

Globus Spirits Limited

February 15, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	241.81 (reduced from Rs.271.34 crore)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed with outlook revised from stable
Long-term/Short-term Bank Facilities	16.00 (enhanced from Rs.10.0 crore)	CARE A-; Positive/CARE A2+ (Single A Minus; Outlook: Positive/A Two Plus)	Reaffirmed with outlook revised from stable
Total	257.81 (Rs. Two hundred fifty seven crore and eighty one lakh only)		

Details of facilities in Annexure-1

Detailed description of the key rating drivers

The ratings assigned to the bank facilities of Globus Spirits Limited 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, recommencement of operations at Bihar Unit and change in biofuel policy wherein GSL will start ethanol manufacturing for supply to Oil Marketing Companies and satisfactory financial position with comfortable gearing ratios and debt coverage indicators.

The ratings, however continues to 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 & cash flow and regular receipt of contracts from Oil marketing companies would remain the key rating sensitivities.

Outlook: Positive

The outlook has been revised from 'stable' to Positive' due to ramping up of the Bihar unit coupled with expected cash flow from sale of ethanol and improvement in the financial performance of the company characterized by enhanced profitability and improved liquidity position going forward.

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 43% of the total income in FY18 (~50% in FY17). 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.

GSL has achieved consistent growth (y-o-y growth of around 19%) in the Rajasthan CL market; thereby offsetting the lower volumes in the Haryana CL market.

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 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 32% of the net sales in FY18 (27% 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 like for Allied Blenders & Distillers (ABD) at its Rajasthan

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

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.

Resumption of operations at Bihar Unit: The company has resumed operations from October 9, 2018 (closed since April 2017). Till January 31, 2019, Bihar Unit has sold 3.1 million liters of ENA for a sale consideration of Rs.14.4 crore

Ethanol manufacturing for supply to Oil Marketing Companies: Union Cabinet has approved National Policy on Biofuel wherein it allows use of food grains for production of Ethanol for blending with petrol. Accordingly, GSL will supply ethanol to IOCL, BPCL and HPCL during the period of March, 2019 – November, 2019 from the Bihar unit and Haryana unit and expects to garner revenue of approx. Rs.170.9 crore during the said period.

Satisfactory financial position with comfortable gearing ratios and debt coverage indicators: During FY18, GSL registered net sales of Rs.967.16 crore registering growth of 25% over FY17 net sales of Rs.773.75 crore primarily driven by consistent growth in the country liquor market share in Rajasthan (contributes around 33% of the total sales in FY18), coupled with growth in manufacturing segment (Industrial Alcohol and Franchise Bottling business) which grew by 42% over FY17. The growth in manufacturing segment was primarily driven by scaling up of operations at West Bengal plant which ramped up quickly to reach 90% plus capacity utilization.

PBILDT margin remained almost stable at 7.17% in FY18 vis-à-vis 7.19% in FY17. Post COD of its West Bengal and Bihar (ENA) unit, finance cost increased from Rs.17.52 crore in FY17 to Rs.27.14 crore in FY18. While the Bihar plant failed to generate any revenues, higher debt servicing (interest) and depreciation costs impacted PAT margin (0.72% in FY18 vis-à-vis 2.07% in FY17) during FY18. Nevertheless, GCA continued to remain comfortable at Rs.45.19 crore as against principal repayment of Rs.22.89 crore.

Capital structure remained satisfactory with improvement in the overall gearing ratio (0.66x as on March 31, 2018 vis-à-vis 0.73x as on March 31, 2017) mainly due to accretion of profits to reserve and continuous repayment of term debt. Reduction in total debt coupled with higher GCA, led to the improvement in the debt coverage indicators (Total debt/GCA of 5.57x as on March 31, 2018 as against 6.53x as on March 31, 2017).

During 9MFY19, the company had achieved a total income of Rs. 719.5 crore (9MFY18: Rs.663.2 crore) registering a ~9% growth on y-o-y basis. The overall gearing improved to 0.52x as on December 31, 2018. GSL reported a PAT of Rs.16.2 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.

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 Analysis: GSL has unutilized line of working capital facilities to the extent of 30-35% and cash & bank balance of Rs.1.63 crore as on March 31, 2018 (as against Rs.2.29 crore as on March 31, 2017).

Analytical approach: Standalone

Applicable Criteria

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

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

[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 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 ~150 million litres per annum. The company derives majority of its revenue from IMIL segment (~43% of its revenue) with major brands being 'Nimboo' for IMIL segment.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	773.75	967.16
PBILDT	55.61	69.39
PAT	16.14	7.02
Overall gearing (times)	0.73	0.66
Interest coverage (times)	3.17	2.56

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	-	-	-	39.00	CARE A-; Positive
Fund-based - LT-Term Loan	-	-	Dec, 2023	53.44	CARE A-; Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	16.00	CARE A-; Positive / CARE A2+
Fund-based - LT-Term Loan	-	-	Dec, 2023	9.00	CARE A-; Positive
Fund-based - LT-Term Loan	-	-	Dec, 2023	140.37	CARE A-; Positive

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	39.00	CARE A-; Positive	-	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)
2.	Fund-based - LT-Term Loan	LT	53.44	CARE A-; Positive	-	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	16.00	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Dec-17) 2)CARE A; Negative / CARE A1 (19-Apr-17)	-	1)CARE A / CARE A1 (04-Mar-16)
4.	Fund-based - LT-Term Loan	LT	9.00	CARE A-; Positive	-	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)
5.	Fund-based - LT-Term Loan	LT	140.37	CARE A-; Positive	-	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)	-	1)CARE A (04-Mar-16)

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