

Associated Alcohols & Breweries Limited (Revised)

January 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB+; Stable; ISSUER NOT COOPERATING* and Withdrawn
Short Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4+; ISSUER NOT COOPERATING* and Withdrawn

Details of facilities in Annexure-1.

*Issuer did not cooperate; Based on best available information

Detailed Rationale and Key Rating Drivers:

CARE Ratings Limited (CARE Ratings) has reaffirmed and simultaneously withdrawn the outstanding ratings of '**CARE BB+; Stable; ISSUER NOT COOPERATING / CARE A4+ ISSUER NOT COOPERATING***' assigned to the bank facilities of Associated Alcohols & Breweries Limited (AABL), with immediate effect.

The above action has been taken at the request of AABL and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE Ratings Ltd.

The ratings prior to its withdrawal continue to remain constrained by geographical concentration of its revenue stream along with susceptibility of AABL's profitability to volatile raw material prices with limited pricing power, its presence in a highly regulated liquor industry characterized by heavy duties & taxes and stringent government controls, exposing the company to adverse regulatory changes. The ratings also factor decline in AABL's profitability during FY23 owing to steep increase in grain prices and implementation risk associated with its on-going debt funded Ethanol project capex.

However, the ratings derived strength from its experienced promoters having established track record of operations in the alcoholic beverages industry for more than three decades, significant presence in the state of Madhya Pradesh (MP) for sale of Country Liquor (CL), growth in scale of operations and its comfortable financial risk profile.

Analytical approach: Standalone

Outlook: Stable

Detailed description of the key rating drivers

At the time of last rating on October 03, 2023, 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 September 30, 2023, as available from BSE website).

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,

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

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.

Implementation risk associated with its on-going debt funded capex: 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 was estimated at ₹120 crore; to be funded through term loan of Rs.80 crore and balance through equity/ internal cash accruals. AABL had achieved financial closure for the project debt and availed entire term loan of Rs.80 crore for the said capex.

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 (58.67% stake in AABL as on September 30, 2023). 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. Furthermore, AABL has been allotted 6 districts in FY24 (16 districts in FY23) [through district-wise quota system by Government of Madhya Pradesh (GoMP)] for the supply of CL at pre-determined prices. 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: AABL's TOI grew by 36.57% y-o-y to Rs.700.91 crore in FY23 (Rs.513.21 crore during FY22) on account increased revenue from IMFL segment (Proprietary as well as licensed), however, revenue from CL segment reduced in FY23 vis-à-vis FY22.

AABL's PBILDT margin declined significantly by 703 bps to 8.95% in FY23 (15.98% in FY22) on account of steep increase in grain prices which is a basic raw material of AABL and other operational costs. Consequently, PAT margin dip by 592 bps to 5.93% in FY23 (11.85% in FY22). AABL reported gross cash accruals of Rs.54.81 crore in FY23 (Rs.74.22 crore in FY22).

During H1FY24 (provisional), AABL reported TOI of Rs.328 crore (Rs.331 crore in H1FY23) with PBILDT and PAT margin of 11.58% and 7.88% respectively (9.38% and 6.33% respectively in H1FY23).

Comfortable capital structure and debt coverage indicators: AABL's capital structure remained comfortable marked by overall gearing of 0.28x as on FY23 end (0.02x as on FY22 end) on account of low reliance on bank borrowings for its working capital requirement and ploughing back of profits into business. Marginal deterioration in overall gearing was on account of avilment of term debt for ethanol project capex.

During FY23, debt coverage indicators remained comfortable marked by PBILDT interest coverage ratio of 45.76x (88.02x in FY22) and total debt to GCA of 1.83 years (0.07 years in FY22).

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.

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[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

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 hecto litres (120 lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	513.21	700.91	327.55
PBILDT	82.02	62.75	37.92
PAT	60.81	41.56	25.80
Overall gearing (times)	0.02	0.28	0.24
Interest coverage (times)	88.02	45.76	36.11

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

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

Annexure-2: Rating History of 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 2023-2024	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
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) (05-Apr-23) 2)Withdrawn (05-Apr-23)	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)Withdrawn (05-Apr-23) 2)CARE A2+ (RWD) (05-Apr-23)	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^	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (03-Oct-23) 2)CARE A- (RWD); ISSUER NOT COOPERATING* (05-Apr-23)	-	-	-

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
5	Non-fund-based - ST-Bank Guarantee	ST^	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (03-Oct-23) 2)CARE A2+ (RWD); ISSUER NOT COOPERATING* (05-Apr-23)	-	-	-

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

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

Annexure 4: Complexity level of various instruments rated for this Company

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.

Contact us

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About us:

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