



## Infomerics Valuation and Rating Pvt Ltd

### Press Release

### Globus Spirits Ltd.

July 14, 2017

### Rating

Instrument / Facility	Amount	Rating	Rating Action
Commercial Paper*	Rs.25 crores	IVR A1 (IVR A one)	Assigned

*\*To be earmarked out of tied up fund based working capital limits.*

### Details of Instrument are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd. has assigned IVR A1 (pronounced IVR A one) rating to the Rs.25.00crores proposed commercial paper programme (to be earmarked out of fund based working capital limits) of Globus Spirits Ltd (GSL). Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

### Detailed Rationale

The rating derives comfort from the experienced promoter & management team, significant presence in the country liquor business with a number of own brands, satisfactory business relationship with large IMFL (Indian Made Foreign Liquor) players, satisfactory leverage and having captive power plants to ensure steady power supply & optimising power cost. The rating also takes into consideration the risks associated with the highly regulated nature of the Indian alcohol industry, volatility in input prices, and fall in profitability during FY17 and stoppage of production at the newly commissioned Bihar unit following the state government Order. Volatility in grain prices and its impact on profitability, government regulations, and the performance of the newly commissioned West Bengal unit are the key rating sensitivities.

### List of Key Rating Drivers

- Experienced promoter & management team.
- Significant presence in the country liquor business with a number of own brands.
- Satisfactory business relationship with large IMFL players.



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- Satisfactory leverage indicators.
- Captive Power plants.
- Highly regulated nature of the Indian alcohol industry.
- Volatility in input prices.
- Fall in profitability during FY17.
- Stoppage of production at the newly commissioned Bihar unit following the state government order.

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

#### ***Experienced Promoter and Management team***

The promoter of GSL is highly qualified and experienced in the alcohol business. Shri A. K. Swarup, graduated in Economics from St. Stephens College, New Delhi, and passed PGDBM from IIM, Kolkata. He has over 34 years of experience in the alcohol & distillery industry (including a decade experience in sugar & distillery business of the family). The senior management team is also characterised by rich and varied experience of more than 20 years.

#### ***Significant presence in the country liquor business with a number of own brands***

The alcohol industry in India comprises Beer, Wine, Brandy, IMFL (Indian made Foreign Liquor) and IMIL (Indian made Indian Liquor)/ Country Liquor (CL). CL segment accounted for dominant share (of about 47%) of the total income in FY17 (56% in FY16). The company supplies CL in North Indian States, specifically, Rajasthan, Haryana & Delhi where it has a strong market share. The major brands of GSL in the CL segment are Nimboo, Narangi, Ghoomar and Heer Ranjha. GSL also has a presence in the bulk alcohol segment which contributed around 25% of the net sales in FY16 and FY17. Though the margins from this segment are lower than the CL segment, it provides a steady source of revenue for the company. The company has also recently commissioned its facility in West Bengal for the production of potable alcohol and country liquor.



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### ***Satisfactory relationships with large IMFL players***

GSL has developed good relationship with large IMFL players like United Spirits Ltd, Pernod Ricard and ABD Ltd as it manufactures the products for these players. Apart from that, it also makes and markets its own IMFL products, albeit on a very small scale, through its subsidiary company, Unibev Ltd.

### ***Satisfactory leverage indicators***

Leverage as reflected by the long term debt equity ratio and overall gearing were comfortable as on March 31, 2017 at 0.54x and 0.75x respectively, although the same deteriorated due to newly commissioned plants necessitating an amount of borrowing.

### ***Presence of Captive Power plants***

The Company has undertaken backward integration by installing captive power plants at all its units. This has enabled the company to reduce dependency on the state grid.

### ***Highly regulated nature of the Indian alcobev industry***

The domestic alcobev industry is dominated by very few large organised players. The industry dynamics is also made complex due to high level of taxation and stringent regulations. 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. Industry is vulnerable to the sudden and sporadic changes in regulations at the state level.

### ***Volatility in input prices***

GSL uses grain as the raw material for its production. The price of grains may vary depending on its production, since grains are seasonal products and its production depends on the vagaries of nature. Accordingly, average inventory days have been on the higher side.

### ***Fall in profitability during FY17***

Limited pricing flexibility as most of the liquor market is controlled by government distribution (liquor prices are generally controlled by the State Government) coupled



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with volatile grain prices led to fall in profitability, to an extent, during FY17. This was accentuated further by the higher interest expenses on account of incremental term loans for its recently commissioned projects. EBIDTA for the company reduced from Rs.69 crores in FY16 to Rs.56 crores during FY17 inspite of an increase in topline.

### ***Stoppage of production at the newly commissioned Bihar unit***

The bottling unit for IMFL in Bihar was commissioned in February 2016 and the ENA unit was in December 16. Prior to this, the company used to procure country liquor from external parties and sell them under its licensed brands. The company earned gross revenue of Rs.60 crores (country liquor sales) from Bihar in FY16 and Rs.11 crores (industrial alcohol sales) in FY17. The capex incurred on Bihar unit was around Rs.125 crores.

With effect from April 01, 2016, a ban was announced on sale and consumption of alcohol within the state by the Bihar Govt. However, production of alcohol was allowed with the option to export alcohol in nearby states and the Government had also relaxed the export duty on the same. However, vide the recent notification dated January 24, 2017, the Govt. of Bihar has denied to renew the existing licenses of production of ENA from Grain based distilleries w.e.f. April 01, 2017. Consequently, GSL contested the order in the High Court from where it obtained a favourable decision. However, the matter has been referred to Supreme Court by the Bihar Government and is, currently, sub-judice.

**Analytical Approach:** Standalone

### **Applicable Criteria**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation

### **About the Company**

GSL was promoted in February 1993, under the name of Globus Agronics Ltd., by Shri Ajay Kumar Swarup of Delhi to carry out the business of manufacturing, marketing and sale of various industrial and potable alcohol products – namely, Extra Neutral Alcohol (ENA), Rectified Spirit (RS), Country Liquor (CL) and Indian Made Foreign



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Liquor (IMFL). The name of the company was changed to GSL with effect from January 23, 2007.

GSL has five distilleries located at Behror (Rajasthan), Samalkha & Hisar (Haryana), West Bengal (commissioned in FY17) and Bihar (closed for production on government notification for dry state) with a total installed capacity of 535 KLPD. The company has also closed down the Hisar distillery as it was running on old technology. The company derives majority of its net revenue from CL segment (~ 47% of its revenue) with major brand being 'Nimboo'.

### Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2015	31-03-2016	31-03-2017
	Audited	Audited	Provisional
Total Operating Income	585.7	706.7	789.1
EBITDA	48.7	69.9	56.2
Depreciation	28.7	42.2	38.1
Interest	14.1	16.9	17.5
PAT	7.1	12.5	9.0
Gross Cash Accruals (GCA)	36.7	57.1	46.2
Total Debt	144.2	253.0	272.2
Total Long term Debt	71.2	182.5	198.2
Tangible Net worth	333.4	349.1	365.2
Total Capital Employed	525.6	650.2	684.9
<b><u>Ratios</u></b>			
<b><u>Growth Ratios (%)</u></b>			
a. Increase in Total Income	17.96	20.67	11.66
b. Increase in EBIDTA	8.36	43.46	-19.58
c. Increase in PAT	65.19	77.37	-27.91
<b><u>Profitability Ratios (%)</u></b>			
a. EBIDTA Margin	8.32	9.89	7.12



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b. PAT Margin	1.20	1.76	1.14
c. Return On Capital Employed - Operating	4.25	5.48	3.01
d. Return On Capital Employed - Total	3.99	4.72	2.72
e. Return on Networth	2.16	3.67	2.53
f. Avg. cost of borrowings	11.37	11.38	9.76
<b><u>Solvency Ratios</u></b>			
<b>Long Term</b>			
a. Long Term Debt Equity ratio	0.21	0.52	0.54
b. Overall Gearing ratio	0.43	0.72	0.75
c. Interest Coverage (times)	3.46	4.15	3.21
d. Long Term debt/GCA (years)	1.94	3.20	4.29
e. Long Term Debt / EBIDTA	1.46	2.61	3.53
f. Total Debt/GCA (times)	3.93	4.43	5.89
<b>Short Term</b>			
a. Current Ratio	0.57	0.65	0.65
b. Quick Ratio	0.30	0.42	0.35
<b><u>Turnover Ratios</u></b>			
a. Working Cap Turnover Ratio	34.36	33.14	31.10
b. Avg. Collection Period (days)	18	14	12
c. Average Inventory (days)	50	41	43
d. Average Finished Goods holding period (days)	32	26	26
e. Average Raw Material holding period (days)	16	13	15
f. Average Creditors (days)	82	67	67
g. Operating cycle	-15	-13	-13

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Nil

**Rating History for last three years:** Not applicable



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**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).

### **Name and Contact Details of the Rating Analyst:**

Name: Shri Sarnambar Roy

Tel: (022) 40036966

Email: [sroy@infomerics.com](mailto:sroy@infomerics.com)

### **About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### **Annexure 1: Details of Facility**

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs Crores)	Rating Assigned/Outlook
Commercial Paper*	To be decided	To be decided	Maximum 12 months	25.00	IVR A1 (pronounced IVR A one)

\*To be earmarked out of tied-up fund based working capital limits.