

Press Release

Global Beverages Inc

July 06, 2018



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.11.25 Cr. (Enhanced from Rs.11.00 cr)
Long Term Rating	ACUITE BB/Outlook: Stable (Upgraded from ACUITE BB-/ Outlook: Stable)
Short Term Rating	ACUITE A4+/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE Double B minus**) on the Rs.10.25 Crore bank facilities and has assigned short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.1.00 crore bank facilities of Global Beverages Inc (Global). The outlook is '**Stable**'.

The rating upgrade reflects sustained improvement in the revenues at a compound annual growth rate (CAGR) of about 37 percent over three years through FY2018 with revenues of about Rs.116.00 crore in FY2018 (Provisional). Further, the rating also factors in moderate cash accruals with minimal repayment obligations and improvement in working capital management. However, the rating is constrained by below-average financial risk profile marked by high total outside liabilities to total networth and average gearing levels (debt-to-equity).

Established in 2004, Global beverage Inc is a partnership firm formed by Mr. S Ganeson and Mr. S Santosh Kumar as partners. The firm is engaged in bottling and distribution of Indian made Foreign Liquor, wholesale distribution of imported wines, mild beer, strong beers in the Union Territory of Puducherry. The firm has five retail shops in Puducherry and it has a strong distribution network encompassing almost 350 retail touch points across Puducherry and Karaikal.

Key Rating Drivers

Strengths:

- Experience of the promoters in the IMFL industry**

The Partners, Mr. Ganeson and Mr. Santosh Kumar have been in the business for nearly three decades in the manufacturing and distribution of IMFL. Global, under a tripartite agreement with National Industrial Corporation Limited (NICOL) and Gagan Wine Trade & Franchisers Ltd (Gagan), manufactures 'Black and Gold' Brandy, a brand owned by NICOL under licensing basis at the manufacturing unit of Gagan at Goa. The agreement is to sell only in the territory of Puducherry and Karaikal. Apart from Black and Gold, it also deals in distribution of other brands. Global's revenues improved at a CAGR of about 37 percent with the support of Gagan and the brand support of NICOL. With the increasing penetration of the brand, Acuité believes that the revenues are expected to improve at 15-20 percent per annum over the medium term.

- Working capital intensive operations and stretched liquidity position**

Global's operations are moderately working capital intensive as reflected in Gross Current Assets (GCA) of 93 days in FY2018 (Provisional); this is an improvement from 93 days in FY2017 and 133 days in FY2016. The firm maintains an average inventory of about a month, and offers credit of about 60 days to its retail wine shops; this keeps the operations moderately working capital intensive. Also, it gets credit of about 40-50 days from its suppliers. Global's revenues improved by about 43 percent over FY2017. The increase in size of operations, seasonality between demands, more working capital limits forced Global leveraging higher working capital limits on need basis resulting in high bank limit utilisation at about 99 percent for last six months through April 30, 2018.

However, the cash accruals have shown healthy improvement from Rs.1.05 crore in FY2016 to about Rs.2.40 crore (Provisional) in FY2018 against maturing debt obligations of about Rs.0.40 crore. Acuité believes that Global's operations continue to be moderate basis its sustained business model.

Weaknesses:

- **Average financial profile**

Global's financial risk profile is marked by high total outside liabilities to total net worth (TOL/TNW), moderate gearing (debt-to-equity) and debt protection metrics. TOL/TNW is high at 3.66 times (Provisional) as of March 31, 2018, deterioration from 2.54 times in FY2016. The gearing is moderate at 1.51 times in FY2018, though a slight deterioration from 1.02 times in FY2016. Marginal deterioration is due to revenue growth at a CAGR of about 37 percent, however manageable. The debt protection metrics are moderate with Interest coverage ratio comfortable at 2.09 times, and net cash accruals to total debt (NCA/TD) of 0.19 times. No capex plans are in place, as it is using a leased plant and about 40 percent of the revenues are on trading basis. Acuité believes that the financial risk profile is expected to marginally improve over the medium term supported by moderate accretions to reserves.

- **Highly regulated and competitive industry**

The Indian liquor business is highly regulated by the Government. The firm generates revenues only from the Pondicherry state. This exposes the firm to risk of any adverse policy changes in the state. The domestic IMFL industry is characterised by high competitive intensity, with presence of large players. This could restrict the growth of the firm to an extent, although Global's brands are established and mitigating competitive risks.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Global Beverages Inc to arrive at this rating.

Outlook: Stable

Acuité believes that the outlook on Global will remain 'Stable' over the medium term on account of the experience of the partners in the in the IMFL industry and wide network of operations. The outlook maybe revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while maintaining the profitability and improving its financial risk profile by equity infusion. Conversely, the outlook maybe revised to 'Negative' in case of any further stretch in working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	116.40	81.50	61.56
EBITDA	Rs. Cr.	4.55	3.44	2.40
PAT	Rs. Cr.	2.25	1.06	1.00
EBITDA Margin	(%)	3.91	4.22	3.90
PAT Margin	(%)	1.93	1.30	1.62
ROCE	(%)	20.71	18.90	14.95
TOL/Tangible Net Worth	Times	3.66	3.71	2.54
PBDIT/Interest	Times	2.09	1.55	1.78
Gross Current Assets (Days)	Days	93	97	133

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Sector - <https://www.acuite.in/view-rating-criteria-6.htm>

Rating History (Upto last three years)

Date	Name of the Facilities	Term	Size of the Issue (Rs. Crore)	Ratings/Outlook
11-02-2016	Secured Overdraft	Long Term	5.00	ACUITE BB- / Stable (Assigned)
	Proposed Secured Overdraft	Long Term	6.00	ACUITE BB- / Stable (Assigned)
07-Jul-2017	Secured Overdraft	Long Term	10.25	ACUITE BB- / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.75	ACUITE BB- / Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	10.25	ACUITE BB / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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