

Globus Spirits Ltd.

December 07, 2017

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	271.34 (reduced from 284.4)	CARE A-; Stable (Single A minus; Outlook: Stable)	Revised from CARE A; Negative (Single A; Outlook: Negative)
Long/ Short-term Bank Facilities	10.00	CARE A-; Stable / A2 (Single A minus; Outlook: Stable / A Two plus)	Revised from CARE A; Negative / A1 (Single A; Outlook: Negative / A One)
Total	281.34 (Rs. Two Hundred and Eight one crore and Thirty four lacs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating takes into account the decline in profitability during FY17 coupled with continued uncertainty over the operations of the 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.

However 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 satisfactory capital structure.

The ratings, though, 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 from the newly installed capacities would remain the key rating sensitivities.

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 47% of the total income in FY17 (~50% in FY16). 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 entry of new players resulting in intensified competition which resulted in decline in the overall sales realisation. GSL has achieved consistent growth (y-o-y growth of around 18%) in the Rajasthan CL market; thereby offsetting the lower volumes in the Haryana CL market.

Apart from having major presence in the CL segment, GSL also has a presence in the bulk alcohol segment which contributed around 26% of the net sales in FY17 (25% in FY16). 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. GSL has recently added a bottling capacity at its newly established plant in West Bengal, wherein it has tied up with United Spirits Ltd. for their sub-premium brands of IMFL. Since the liquor industry is regulated by the government in terms of distribution, bottling contracts for the franchise is of strategic importance.

Satisfactory Capital Structure

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

The capital structure of the company has remained satisfactory during the last three years. Gearing ratio has remained satisfactory though marginally deteriorated remained satisfactory at 0.74 times as on March 31, 2017 as against 0.72 times as on March 31, 2016.

Key Rating Weakness

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.

Uncertainty continues over the operations of Bihar Unit

GSL has commissioned the ENA unit at Bihar (120KLPD) at a total cost of around Rs.125 crore during Dec'16. State Govt. of Bihar, vide the recent notification dated January 24, 2017, has denied to renew the existing licenses of production of ENA from Grain based distilleries w.e.f. April 01, 2017. Accordingly in May 2017, the distilleries had applied for renewal of license to State Excise, but despite Court decision, the State Government maintained that license renewal will only be subject to distilleries manufacturing only denatured spirit (ENA) which can only be used by industries except for portable alcohol industry, anywhere in the world.

To this the Distilleries again sought Court intervention and recently the High Court vid its order dated Oct.06, 2017, has directed that once the ENA is sold outside the state of Bihar and utilized in any manner which is permissible in that other state, then GoB cannot control the said conversion or use of ENA. In light of the said order GSL has filled application with the Excise Department to issue necessary orders to start the manufacturing process.

However the necessary orders/ approvals required for commencing the operation is yet to be received; therefore the uncertainty over the operations of Bihar Unit continues to persist.

Decline in the profitability during FY17

Despite increase in sales, PBILDT margin of GSL declined (7.12% in FY17 vis-à-vis 8.98% in FY16) on the back of increase in the price of broken rice (a major raw material) followed by comparatively higher sales of low margin industrial alcohol vis-à-vis county liquor. Further due to fall in the prices for its by-product (DDGS) during Q4FY17 and initial stabilizing issues with the newly installed capacities at West Bengal also contributed towards the overall deterioration in the operating profit during FY17.

This coupled with rise in the finance charge post COD of its West Bengal and Bihar (ENA) unit, led to further deterioration in the PAT Levels (1.14% in FY17 vis-à-vis 1.76% in FY16). Accordingly GCA declined to Rs.42.5 crore in FY17 as against Rs.57.0cr in FY16.

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. 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.

Analytical approach: Standalone

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

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

[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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	706.7	789.1
PBILDT	69.9	56.2
PBT	14.7	5.0
PAT	12.5	9.0
Overall gearing (times)	0.72	0.74
Interest coverage (times)	4.15	3.21

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

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-Cash Credit	-	-	-	88.90	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	10.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	Q4FY24	53.44	CARE A-; Stable
Fund-based - LT-Term Loan	-	-		9.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-		120.00	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 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-; Stable	1)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	10.00	CARE A-; Stable / CARE A2+	1)CARE A; Negative / CARE A1 (19-Apr-17)	-	1)CARE A / CARE A1 (04-Mar-16)	1)CARE A / CARE A1 (02-Feb-15)
3.	Fund-based - LT-Term Loan	LT	53.44	CARE A-; Stable	1)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)
4.	Fund-based - LT-Term Loan	LT	9.00	CARE A-; Stable	1)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)
5.	Fund-based - LT-Term Loan	LT	120.00	CARE A-; Stable	1)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)	1)CARE A (02-Feb-15)

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