Globus Spirits Ltd.

April 19, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank facilities	284.40 (reduced from 300.91)	**CARE A; Negative (Single A; Outlook: Negative)**	Reaffirmed
Short-term Bank Facilities	10.00	**CARE A; Negative / A1 (Single A; Outlook: Negative / A One)**	Reaffirmed
Total Facilities	**294.40 (Rs. Two Hundred and Ninety Four crore and Forty lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Globus Spirits Ltd. continue to draw strength from the experienced promoter and management team of the company, its significant presence in the Country Liquor (CL) segment and experience in bottling for large Indian Made Foreign Liquor (IMFL) players, coupled with improving profitability and satisfactory gearing ratios. The rating also takes into account the commissioning of the distilleries in the state of West Bengal and Bihar (ENA unit) during Q3FY17.

The ratings, however, remain constrained by volatility in the input prices with limited pricing power and highly regulated nature of Alcohol industry. Ability of the company to increase its market share in the existing IMIL location, improve profitability and achieve the expected cash flow newly installed capacities would remain the key rating sensitivities.

Outlook Negative:

The outlook on the long term rating is negative on account of uncertainty over the operations of the newly commissioned Bihar Unit due to non-renewal of license for production of ENA from Grain based distilleries in the state of Bihar w.e.f. April, 01, 2017. Consequently, GSL has contested the order in the High Court and the matter is sub-judice. Till the final outcome, the Bihar unit will remain non-operational. The outlook may be revised to 'stable' in the event of any positive outcome of the ongoing litigation or better than envisaged financial performance of the company.

Detailed Description of 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)

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 50% & 48% respectively of the total income in FY16 & 10MFY17. The company supplies CL in North Indian States, specifically, Rajasthan, Haryana & Delhi where it has a strong market share of ~24-25%.

Apart from having major presence in the CL segment, GSL also has a presence in the bulk alcohol segment which contributed around 25% of the net sales in FY16 (31% in FY15). Though the margins from this segment are lower than the CL segment, it provides a steady source of revenue for the company. Further during Q3FY17, GCL has commenced operations in the state of West Bengal, and sales are expected to peak from FY18 onwards.

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. Since the liquor industry is regulated by the government in terms of distribution, bottling contracts for the franchise is of strategic importance.

Financial risk profile marked by satisfactory gearing ratios

During FY16, net sales witnessed a y-o-y increase of around 21%, occasioned out of consistent growth in the country liquor market share in Rajasthan, coupled with additional revenue of Rs.40.2 cr from bottling of IMIL at its Bihar unit. Despite increase in the price of broken rice (a major raw material), the PBILDT margin improved during FY16, taking into account the process efficiency arising out of higher yield of alcohol, higher contribution from IMIL segment and higher

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

sale of its by-product (mainly DGWS/ DDGS). PAT margin moved in line with the PBILDT margin, inspite of higher finance charge (mainly depreciation). Interest coverage also remained at satisfactory level.
Gearing ratios though deteriorated remained satisfactory at 0.72 times as on March 31, 2016 as against 0.44 times as on March 31, 2015.
During the nine months ended Dec.31, 2016, the performance of the company remained satisfactory and the company has achieved PBILDT of Rs.47.1 crore on a total operative income of Rs.578.5 crore.

Key Rating Weaknesses
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.

Commissioning of the expansion project, however, uncertainty remains over the operations of Bihar Unit
During Q3FY17, the company has commissioned its West Bengal unit (105 KLPD; Oct'16 - commencement of bottling production, ENA production commissioned from Feb'17) & Bihar (ENA) unit (120KLPD; Dec'16 - commencement of ENA production) for a total project cost of Rs.256.8 crore. The Bottling unit at Bihar however became operational in Q4FY15 but the same was terminated w.e.f. April 01, 2016 vide ban announced on sale and consumption of Alcohol within the state by the Bihar State Govt. Nevertheless, production of alcohol was allowed with the option to export alcohol in nearby states, and the Government had also relaxed the export duty on the same. But, vide the recent notification dated January 24, 2017, the State Govt. of Bihar has denied to renew the existing licenses of production of ENA from Grain based distilleries w.e.f. April 01, 2017. Consequently, GSL has contested the order in the High Court and the matter is sub-judice.

Highly regulated nature of Alcohol industry
The organised alcohol industry is dominated by very few large players. Further, high taxation and heavy regulation also make the industry dynamics complex. 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.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

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 ENA and also involved in franchisee bottling to cater to renowned brand owners. GSL currently operates three modern and fully integrated grain based distilleries at Behror, Rajasthan & Samalkha and Hisar, Haryana, having a combined capacity of 126.4 million bulk litres (bl) per annum. The company derives majority of its revenue from IMIL segment (~ 50 of its revenue) with major brand being 'Nimboo' for IMIL segment.
During FY16, GSL had earned PBILDT and PAT (after defd. tax) of Rs.69.9 crore (Rs.48.7 crore in FY15) & Rs.12.5 crore (Rs.7.1 crore in FY15) on a total operating income of Rs.706.7 crore (Rs.585.7 crore in FY15).
As per the working results for the nine months ended December 31 2016, GSL earned a PBILDT of Rs.47.1 crore on total operating income of Rs.578.5 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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-Term Loan	-	-	January 2023	9.00	CARE A; Negative
Fund-based - LT-Term Loan	-	-		120.00	CARE A; Negative
Fund-based - LT-Term Loan	-	-		66.50	CARE A; Negative
Fund-based - LT-Cash Credit	-	-	-	88.90	CARE A; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	10.00	CARE A; Negative / CARE A1

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	88.90	CARE A; Negative	-	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)
2.	Fund-based - LT-Term Loan	LT	66.50	CARE A; Negative	-	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	10.00	CARE A; Negative / CARE A1	-	-	1)CARE A / CARE A1 (04-Mar-16)	1)CARE A / CARE A1 (02-Feb-15)
4.	Fund-based - LT-Term Loan	LT	9.00	CARE A; Negative	-	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)
5.	Fund-based - LT-Term Loan	LT	120.00	CARE A; Negative	-	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)

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