec-2023	123.62	CARE A-; Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	39.00	CARE A-; Stable	-	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A-; Negative (19-Apr-17)	-
2.	Fund-based - LT-Term Loan	LT	53.44	CARE A-; Stable	-	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A-; Negative (19-Apr-17)	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	15.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Positive / CARE A2+ (15-Feb-19)	1)CARE A-; Stable / CARE A2+ (07-Dec-17) 2)CARE A-; Negative / CARE A1 (19-Apr-17)	-
4.	Fund-based - LT-Term Loan	LT	9.00	CARE A-; Stable	-	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A-; Negative (19-Apr-17)	-
5.	Fund-based - LT-Term Loan	LT	123.62	CARE A-; Stable	-	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A-; Negative (19-Apr-17)	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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