



## Press Release

**Globus Industries and Services Limited**

**April 06, 2021**

### Rating

| Sl. No. | Instrument/Facility         | Amount<br>(Rs. Crore) | Rating Assigned      |
|---------|-----------------------------|-----------------------|----------------------|
| 1       | Bank Facilities- Long Term  | 25.20                 | IVR B/Stable (IVR B) |
| 2       | Bank Facilities- Short Term | 19.80*                | IVR A4 (IVR A Four)  |
|         | Total                       | 45.00                 |                      |

\*Includes proposed limit of Rs. 1.80 crore

### Details of Facilities are in Annexure 1

### Detailed Rationale

The rating assigned to the bank facilities of Globus Industries and Services Limited derives comfort its experienced management, established relationship with suppliers and customers, order backed nature of business, promoter's support through infusion of funds and Steady demand prospects of edible oil industry. However, the strengths are partially offset by past delays in servicing of debt, weak financial risk profile, exposure to risk of foreign exchange fluctuation and highly fragmented industry and volatility to international edible oil prices.

### Key Rating Sensitivities

#### Upward Rating Factors

- Continued timely servicing of debt obligations
- Growth in scale of operations and Improvement in financial risk profile and liquidity

#### Downward Rating Factors

- Decline in revenue and profitability on a sustained basis affecting the liquidity position
- Any further instance of delay in debt servicing



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### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced management**

The promoter of the company, Mr. Suraj Gupta has an experience of about 35 years in the edible oil trading and manufacturing. The promoters are assisted by a team of professionals having relevant industry experience. The promoters have other entities that are engaged in the similar business since a long time.

##### **Established relationship with suppliers and customers**

The promoters have been engaged in manufacturing and trading of edible oils for about 20 years. Over the years, it has developed an established relationship with its customer and supplier base. Further, the other entities of promoter's family are also engaged in same line of business, which drives the bargaining power of the company.

##### **Order backed nature of business**

The company generally engages in trading and manufacturing operations based on back-to-back orders from their customers and suppliers. The price is fixed before the shipment takes place. With respect to purchases, the entity opens a 180 days Letter of Credit in favour of suppliers. Meanwhile, it generally gives credit to its customers of a similar period, resulting in minimal funds being blocked in working capital.

##### **Promoter's support through infusion of funds**

The unsecured loan from promoter and body corporate in FY20 stood at Rs. 55.86 crore which has been treated as quasi equity as same has been subordinated by the bank. The promoters have consistently infused additional funds in the business validated by total infusion of Rs. 36.17 crore between FY17-FY20.

##### **Steady demand prospects of edible oil industry**

The edible oil production in India has remained stagnant over the years, which is insufficient to fulfil the domestic requirements of edible oil. Consequently, the country's dependence on imports has increased over the years and currently around 65-70% of the domestic edible oil



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requirements are met through imports. The same provides ample growth opportunities to traders like Globus Industries and Services Limited to scale-up the business though stiff competition exists.

### **Key Rating Weaknesses**

#### **Past delays in servicing of debt**

The company had delayed the principal repayment on its term debt for the past four years because of poor liquidity. However, the management has instilled various measures and checks to ensure financial discipline which is validated from satisfactory conduct and timely servicing of debt obligations in the months of December 2020, January 2021 and February 2021. The cash flows from business seem adequate to enable the Company to maintain satisfactory conduct going forward.

#### **Weak financial risk profile**

Financial risk profile was marked by a negative total outside liabilities to tangible network (TOL/TNW) ratio as on March 31, 2020. Debt protection metrics were also muted, with interest coverage and debt service coverage ratio at 1.60 times and 0.59 times respectively, in FY20. However, promoters had infused long term unsecured loans of Rs. 36.17 crore in FY17-FY20 to support the operations and servicing requirements. The current ratio is at 1.05x on 31<sup>st</sup> March 2020.

#### **Exposure to risk of foreign exchange fluctuation**

The company is exposed to risk of adverse movement in foreign exchange. The company generally imports from countries like Singapore, Malaysia & UAE while sales to counterparties in India are made on high sea basis. The company generally deals in USD with respect to purchases, whereas the sales are generally made in rupee. As the entity operates on a back to back arrangement, this risk is mitigated to a large extent. Further, the entity has obtained Forward Cover facility for about 90-95% of the exposure from the lending bank which also reduces the risk to some extent.

#### **Highly fragmented industry and volatility to international edible oil prices**



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Owing to low entry barriers the edible oil trading industry is highly fragmented with presence of numerous organised and unorganised players. Moreover, palm oil prices are majorly influenced by the demand and supply situation in Indonesia and Malaysia and regulations in those countries. The company largely operates on back-to-back purchase and sales order basis; hence, mitigating the price risk to an extent.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Trading and Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity: Adequate**

Liquidity of the company has been severely impacted due to the delays in realization from the customers as a result of business disruption caused by covid-19 pandemic. The company availed the moratorium from the lenders on terms as per bank policy. Further, the company has sufficient gearing headroom driven by infusion of promoters equity of Rs.55.86 crore which has been treated as quasi equity.

**About the Company**

Incorporated in 1993, Globus Industries and Services Limited is engaged in the manufacturing and trading of edible oils. The manufacturing operations include Vanaspati Oil, Refined oils and Mustard oils. The manufacturing plant is located in Village Khippanwali, Teh. Fazilka, Distt. Ferozepur, Punjab. Manufacturing operations primarily include sales of Vanaspati Oil, Refined oils and Mustard oils. The company aligns its procurement with sales orders and executes manufacturing operations on a back to back basis.



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### Financials (Standalone):

| For the year ended* As on  | (Rs. crore)    |                |
|----------------------------|----------------|----------------|
|                            | 31-03-2019     | 31-03-2020     |
|                            | <b>Audited</b> | <b>Audited</b> |
| Total Operating Income     | 112.43         | 150.73         |
| EBITDA                     | 8.57           | 6.18           |
| PAT                        | 1.63           | 0.84           |
| Total Debt                 | 26.98          | 21.36          |
| Tangible Net worth*        | -5.75          | 0.82           |
| EBITDA Margin (%)          | 7.62           | 4.10           |
| PAT Margin (%)             | 1.45           | 0.56           |
| Overall Gearing Ratio (x)^ | -4.69          | 26.05          |

\*Unsecured loan treated as quasi equity

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**

### Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities          | Current Rating (Year 2020-21) |                                |                      | Rating History for the past 3 years     |   |   |
|---------|--|-------------------------------|--------------------------------|----------------------|---|---|---|
|         |  | Type                          | Amount outstanding (Rs. Crore) | Rating               | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1.      | Working Capital Term Loan              | Long Term                     | 10.98                          | IVR B/Stable (IVR B) | -                                       | -                                       | -                                       |
| 2.      | Funded Interest Term Loan (FITL)       | Long Term                     | 2.01                           | IVR B/Stable (IVR B) | -                                       | -                                       | -                                       |
| 3.      | Guaranteed Emergency Line (GECL) Covid | Long Term                     | 4.45                           | IVR B/Stable (IVR B) | -                                       | -                                       | -                                       |
| 4.      | Term Loan                              | Long Term                     | 0.35                           | IVR B/Stable (IVR B) | -                                       | -                                       | -                                       |
| 5.      | Covid Loan                             | Long Term                     | 0.56                           | IVR B/Stable (IVR B) | -                                       | -                                       | -                                       |
| 6.      | Cash Credit                            | Long Term                     | 6.85                           | IVR B/Stable (IVR B) | -                                       | -                                       | -                                       |



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| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) |                                |                     | Rating History for the past 3 years     |   |   |
|---------|-------------------------------|-------------------------------|--------------------------------|---------------------|---|---|---|
|         |                               | Type                          | Amount outstanding (Rs. Crore) | Rating              | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 7.      | Letter of Credit              | Short Term                    | 19.80*                         | IVR A4 (IVR A Four) | -                                       | -                                       | -                                       |

\*Includes proposed limit of Rs. 1.80 crore

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

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### Annexure 1: Details of Facilities

| Name of Facility                             | Date of Issuance | Coupon Rate/IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|-----------------|---------------|------------------------------|--------------------------|
| Long Term Bank Facilities- WCTL              | -                | -               | -             | 10.98                        | IVR B/Stable (IVR B)     |
| Long Term Bank Facilities- FITL              | -                | -               | -             | 2.01                         | IVR B/Stable (IVR B)     |
| Long Term Bank Facilities- GECL              | -                | -               | -             | 4.45                         | IVR B/Stable (IVR B)     |
| Long Term Bank Facilities- Term Loan         | -                | -               | -             | 0.35                         | IVR B/Stable (IVR B)     |
| Long Term Bank Facilities- Covid Loan        | -                | -               | -             | 0.56                         | IVR B/Stable (IVR B)     |
| Long Term Bank Facilities- Covid Loan        | -                | -               | -             | 6.85                         | IVR B/Stable (IVR B)     |
| Short Term Bank Facilities- Letter of Credit | -                | -               | -             | 19.80*                       | IVR A4 (IVR A Four)      |

\*Includes proposed limit of Rs. 1.80 crore