December 31, 2019

Great Galleon Ventures Limited: Rating reaffirmed at [ICRA]BBB+(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Proposed Term Loan	50.00	0.00	-
Long-term – Fund-based – Unallocated	0.00	50.00	[ICRA]BBB+ (Stable); reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Great Galleon Ventures Limited (GGVL) and its subsidiary Cheer Breweries Limited (CBL), as they operate in a similar line of business, have operational and financial linkages and share a common management.

The rating continues to derive comfort from the company's financial profile characterised by healthy net worth, low gearing level and strong debt protection metrics. The rating continues to draw comfort from the extensive experience of the promoters in the liquor industry and established track record of operations. Further, the rating also factors in 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 Indian Made Indian Liquor (IMIL) from distilleries in Madhya Pradesh. 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 company's growth prospects, as reflected in the healthy operating income (OI) growth registered in FY2019 and 8M FY2020.

The rating, however, continues to be constrained by the intense competition in the industry with presence of some reputed and numerous small players posing stiff competition. The rating continues to be constrained by the high business risk inherent in the liquor industry owing to high taxes and stringent Government controls and regulations, and the limited pricing power. The rating also takes into account the company's high geographical concentration with significant dependence on Madhya Pradesh market, which accentuates the risk of any unfavourable policy changes in the state. This apart, the company's margins remain exposed to the volatility in the input costs which could affect its margins, as witnessed in FY2019. The ratings are also constrained by the higher than anticipated capital expenditure and delay in commencement of operations of the brewery under CBL, and the delay in receipt of rentals from B9 Beverages Private Limited (Bira).

Key rating drivers

Credit strengths

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

Expansion in scale of operations and healthy financial risk profile in FY2019 - With an increase in sales volumes following capacity expansion and geographic diversification by entering other states, GGVL's OI improved in FY2019 and 8M FY2020. The company's revenues registered a healthy growth of 26% to Rs. 279.13 crore in FY2019. The Group has limited debt exposure and relatively high net worth of Rs. 150.14 crore, resulting in low gearing of 0.26 times as on March 31, 2019. Further, the other debt-coverage indicators are healthy as reflected by TD/OPBDITA of 1.27 times, DSCR of 22.88 times, NCA/TD of 66% and an interest cover of 55.69 times in FY2019.

Limited competition in CL - The liquor distribution is entirely a state subject. The Government 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 - 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 favourable 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

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. The increase in the cost of key inputs impacted the operating margins in FY2019 which deteriorated to 11.02% from 18.60% in FY2018. This apart, the product prices for a particular financial year are decided at the beginning of the year itself by the state government. Hence, the company's ability to pass on any raw material price increase during the year remains limited. However, the company benefits from in-house, grain-based distillery for manufacturing of ENA, the main ingredient for production of CL and IMFL.

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. The Government of Madhya Pradesh increased bottling fees for liquor industry in FY2019, which also impacted the operating margins.

Limited geographical diversification - The company generates majority of its revenues from Madhya Pradesh. A small portion of the revenue is from other states. Given its high revenue concentration, it is exposed to risk of any adverse policy changes in the state. However, the company has geographically diversified its revenues by entering new states from FY2019 through sale of Extra Neutralised Achohol (ENA) and Indian Made Foreign Liquor (IMFL), although the revenue contribution from the same remains low. GGVL's ability to get timely regulatory clearance in other states, establish its brand and increase sales volumes is yet to be seen. Further, the successful commissioning of brewery unit under CBL in Mysuru, Karnataka, will help improve its geographic diversity.

Higher than anticipated capital expenditure; delay in receipt of rentals- CBL is in the process of setting up a brewery with eight-lakh hectolitre capacity in Mysuru, Karnataka, to be leased to Bira for production of beer. The total capital expenditure for the project has increased to around Rs. 125.00-130.00 crore as against the earlier estimate of Rs. 110.00 crore. It has undertaken capital expenditure of ~Rs. 98.00 crore towards this till FY2019, and the rest will be incurred in FY2020. The plant commenced operations in October 2019, as against the earlier proposal of February 2019, leading to delay in onset of rental income. This apart, there are delays in the receipt of rentals from Bira between the months of October to December 2019. Any prolonged delays in rental receipts, may impact the Group's financial profile.

Liquidity position: Adequate

The liquidity profile is adequate with healthy internal cash accruals and sufficient buffer from cash and cash equivalents of Rs. 21.58 crore as on March 31, 2019. The group has on-going capex towards Mysore unit set-up under CBL, towards which cash outflow of ~Rs. 25.00 crores is expected in FY2020. Further, it has scheduled repayment obligations of Rs. 20.00 crore in FY2021 towards Non-convertible debentures. With healthy growth in revenues for GGVL in FY2020, the cash flows from operations are expected to improve. The rental receipts under CBL would also support the cash flows from FY2021 onwards. Overall ICRA expects the cash accruals of the Group to be sufficient to meet the repayment obligations and the capital expenditure requirements.

Rating sensitivities

Positive triggers - ICRA could upgrade GGVL's rating if the Group demonstrates a sustained improvement in revenues and profitability, which leads to an improvement in credit metrics. Specific credit metrics that could lead to an upgrade of rating include ROCE greater than 20% on a sustained basis.

Negative triggers - Negative pressure on the company's rating could arise if there is any significant decline in the revenues or margins. Any tightening of the liquidity position, owing to higher than anticipated capital expenditure or increase in working capital intensity, may also result in negative pressure on the company's rating. Over and above, any adverse regulatory action may also warrant a rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of GGVL and its subsidiary CBL

About the company

Incorporated in 1985, 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, King and Ritz, while CL is retailed under the brands, Masala and Plain. GGVL operates a 130 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 B9 Beverages Private Limited (Bira) for production of beer under the brand, Bira91. It has undertaken significant capital expenditure of ~Rs. 98.00 crore towards this till FY2019 which was funded through Non-convertible debenture of Rs. 20.00 crore, Rs. 16.00 crore of unsecured loans from related parties and the balance through internal accruals of GGVL. It is estimated to incur ~Rs. 25.00 crore of capital expenditure towards this in FY2020, which is proposed to be funded through internal accruals of GGVL and CBL. The brewery unit is expected to be completed by March 2020. CBL has leased the partly completed unit to B9 Beverages Private Limited from October 2019.

Key financial indicators (audited) - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	221.01	279.13
PAT (Rs. crore)	18.51	12.53
OPBDITA/OI (%)	18.59%	11.02%
RoCE (%)	22.01%	16.00%
Total Outside Liabilities/Tangible Net Worth (times)	0.33	0.73
Total Debt/OPBDITA (times)	0.23	1.27
Interest Coverage (times)	36.30	55.69
DSCR	25.85	22.88

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Rating Dec 31, 2019	Rating History for the past 3 years FY2019 25-June-2018	FY2018 -	FY2017 -
1	Proposed Term Loan	Long Term	-	-	-	[ICRA]BBB+ (Stable)	-	-
2	Unallocated	Long Term	50.00	-	[ICRA]BBB+ (Stable)	-	-	-

Amount in Rs. crore

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	Unallocated	-	-	-	50.00	[ICRA]BBB+ (Stable)

Source: Great Galleon Ventures Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Great Galleon Ventures Limited	-	Full consolidation
Cheer Breweries Limited	84.15%	Full consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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