

## Associated Alcohols & Breweries Limited

January 07, 2021

### Ratings

| Facilities                 | Amount<br>(Rs. crore)                                | Ratings <sup>1</sup>   | Rating Action     |
|----------------------------|--|--|-------------------|
| Long Term Bank Facilities  | 22.00<br>(reduced from 29.50)                        | <b>CARE A-; Stable</b><br><b>(Single A Minus; Outlook: Stable)</b> | <b>Reaffirmed</b> |
| Short Term Bank Facilities | 11.00  | <b>CARE A2+</b><br><b>(A Two Plus)</b>                             | <b>Reaffirmed</b> |
| <b>Total Facilities</b>    | <b>33.00</b><br><b>(Rs. Thirty Three Crore Only)</b> |  |                   |

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Associated Alcohols and Breweries Limited (AABL) continue to remain underpinned by the extensive experience of its promoters in the alcoholic beverages industry, established operations in the state of Madhya Pradesh, assured off-take arrangement of its major product Country Liquor (CL) through district-wise quota system and exclusive franchise rights for manufacturing and sale of five brands of United Spirits Limited (USL) in MP for a period of five years. The ratings also continue to derive strength from continuous growth in its scale of operations except H1FY21 (FY refers to the period from April 1 to March 31), increase in contribution of value-added products (Indian Made Foreign Liquor; IMFL) in its total sales along with healthy profitability, comfortable capital structure and debt coverage indicators and favourable medium term outlook for alcoholic beverages in India. CARE also notes that AABL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, on the back of its adequate liquidity.

The ratings, however, continue to remain constrained on account of geographical concentration of its revenue stream, albeit gradual diversification over the last two years along with susceptibility of AABL's profitability to volatile agro-based raw material prices with limited pricing power. The ratings are also constrained by the company's presence in a highly regulated liquor industry, characterized by heavy duties & taxes and stringent government controls, exposing the company to adverse regulatory changes.

### Rating Sensitivities

#### Positive factors

- Sustained growth in the scale of operations with TOI of more than Rs.550 crore while maintaining its leverage and debt coverage indicators
- Improvement in the PBILDT margin to more than 18% on a sustained basis
- Growth in proportion of IMFL sales in TOI of AABL to more than 50% on a sustained basis along-with better geographical diversification of its TOI

#### Negative factors

- Decline in the PBILDT margin below 11% on a sustained basis leading to adverse impact on its debt coverage indicators
- Undertaking any unplanned debt funded capex leading to moderation in the capital structure of the company
- Any change in the liquor policy by the MP government/adverse regulatory action whereby it restricts company's sales or impacts the financial risk profile of the company
- Inability of the company to secure license for selling CL in existing allocated districts during FY22 or termination of the agreement with United Spirits Ltd. (USL).

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced promoter group

AABL was promoted by late Mr Bhagwati Prasad Kedia and majority of stake is owned by Kedia family (58.45% stake in AABL as on September 30, 2020). Mr. Tushar Bhandari, the executive director, is a management graduate and has an experience of more than a decade in the industry. He manages the day-to-day operations of the company with special focus on marketing and IMFL segment. In 2009, Kedia group setup a brewery unit under group entity viz. Mount Everest Breweries Limited (MEBL). MEBL undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

***Established operations in MP along with geographical diversification of sales territory***

AABL has an established track record of three decades in the liquor industry with a significant presence in the state of MP. During FY20, MP contributed around 72% of its total potable alcohol sales. AABL has been allotted 7 districts (9 districts for FY20) by the Government of Madhya Pradesh (GoMP) for the sale of CL at pre-determined prices for FY21 which have been increased by around 9%-14% from FY20 level. AABL also manufactures and markets its in-house IMFL brands like 'Central Province', 'Bombay Special', 'Superman fine', 'James McGill' (in the whisky segment), 'Titanium' (in the vodka segment) and 'Jamaican Rum'. Since FY19, AABL increased its focus of IMFL sales outside MP by entering into manufacturing agreements with local distilleries in various states and now supplies IMFL (under own brand) to Delhi, Kerala and Chhattisgarh. Consequently, the share of MP which contributed approximately 84% of in-house IMFL brands sales in FY18 has reduced to 38% during FY20, thereby gradually diversifying its revenue profile. AABL also sells extra neutral alcohol (ENA) to leading manufacturers of potable alcohols across India. During FY20, apart from MP, AABL supplied ENA to seven other states in India.

***Increased focus on IMFL sales through exclusive manufacturing-cum-marketing rights for five brands of USL in MP***

In April 2017, AABL was awarded an exclusive franchisee for blending, bottling, branding and sales of five IMFL brands of USL in the State of MP in lieu of 'royalty' payment. The contract of franchisee was for three years and further extended for five years till April 2025. Consequently, the contribution of IMFL sales (to total potable alcohol sales) has increased from 23% in FY18 to 35% in FY20.

***Established presence in beer segment through group entity (MEBL)***

Kedia group's brewery unit under MEBL has also established its presence in MP. MEBL has a diverse portfolio of in-house brands of beer such as Mount 6000, Le Mont and Dabang which have a strong presence in the beer segment in MP, Chhattisgarh and Uttar Pradesh. MEBL also undertakes manufacturing of 'Kingfisher' brand for United Breweries Ltd. (UBL) against an assured off-take. MEBL has doubled its manufacturing capacity to 10 lakh hectoliters (60 lakh cases) of beer per annum at its existing manufacturing facility located at Memdi, MP which became operational from November 2017. Furthermore, sales of beer under its own brand also significantly increased since its enhanced capacity became operational which resulted into increase in the market share of MEBL in the beer market of MP. With the operations of MEBL becoming self-sustainable, lenders of MEBL have allowed to remove the corporate guarantee of AABL for the bank facilities of MEBL during FY20.

***Increase in scale of operations during FY20 along with healthy profitability***

AABL's scale of operations marked by total operating income (TOI) grew by ~31% y-o-y to Rs.525.45 crore during FY20 backed by increase in sales of IMFL under USL's franchise brands as well as proprietary brands along with increase in sales of ENA. Profitability marked by PBILDT margin and PAT margin also remained comfortable at 15.49% (FY19:15.33%) and 9.39% (FY19: 7.52%) respectively in FY20.

However, during H1FY21, AABL reported moderation in its TOI to Rs.165.68 crore vis-à-vis TOI of Rs.254.80 crore during H1FY20 on account of halting of its major manufacturing activities during April 2020 due to lockdown announced by Government of India. During H1FY21, its profitability marked by PBILDT margin & PAT margin improved to 18.90% & 10.83% respectively; aided by favourable grain prices and upward revision in CL prices.

***Comfortable leverage and debt coverage indicators***

Capital structure of AABL continued to remain comfortable. Overall gearing remained comfortable at 0.06x as on March 31, 2020 (0.19x as on March 31, 2019) on account of scheduled repayment of its term debt, reduced reliance on bank borrowings for its working capital requirement and augmentation of net-worth base backed by healthy profitability. Interest & debt coverage indicators also remained comfortable during FY20 marked by PBILDT interest coverage ratio of 39.10 times (FY19: 27.65 times) and TD/GCA of 0.18 years during FY20 (FY19: 0.65 years).

***High entry barriers & favourable medium term prospects for the alcoholic beverage market in India***

Liquor policies governing its production and sale are entirely controlled by respective state governments wherein it is very difficult for new entrants to get licenses thus providing a competitive edge to existing players. However, the states have been reasonably flexible in granting expansion of existing capacity to meet increasing demand, which acts in favour of incumbents as new players find it difficult to enter in the industry.

India is amongst the largest alcoholic beverages producers and the third largest liquor market in the world. Growing disposable incomes, rapid urbanization, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, cumulatively have a favourable effect for liquor manufacturers. The consumption of IMFL in state of MP has increased by ~26% during last three years ended FY20.

Outbreak of COVID-19 pandemic and subsequent lockdown announced by GOI, adversely affected the entire liquor supply chain during Q1FY21 with halting of production and retail sales of liquor. However, gradual recovery has been witnessed after easing of lockdown, medium term prospects of alcoholic beverages in India is still expected to be favourable.

**Liquidity: Adequate**

Adequate liquidity of AABL is characterized by sufficient cushion in cash accruals vis-à-vis term loan repayment obligations and moderate free cash balance & fixed deposits of Rs.17.55 crore as on Sept. 30, 2020. With an overall gearing of 0.06x as on March 31, 2020, it has sufficient gearing headroom, to raise additional debt for its capex. The average utilization of its fund-based working capital facilities remained low at ~6% during trailing twelve months ended November 2020, supported by above unity current ratio. Also, AABL has not availed any moratorium on its debt obligations, the option for which was available to it as a Covid-relief measure under RBI's package, on the back of its adequate liquidity.

**Key Rating Weaknesses*****Presence in highly regulated industry***

The liquor industry is highly regulated in India with each state government controlling its policy on production, distribution, retailing and duty structure independently. As a result, there are difficulties in transfer of production from one state to another, along with huge burden of duties and taxes. Furthermore, in the recent past, few state governments have also banned sale of liquor in their state. Given the strategic role of state government in the liquor industry, the company remains exposed to risks associated with regulatory changes.

***Volatility in input prices with limited pricing power***

AABL's main raw materials are non-food grade grains which contain higher percentage of starch. Production of food grains in India is dependent upon the vagaries of the monsoon and consequently the prices remain volatile. The food grain prices are also controlled by the Government of India through setting of minimum support prices. On the other hand, the main product of AABL, viz. CL, is supplied at fixed rates determined by Govt. at the beginning of the year. Hence, AABL's production costs are vulnerable to the agricultural commodity price cycles. However, over the years, the company has been able to accommodate the swings in the prices of food grains through maintaining multi-grain feedstock for manufacturing alcohol.

***Product and regional concentration risks***

In spite of gradual diversification by AABL, out of its total potable alcohol sales, CL contributed 38% during FY20, wherein profit margins are highly susceptible as selling price is fixed at the start of the year whereas grain prices fluctuates during the year. Also, in spite of gradual diversification of its sales to states other than MP, out of total sales of potable alcohol, nearly 72% comes from MP reflecting its regional concentration.

**Analytical Approach: Standalone****Applicable Criteria****Criteria on assigning 'outlook' to Credit Ratings****CARE's Policy on Default Recognition****Criteria for Short Term Instruments****CARE's Methodology for Manufacturing Companies****Financial ratios - Non- Financial Sector****Liquidity Analysis of Non-Financial Sector Entities****About the company**

Incorporated in 1989, Indore-based AABL is a public limited listed company and the flagship entity of the Kedia group, promoted by late Mr Bhagwati Prasad Kedia. The group is currently owned and managed by Mr Anand Kedia and Mr Prasann Kedia along with their family members/associate concerns.

AABL is one of the leading distilleries in MP and is engaged in the manufacturing of potable alcohol, i.e., RS, ENA, CL and IMFL with an installed capacity of 450 lakh litre per annum (LLPA) at Khargone, MP.

In 2009, Kedia group setup a brewery unit under group entity viz. MEBL. MEBL undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands. MEBL has an installed capacity of 10 lakh hectolitres (120 lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP.

| Brief Financials (Rs. crore)     | FY19 (A) | FY20 (A) |
|----------------------------------|----------|----------|
| Total operating income           | 402.59   | 525.45   |
| PBILDT                           | 61.72    | 81.40    |
| PAT                              | 30.26    | 49.34    |
| Overall gearing (times)          | 0.19     | 0.06     |
| PBILDT Interest coverage (times) | 27.65    | 39.10    |

A: Audited

During H1FY21 (Prov.), AABL reported a TOI of Rs.165.68 crore (H1FY20: Rs.254.80 crore) with a PAT of Rs.17.94 crore (H1FY20: Rs.22.77 crore).

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

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Facilities

| Name of the Instrument              | Date of Issuance | Coupon Rate | Maturity Date  | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-------------------------------------|------------------|-------------|----------------|-------------------------------|---|
| Fund-based - LT-Term Loan           | -                | -           | September 2022 | 5.00                          | CARE A-; Stable                           |
| Fund-based - LT-Cash Credit         | -                | -           | -              | 17.00                         | CARE A-; Stable                           |
| Non-fund-based - ST-Bank Guarantees | -                | -           | -              | 11.00                         | CARE A2+                                  |

#### Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                                |                 | Rating history                            |   |   |   |
|---------|--|-----------------|--------------------------------|-----------------|---|---|---|---|
|         |  | Type            | Amount Outstanding (Rs. crore) | Rating          | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1.      | Fund-based - LT-Term Loan              | LT              | 5.00                           | CARE A-; Stable | 1)CARE A-; Stable (06-Apr-20)             | -   | 1)CARE A-; Stable (05-Mar-19)             | 1)CARE A-; Stable (05-Jan-18)             |
| 2.      | Fund-based - LT-Cash Credit            | LT              | 17.00                          | CARE A-; Stable | 1)CARE A-; Stable (06-Apr-20)             | -   | 1)CARE A-; Stable (05-Mar-19)             | 1)CARE A-; Stable (05-Jan-18)             |
| 3.      | Non-fund-based - ST-Bank Guarantees    | ST              | 11.00                          | CARE A2+        | 1)CARE A2+ (06-Apr-20)                    | -   | 1)CARE A2+ (05-Mar-19)                    | 1)CARE A2+ (05-Jan-18)                    |

#### Annexure-3: Complexity Level of various facilities rated for this company

| Sr. No. | Name of the Instrument              | Complexity Level |
|---------|-------------------------------------|------------------|
| 1.      | Fund-based - LT-Cash Credit         | Simple           |
| 2.      | Fund-based - LT-Term Loan           | Simple           |
| 3.      | Non-fund-based - ST-Bank Guarantees | Simple           |

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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