

Associated Alcohols & Breweries Limited

April 05, 2023

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long- term bank facilities^	-	-	Continues to be on Rating Watch at CARE A- (RWD) [Single A Minus (Under Rating watch with Developing Implications); rating moved to ISSUER NOT COOPERATING category and withdrawn
Short-term bank Facilities^	-	-	Continues to be on Rating Watch at CARE A2+ (RWD); [A Two Plus (Under Rating watch with Developing Implications); rating moved to ISSUER NOT COOPERATING category and withdrawn
Long-term bank facilities	8.00	CARE A- (RWD); ISSUER NOT COOPERATING* [Single A Minus (Under Rating watch with Developing Implications); ISSUER NOT COOPERATING*]	Continues to be on Rating Watch and moved to ISSUER NOT COOPERATING category
Short-term bank facilities	1.00	CARE A2+ (RWD); ISSUER NOT COOPERATING* [A Two Plus (Under Rating watch with Developing Implications); ISSUER NOT COOPERATING*]	Continues to be on Rating Watch and moved to ISSUER NOT COOPERATING category

Details of facilities in Annexure-1. *Issuer did not cooperate; Based on best available information

^CARE Ratings Limited (CARE Ratings) has continued the rating watch with developing implications for the ratings assigned to the bank facilities of Associated Alcohol & Breweries Limited (AABL) and the same has been moved to ISSUER NOT COOPERATING* category and now will be denoted as '**CARE A- (RWD)/ CARE A2+ (RWD); ISSUER NOT COOPERATING***'. These ratings has been simultaneously withdrawn with immediate effect at the request of AABL and 'No Objection Certificate' received from the two of the lenders that have extended the facility rated by CARE Ratings.

Rationale and key rating drivers

CARE Ratings has been seeking information from AABL to monitor the rating(s) vide e-mail communications/ letters dated February 28, 2023, March 06, 2023 and March 07, 2023 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings, has reviewed the rating on the basis of the best available information which however, in CARE Ratings' opinion is not sufficient to arrive at a fair rating. The rating on AABL will now be denoted as '**CARE A- (RWD)/ CARE A2+ (RWD); ISSUER NOT COOPERATING***'.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Analytical approach: Standalone

Detailed description of the key rating drivers:

At the time of the last rating on August 19, 2022, the following were the rating strengths and weaknesses (updated based on best available information i.e. Un-audited financial results for the period ended on December 31, 2022)

Proposed amalgamation of AABL into its group company MEBL:

AABL has made an announcement for approval of scheme of amalgamation by its board of directors for merger of AABL into its group company namely MEBL, subject to necessary approvals from regulators and stakeholders. Pursuant to scheme of amalgamation, AABL shall get merged into MEBL, effective date would be April 01, 2022. The exchange ratio in consideration of amalgamation determined by AABL at allotment of 773 equity shares of MEBL [Face Value (FV) of Rs.10 each] for every 1000 equity shares of AABL (FV of Rs.10 each). The primary rationale behind the proposed scheme of amalgamation is

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications

*Issuer did not cooperate; Based on best available information

consolidation of product segment of both the companies i.e. Spirit and Beer into a single entity. Pending clarity on exact implication of the above on credit risk profile of AABL, CARE had placed the ratings of the bank facilities of AABL on 'Credit Watch with Developing Implications'.

Key strengths

Experienced and resourceful 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 December 31, 2022). 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 has set-up a brewery unit under group entity namely MEBL. MEBL undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands.

Established operations in MP in CL segment along with geographical diversification of sales territory in IMFL and ENA segment:

AABL has an established track record of operations for more than three decades in the liquor industry. It has a significant presence in MP through sale of CL, in-house IMFL brands, USL brands under franchisee agreement and ENA. During FY21, MP contributed around 73% of potable alcohol sales (72% in FY20). Furthermore, AABL has been allotted 16 districts (9 districts in FY22) [through district-wise quota system by Government of Madhya Pradesh (GoMP)] for the sale of CL at pre-determined prices for FY23. 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 on sales of inhouse IMFL brands outside MP by entering into manufacturing agreements with a local distillery in Kerala and marketing agreement in Delhi, Chhattisgarh and Uttar Pradesh. Consequently, the share of MP which contributed approximately 84% of in-house IMFL brands sales in FY18 has reduced to 38% in FY21. AABL has been awarded an exclusive franchisee by USL for blending, bottling, branding and sales of its five IMFL brands in the State of MP in lieu of 'royalty' payment till April 2025. Apart from above, AABL also sells ENA and Rectified Spirit (RS) to leading manufacturers of potable alcohols across seven states in India including MP.

Growing scale of operations albeit dip in profitability margins during FY22: AABL's TOI grew by 17% y-o-y to ₹513.21 crore during FY22 (₹435.61 crore in FY21), despite being operations were partially impacted by Covid-19 led restrictions imposed by GoMP resulting in lower consumption of CL & IMFL during Q1FY22. However, with easing-up of lockdown restrictions, sales have gradually picked-up, resulted into increased liquor consumption in the entire state of MP during FY22 as compared to FY21. CL still constitutes a major part of total potable alcohol sales, the contribution of IMFL sales has increased, reflecting gradual diversification of its revenue profile.

AABL's PBILDT margins declined by around 451 bps to 15.98% in FY22 (20.50% in FY21) on account of significant increase in grain prices which is a basic raw material of AABL and other operational costs and consequently PAT margin dip by 145 bps to 11.85% in FY22 (13.30% in FY21). AABL reported healthy gross cash accruals of ₹74.22 crore in FY22 (₹70.82 crore in FY21).

During 9MFY23 (provisional), AABL reported TOI of ₹516.94 crore (₹365.64 crore) with PBILDT and PAT margin at 10.57% and 8.68% respectively (19.77% and 8.83% respectively).

Improved capital structure and debt coverage indicators: AABL's capital structure improved marked by overall gearing of 0.02x as on FY22 end (0.04x as on FY21 end) on account of negligible term debt liability (except vehicle loan and lease liability), low reliance on bank borrowings for its working capital requirement and ploughing back of profits into business. Nevertheless, the overall gearing is envisaged to increase marginally at FY23 end on account of on-going debt-funded ethanol expansion project. The debt coverage indicators also remained comfortable during FY22 marked by interest coverage ratio of 88.02x (60.77x in FY21) and total debt to GCA of 0.07x (0.16 in FY21) on back of healthy profitability and envisaged low debt levels.

Significant entry barriers and favourable medium-term prospects for the alcoholic beverage market in India:

Liquor policies governing its production and sale are entirely controlled by the respective state government wherein it is very difficult for new entrants to get the licenses, providing a competitive edge to existing players like AABL. Moreover, the state governments have been reasonably flexible in granting expansion of the existing capacity to meet demands. This acts in favour of incumbents as new players find it difficult to enter in the industry. India is amongst the largest alcoholic beverage producers and the third largest liquor market in the world. Key demand drivers of the industry have been growing disposable income, favourable demographics in the country wherein India is expected to add a sizeable population to the legal drinking age each year, changing lifestyle & societal norms with increasing acceptability of alcohol on social occasions, urbanization along with increasing number of pubs and bars in the country. Outbreak of second phase of COVID pandemic and subsequent lockdown announced by GoMP, had adversely affected the entire liquor supply chain with halting of production and retail

sales. However, consumption levels improved with relaxation of covid led restriction, medium term prospects of alcoholic beverages in India is expected to be favourable.

Key weaknesses

Presence in highly regulated alcohol industry: The liquor industry is highly regulated in India with each state government formulating its own policy for 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 and GoMP has been running social awareness & anti-alcohol campaigns to dissuade growth in consumption of alcohol in the state.

Susceptibility of profitability to volatility in input prices: AABL's main raw materials includes non-food grade grains containing higher percentage of starch, viz. bajra, broken rice, maize and jawar etc. Production of food grains in India is highly dependent on the vagaries of monsoon and consequently the prices remain volatile. The food grain prices are also controlled by the Government of India (GoI) through 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. Furthermore, the price of CL and IMFL (supplied to government) is fixed in advance by the GoMP at the beginning of the year. Hence, AABL's profitability remains susceptible to variation in agricultural commodity price cycles. However, over the years, AABL has been able to accommodate the swings in the raw material prices 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 36% in FY21, wherein profit margins are highly susceptible as selling price is fixed at the start of the year whereas grain prices fluctuate 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 73% comes from MP reflecting its regional concentration.

Project implementation risk: AABL is setting up a multi grain-based Ethanol production plant having installed capacity of 300 LLPA at Village Khodi, Tehsil Barwah, Khargaoan (M.P.) with cogeneration of power. The project is in line with the GOI's Ethanol Blended Petrol (EBP) Program launched in 2003. Total cost of the project is estimated at ₹120 crore; proposed to be funded in the debt: equity ratio of 1.33:1. AABL has achieved financial closure for the project and acquired majority of the statutory clearances for the project. Till February 28, 2023, AABL had availed term loan of around ₹70 crore out of total sanction term loan for the said capex.

Liquidity: Strong

AABL has strong liquidity position characterized by healthy gross cash accruals, negligible term debt repayment obligation (except meagre vehicle loans and lease liability) and free cash and bank balances (incl. fixed deposits) of around Rs.78 crore as on March 31, 2022 (around Rs.85 crore as on September 30, 2021). AABL's reliance on bank borrowings for working capital utilisation remains low as indicated by average utilisation of fund-based working capital facilities at 8% during trailing 12-months ended December 31, 2021, supported by current ratio of 2.47x as on March 31, 2021. With envisaged growth in AABL's gross cash accruals in FY23 and onwards which would be sufficient to meet on-going capex for ethanol plant and other proposed capex requirements of the company along with repayment obligations of proposed term debt.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)
[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Manufacturing Companies](#)
[Short Term Instruments](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Breweries & Distilleries

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 manufacturing of potable alcohol, i.e. CL, IMFL, ENA and RS 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2022 (UA)
Total operating income	435.61	513.21	516.94
PBILDT	89.28	82.02	47.66
PAT	57.96	60.81	31.75
Overall gearing (times)	0.04	0.02	NA
Interest coverage (times)	60.77	88.02	54.15

A: Audited UA: Unaudited; NA: Not Available

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	8.00	CARE A- (RWD); ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee	-	-	-	-	1.00	CARE A2+ (RWD); ISSUER NOT COOPERATING*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Feb-22)	1)CARE A-; Stable (07-Jan-21) 2)CARE A-; Stable (06-Apr-20)	-
2	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A-(RWD) (27-Dec-22) 2)CARE A-(CW with Developing Implications) (19-Aug-22)	1)CARE A-; Positive (07-Feb-22)	1)CARE A-; Stable (07-Jan-21) 2)CARE A-; Stable (06-Apr-20)	-
3	Non-fund-based - ST-Bank Guarantee	ST	-	-	1)CARE A2+ (RWD) (27-Dec-22) 2)CARE A2+ (CW with Developing Implications) (19-Aug-22)	1)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21) 2)CARE A2+ (06-Apr-20)	-
4	Fund-based - LT-Cash Credit	LT	8.00	CARE A-(RWD); ISSUER NOT COOPERATING*	1)CARE A-(RWD) (27-Dec-22) 2)CARE A-(CW with Developing Implications) (19-Aug-22)	1)CARE A-; Positive (07-Feb-22)	1)CARE A-; Stable (07-Jan-21) 2)CARE A-; Stable (06-Apr-20)	
5	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A2+ (RWD); ISSUER NOT COOPERATING*	1)CARE A2+ (RWD) (27-Dec-22) 2)CARE A2+ (CW with Developing Implications) (19-Aug-22)	1)CARE A2+ (07-Feb-22)	1)CARE A2+ (07-Jan-21) 2)CARE A2+ (06-Apr-20)	

*Long term/Short term; *Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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