

## Great Galleon Ventures Limited

June 25, 2018

### Summary of rated instruments

Instrument	Current Rated Amount(Rs. crore)	Rating Action
Long-term – Fund-based – Proposed Term Loan	50.00	[ICRA]BBB+ (Stable); assigned
<b>Total</b>	<b>50.00</b>	

### Rating action

ICRA has assigned a long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) for the Rs. 50.00-crore long-term fund-based proposed term loan facilities of Great Galleon Ventures Limited (GGVL). The outlook on the long-term rating is Stable.

### Rationale

The assigned rating considers the comfortable financial profile of the company characterised by healthy profitability, low gearing level, robust debt protection metrics and comfortable liquidity supported by investments, primarily in mutual funds and bonds. The rating also draws comfort from the extensive experience of the promoters in the liquor industry and company's established operational track record of over three decades. The rating takes into account the company's established presence in the Madhya Pradesh market, being among the few license holders for Country Liquor (CL) production in the state, with significant entry barriers and regulated price regime, resulting in limited competition. Further, the rating positively factors in the Government's policy requiring mandatory procurement by retailers of a certain fixed volume of CL and IMFL from distilleries in Madhya Pradesh. ICRA notes that the demand outlook for liquor industry remains favourable driven by demographic profile, changing lifestyles and improving disposable income which supports the company's growth prospects.

The rating, however, is constrained by the intense competition and highly regulated nature of the industry which are likely to restrict the company's growth and margins to a certain extent. The rating takes into account the high geographical concentration with significant dependence on Madhya Pradesh market, which exposes the company to the risk of any unfavourable policy changes in the state. However, ICRA takes note of the company's plans to expand and geographically diversify its revenues, going forward, by entering other states through sale of Extra Neutralised Alcohol (ENA) and Indian Made Foreign Liquor (IMFL). Besides, GGVL's ability to get timely regulatory clearance, establish its brand and increase sales volumes in other states is yet to be seen. Further, the company's margins remain exposed to the volatility in the input costs which could affect its margins.

The company has significant investments in its subsidiary – Cheer Breweries Limited (CBL), which is in-process of setting up of eight-lakh hectolitre capacity brewery in Mysuru, Karnataka to be leased to B9 Beverages Private Limited (Bira) for production of beer under the brand, Bira91. The capital expenditure towards this is estimated to be around Rs. 110.00 crore which is proposed to be funded through a term loan of Rs. 50.0 crore, with the balance being funded through internal accruals of GGVL. The rating assigned is constrained by the early stage of project execution and non-achievement of financial closure for the debt-funding. ICRA also takes note of the penalties on CBL in case of any delay in installation and erection of the brewery by the effective date or in case of any major breakdown of the project premises for any reason. ICRA however, takes comfort from the healthy rentals of Rs. 1.70 crore per month expected from Bira from the use of the facility which provides a cover of 0.84 times over the expected repayment obligations and the presence of an escrow arrangement. Going forward, timely completion of the new facility under CBL, within the budgeted cost and time will be the key rating sensitivities.

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that GGVL will continue to benefit from the extensive experience of the promoters in the industry and favourable demand outlook for the industry combined with planned geographical diversification supported by the enhanced capacity. The outlook may be revised to Positive if the scale of operations and profitability improves without any weakening in the capital structure or liquidity position. Conversely, the outlook may be revised to Negative if there is higher than anticipated investment in the subsidiary or any additional debt-funded capital expenditure leading to weakening of the company's liquidity position and/or capital structure. Any unforeseen regulatory change or adverse development on the industry will also be a key rating sensitivity.

## Key rating drivers

### Credit strengths

**Established operational track record of over three decades** - The company has been in liquor manufacturing business for thirty-three years and has established its brand name in Madhya Pradesh market. The promoters have more than two decades of experience in the industry. The promoters also play an active role in the industry by engaging with State Government in formulation of its policies affecting the industry.

**Healthy financial profile characterised by high margins, low gearing and healthy coverage indicators** - The profitability of the company remained healthy with operating margin of 19.12% and net margin of 9.24% as per provisional financials of FY2018. The company has limited debt exposure and the gearing is low at 0.07 times as on March 31, 2018. Further, the other debt-coverage indicators remain healthy as reflected by TD/OPBDITA of 0.23 times, DSCR of 32.44 times, NCA/TD of 360% and an interest cover of 43.13 times in FY2018. Going forward, despite the planned debt-funded capex, the capital structure and coverage indicators are expected to remain comfortable.

**Limited competition in CL** - The liquor distribution is entirely a state subject. The govt. of Madhya Pradesh has regulated number of distilleries manufacturing country liquor in the state. There are only 8 distilleries in MP among whom the CL market is divided. GGVL has the exclusive right to sale in 8 districts - Indore, Dhar, Jhabua, Alirajpur, Balaghat, Seoni, Dindori and Mandla in MP. Competition from the other distilleries in the earmarked regions is absent as the region exclusivity is won through tender bidding and consequentially, all the retailers buy CL from GGVL only. However, the company faces high competition from global players in the IMFL segment.

**Favourable demand outlook for the industry** - India's spirit industry is expected to record the second-fastest growth globally. At present, the Indian alcohol industry is characterised by low per capita consumption of 5.1 litres per annum, considerably lower than the Asian per capita average of 20.9 litres. The industry is expected to grow supported by favorable demographics, rising disposable incomes, urbanization and rising acceptability of alcohol consumption. These growth drivers are expected to support the revenues of the company.

### Credit challenges

**Highly regulated nature of the industry** - The liquor industry is highly regulated with state government controlling the distribution and pricing of products, which make the company susceptible to the changes in the government's policies. Any change in government policies with respect to production, distribution of liquor, taxation, and state excise duty or any material changes in the duty structure may impact the liquor industry and the company.

**Limited geographical diversification** - The company generates majority of its revenues from Madhya Pradesh. A small portion of the revenue (~6% in FY2018), is from sales to Delhi. Given its high revenue concentration, it is exposed to risk of any adverse policy changes in the state. However, going forward, the company has plans to expand its geographical presence, supported by enhanced production capacity and reduce dependence on a single state.

**Exposure of the profitability margins to the volatilities of raw-material prices** - The company's margins remain dependent on input price trends of major raw materials like grains, PET granules and packaging materials in the absence of any pricing

flexibility with retailers. However, the company benefits from in-house, grain-based distillery for manufacturing of ENA, the main ingredient for production of CL and IMFL.

**Exposure to risk of cost and time overruns w.r.t. the capital expenditure programme under its subsidiary, CBL** - There is sizeable debt-funded capital expenditure plans under the subsidiary, CBL, exposing the company to risks w.r.t. time and cost overruns. Further, any delays in installation and erection of the brewery by the effective date or any instance of major breakdown of the project premises for any reason could lead to penalties by Bira on CBL.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

Incorporated in 1985, Great Galleon Ventures Limited (GGVL) is involved in manufacturing of country liquor and Indian Made Foreign Liquor which is retailed under its own brands in Madhya Pradesh. IMFL is retailed under its brands, Goa and King, while CL is retailed under the brands, Masala and Plain. GGVL operates a 75 KLPD grain-based distillery in Dhar, Madhya Pradesh for manufacturing of Extra Neutral Alcohol which is the main ingredient for the manufacturing of liquor. It has thirteen semi-automatic and four automatic bottling lines for CL and IMFL. The company's plant also has capabilities to manufacture distilled wet grain solvent and distilled dry grain solvent in its facility.

CBL, subsidiary of GGVL, is in-process of setting up of brewery to be leased out to Bira and the total project cost has been estimated to be ~Rs. 110 crore which is proposed to be funded by Rs. 50.00 crore loans (to be availed by GGVL and advanced as unsecured loans to CBL), with the balance being funded through equity infusion by GGVL in CBL. Equity infusion by GGVL will be financed through liquidation of its investments in mutual funds and its internal accruals. The capex is expected to get concluded and handed over to Bira by February 2019. The repayment towards the proposed debt is expected to commence from April 2019 and have a 5-years tenure.

As per provisional results for FY2018, the company reported a net profit of Rs. 20.43 crore on an operating income (OI) of Rs. 221.00 crore, as against a net profit of Rs. 20.13 crore on an OI of Rs. 220.22 crore in FY2017.

### Key financial indicators

	<b>FY2017</b>	<b>FY2018 (Provisional)</b>
Operating Income (Rs. crore)	220.22	221.00
PAT (Rs. crore)	20.13	20.43
OPBDITA/ OI (%)	16.70%	19.12%
RoCE (%)	25.85%	22.10%
Total Debt/ TNW (times)	0.11	0.07
Total Debt/ OPBDITA (times)	0.34	0.23
Interest Coverage (times)	27.43	43.13
NWC/ OI (%)	17.25%	27.16%

**Status of non-cooperation with previous CRA: None**

**Any other information: None**

**Rating history for last three years:**

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Proposed Term Loan	Long -Term	50.00	-	[ICRA]BBB+ (Stable)	-	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed Term Loan	-	-	-	50.00	[ICRA]BBB+ (Stable)

Source: Great Galleon Ventures Limited

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