

Globus Spirits Limited

February 22, 2019

Summary of rated instruments

Instrument*	Current (Rs. crore)	Rated (Rs. crore)	Amount	Rating Action
Issuer Rating	-	-	-	[ICRA]A-(Stable); Assigned
Total	-	-	-	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating takes into account Globus Spirits Limited's (GSL) established presence in the Indian Made Indian Liquor (IMIL) and Extra Neutral Alcohol (ENA) in the domestic market, where it is one of the largest players. The rating also draws comfort from the extensive experience of the promoters in the liquor industry and the Group's established operational track record of around three decades. The Group has a diversified presence across India with manufacturing units in Rajasthan, Haryana, West Bengal and Bihar. The Group also has a strong relationship with reputed companies in Indian Made Foreign Liquor (IMFL) segment such as United Spirits Limits and Allied Blenders & Distillers Private Limited, for which it undertakes contract manufacturing for their own brands. ICRA also notes that the demand outlook for the liquor industry remains favourable, driven by its demographic profile, changing lifestyles and improving disposable income. Such factors also support the Group's growth prospects, as reflected in the healthy operating income (OI) growth registered by it over the past few years. The ratings are also supported by the comfortable financial profile of the Group characterised by healthy net worth, low gearing and moderate debt protection metrics. The successful recommissioning of the Bihar unit (closed in 2017 due to a blanket ban on liquor manufacturing and sale by the Bihar Government) augurs well for the company. GSL has also started manufacturing ethanol in the Haryana and Bihar units, which will be supplied to oil and gas companies in the domestic market.

ICRA also notes the intensely competitive IMIL and ENA segments due to the presence of some reputed and numerous small players posing stiff competition, which limits the pricing power. The rating is also constrained by the highly regulated alcohol industry, which might impact growth and margins in case of any adverse change in regulations. However, ICRA takes note of the Group's efforts to expand and geographically diversify its markets by entering new states. Further, the Group's margins remain exposed to volatility in raw material prices. The rating also remains constrained by the Group's weak return indicators, which are expected to improve in the near to medium term.

Going forward, the Group's ability to attain an improvement in scale and profit margins as well as maintain a prudent capital structure and optimal working capital intensity will be the key rating sensitivity.

Outlook: Stable

ICRA believes that Group will continue to benefit from the extensive experience of its promoters and its established presence in the domestic market. The outlook may be revised to Positive if a sustained improvement in the operating income and profitability leads to improvement in cash accruals. The outlook may be revised to Negative if there is a loss of market share or decline in revenues, or if there is significant unanticipated debt-funded capital expenditure or acquisition.

Key rating drivers

Credit strengths

Extensive experience of promoters; established track record in industry - The promoters have been involved in the alcohol business for around three decades. GSL started manufacturing IMIL and ENA since 1986 and has gradually increased its presence across India.

Strong presence in IMIL and ENA segments - IMIL contributes the maximum revenues to GSL. The segment contributed ~47% of the operating income in H1 FY2019, followed by ENA which accounted for ~40.2%. The Group also does bottling for various IMFL players as well as generates revenues from the by-products, which are primarily used to manufacture cattle feed. The Group sales IMIL in Rajasthan, Haryana and Delhi, where it holds ~25% of the market share.

Commercial production of ethanol commences in Haryana and Bihar - In the recent years, the Government has permitted the use of grains for the production of ethanol for blending with petrol. GSL has started manufacturing ethanol in the Haryana and Bihar units for companies like Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL).

Increasing sales turnover and improving profitability - GSL's revenues have been increasing on account of the higher marketing efforts in the recent past and are supported by rising consumption in the domestic market. The sales turnover is expected to increase further in the current fiscal because of the recommissioning of the Bihar unit and product diversification into ethanol manufacturing. The company's profitability has remained comfortable with operating profit margin of 9.19% and net profit margin of 2.25% in 9M FY2019.

Comfortable debt and interest coverage indicators - GSL's gearing was low at 0.67 times in FY2018 due to the strong net worth. The interest coverage and NCA/total debt were also comfortable at 2.51 times and 17.4% respectively in FY2018 on account of moderate but stable profitability.

Credit challenges

Highly regulated alcohol industry - The liquor industry is highly regulated with the state government controlling the sale and distribution. This makes the Group 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.

Intensely competitive industry and vulnerability to profit due to volatility in grain prices - GSL uses grain (broken rice) as a raw material to produce ENA and IMIL. Since grain prices are largely dependent on the quality and quantity of grain produced in a particular harvesting season, any adverse change in the grain prices might impact the profit margins for the company in the intensely competitive industry. This apart, the company has limited pricing flexibility for its final product as the prices are fixed by the respective state governments.

Weak return indicators - The Group has weak return indicators; however, these are expected to improve in the near to medium term.

Liquidity position

GSL's capital structure remained comfortable with gearing of 0.67 times in FY2018. The debt profile consists ~70% term loan (Rs. 172 crore) and 30% working capital borrowings (Rs. 79 crore) as on March 31, 2018. The company has scheduled repayment Rs. 29 crore, Rs. 36.90 crore and Rs. 44.47 crore in FY2019, FY2020 and FY2021, respectively. The cash generation of the business is expected to be sufficient for the repayment of term loans instalments. The working capital utilisation remained comfortable in the range of 60-70% in the last 12 months. The debt service coverage ratio and interest coverage also remained comfortable for the company at 1.43 times and 2.51 times in FY2018. The current ratio is expected to improve in the current fiscal as a short-term loan has been replaced with a long-term loan.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the consolidated financial profile of the Group

About the company

GSL, promoted by Shri Ajay Kumar Swarup, is involved in the business of manufacturing, marketing and selling branded IMIL, IMFL and bulk alcohol comprising rectified spirit (RS) and ENA. The company does contract manufacturing and franchisee bottling to cater to renowned brand owners in the IMFL segment. GSL currently operates with five fully integrated grain-based distilleries at Behror (Rajasthan), Samalkha and Hisar (Haryana), Burdwan (West Bengal) and Vaishali (Bihar) with a combined capacity to manufacture 155.4 million bulk litres (BL) per annum. The company derives most of its revenues from the IMIL segment (~50% of its top line) with the major brands being Nimboo, Goldee, Ghoomer, Heer Ranjha.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	774.25	969.19
PAT (Rs. crore)	14.47	5.65
OPBDIT/OI (%)	7.00%	7.03%
RoCE (%)	5.57%	5.77%
Total Debt/TNW (times)	0.74	0.67
Total Debt/OPBDIT (times)	5.01	3.69
Interest Coverage (times)	3.09	2.51

Status of non-cooperation with previous CRA: Infomerics Valuation and Rating Pvt Ltd has withdrawn IVR A1 (IVR A one) rating of Rs. 25 crore of Globus Spirits Limited in September 2018.

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 (Rs. crore)	Date & Rating February 2019	-	-	-
1 Issuer Rating	Long Term	-	-	[ICRA]A-(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

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	Issuer Rating	-	-	-	-	[ICRA]A- (Stable)

Source: Globus Spirits Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Unibev Limited	90.91%	Full consolidation

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