

Press Release

Global Beverages Inc

September 17, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 11.25 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 11.25 crore bank facilities of GLOBAL BEVERAGES INC. The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates and experience of the promoters. Global reported revenues of Rs.145.53 crore for FY2019 (provisional) against Rs.119.75 crore in FY2018. Further, the ratings continue to reflect the experienced management and established track record of operations. However, it is constrained by moderate financial risk profile, working capital intensive operations and highly regulated and competitive industry.

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, and 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.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Global to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and healthy revenue growth

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 27 per cent with the support of Gagan and the brand support of NICOL. With the increasing penetration of the brand, Acuite believes that the revenues are expected to improve at 10-15 per cent per annum over the medium term.

• Moderate working capital operations and stretched liquidity position

Global's operations are working capital efficient as reflected in Gross Current Assets (GCA) of 98 days in FY2019 (Provisional); as against 90 days in FY2018. The firm maintains an average inventory of about a month, and offers credit of about 60 days to its retail wine shops. Also, it gets credit of about 40-50 days from its suppliers. Global's revenues improved by 18 per cent over the FY2018. 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 per cent for last six months through July 30, 2019. Acuite believes that though Global's operations continue to be efficient, the liquidity stretch remains.

Weaknesses

• Moderate financial profile

Global's financial risk profile is marked by high gearing (debt-to-equity) and high total outside liabilities to total net worth (TOL/TNW), moderate debt protection metrics. Its gearing and TOL/TNW are high at 2.08 and 3.7 times as of March 31, 2019 (provisional) against 2.26 times and 4.20 times in FY2018. Its debt protection metrics of Interest service coverage is comfortable at 2.85 times, and net cash accruals to total debt (NCA/TD) of 0.14 times Vis-à-vis 1.61 times and 0.09 times in FY2018. Acuité believes that with expected improvement in revenues and growth in profitability, the financial risk profile is expected to improve moderately over the medium term.

• Highly regulated industry remains susceptible to changes in Government policies and input prices

The Indian liquor business is highly regulated by the Government. Regulation and taxation of the alcoholic beverages industry falls under the purview of state governments. The regulations at state levels are also prone to frequent changes and this resulted in significant uncertainty. The firm generates revenues only from the Pondicherry state. This exposes the firm to risk of any adverse policy changes in the state. Further domestic IMFL industry is characterised by highly competitive intensity, with presence of large players and input prices; leading to volatile profitability. Its operating margins are so volatile over the past three years in the range of 3.3 - 5.2 per cent. Global's profitability continues to remain exposed to the regulatory risk, volatile input prices and limited flexibility in revising the prices.

Liquidity position

The liquidity profile of the Global is stretched marked by highly utilised bank lines though working capital efficient. The firm has reported cash accruals of Rs.3.00 crore in FY2019. It is expected to generate cash accruals in the range of Rs.2.0 crore - Rs. 3.0 crore over the medium term, against which its repayment obligations are about Rs.0.30 crore; however, the cushion is absorbed into the incremental working capital requirements to support the revenue growth. Working capital utilisation is about 98 per cent on an average for the last six months through July 2019. The current ratio stood at 1.43 times for FY2019. Acuité believes that the liquidity profile continues to remain at stretched levels due to modest accruals and working capital cycle.

Outlook: Stable

Acuité believes that the outlook on Global will remain 'Stable' over the medium term on account of 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 sustaining 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 its working capital management or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	145.53	119.75	81.50
EBITDA	Rs. Cr.	7.59	3.96	3.44
PAT	Rs. Cr.	2.92	1.37	1.06
EBITDA Margin	(%)	5.21	3.30	4.22
PAT Margin	(%)	2.01	1.15	1.30
ROCE	(%)	27.83	17.88	18.41
Total Debt/Tangible Net Worth	Times	2.08	2.25	2.17
PBDIT/Interest	Times	2.85	1.61	1.55
Total Debt/PBDIT	Times	2.76	4.02	3.94
Gross Current Assets (Days)	Days	97	88	97

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-July-2018	Secured Overdraft	Long Term	10.25	ACUITE BB/Stable (Upgraded)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Assigned)
07-July-2017	Secured Overdraft	Long Term	10.25	ACUITE BB-/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.75	ACUITE BB-/Stable (Reaffirmed)
11-Feb-2016	Secured Overdraft	Long Term	5.00	ACUITE BB-/Stable (Assigned)
	Proposed Secured Overdraft	Long Term	6.00	ACUITE BB-/Stable (Assigned)

*Annexure – Details of instruments rated

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

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About Acuité Ratings & Research:

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