

**Associated Alcohols & Breweries Limited**

April 06, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	29.50 (reduced from 36.68 )	<b>CARE A-; Stable (Single A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short term Bank Facilities	11.00	<b>CARE A2+ (A Two Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>40.50 (Rupees forty crore and fifty lakh 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 the promoters in the alcohol 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 three years. The ratings also derive strength from continuous growth in its scale of operations during FY19 (refers to the period April 01 to March 31) and 9MFY20 (refers to the period April 01 to December 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, adequate liquidity and favourable outlook for alcoholic beverages in India.

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 margins to more than 18% on a sustained basis
- Growth in proportion of IMFL sales in TOI of AABL on a sustained basis along-with better geographical diversification of its TOI

**Negative factors**

- Decline in the PBILDT margins 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 where by 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 for FY21 or non-renewal/extension of the agreement with United Spirits Ltd. (USL).
- Less than 5% improvement in prices of CL for FY21
- Any adverse development from the Income tax search conducted in November 2017

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

**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 December 31, 2019). 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.

***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 FY19, MP contributed around 80% of its total potable alcohol sales. AABL has been allotted 9 districts by the Government of Madhya Pradesh (GoMP) for the sale of CL at pre-determined price for FY20. 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'. During 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 in FY18, reduced to 50% during FY19, thereby gradually diversifying its revenue profile. AABL also sells ENA to leading manufacturers of potable alcohols across India. During FY19, apart from MP, AABL supplied ENA to ten 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 is for three years (extendable up to five years). Consequently, the contribution of IMFL sales (to total potable alcohol sales) has increased from 23% in FY18 to 33% in FY19.

***Established presence in beer segment through associate company (MEBL)***

The 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 Nov-17. Furthermore, sales of beer under its own brand also significantly increased during FY19 and H1FY20 upon enhanced capacity becoming operational resulting into increase in the market share of MEBL in the beer market of MP.

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

The scale of operations of AABL as marked by the Total Operating Income (TOI) grew by ~23% from Rs.328.17 crore in FY18 to Rs.402.59 crore in FY19 crore backed by increase in sales of IMFL under USL's franchise brands along with diversifying the geography for the own brand IMFL. Furthermore, during 9MFY20, AABL reported a TOI of ~Rs.401 crore, registering a healthy growth of ~38% over that during 9MFY19.

Profitability as marked by the PBILIDT margin and PAT margin remained comfortable at 15.33% (FY18:16.81%) and 7.52% (FY18: 7.68%) respectively in FY19. However, Gross Cash Accruals (GCA) of the company improved by ~27% from Rs.34.65 crore in FY18 to Rs.43.42 crore in FY19.

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

Capital structure of AABL continued to remain comfortable. Overall gearing remained comfortable at 0.19x as on March 31, 2019 on account of scheduled repayment of its term debt and augmentation of net-worth base backed by healthy profitability. Adjusted overall gearing (including guaranteed debt of MEBL) also remained comfortable at 0.41x as on March 31, 2019. Further, the debt coverage indicators improved during FY19 marked by PBILIDT interest coverage ratio of 27.65 times (FY18: 14.40 times) and TDGCA of 0.65 years during FY19 (FY18: 0.62 years).

***Liquidity: Adequate***

Adequate liquidity of AABL is characterized by sufficient cushion in cash accruals vis-à-vis term loan repayment obligations and moderate cash balance of Rs.1.31 crore on Sept. 30, 2019. Its capex requirements are modular and with an overall gearing of 0.19 times as on March 31, 2019, it has sufficient headroom. The average month-end utilization of its fund-based working capital facilities remained low at ~16% during trailing twelve months ended February 2020, supported by above unity current ratio.

**High Entry Barriers & favourable prospects for the alcoholic beverage market in India**

Liquor policies governing its production and sale are entirely controlled by respective State governments. Furthermore, 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 start.

India is amongst the largest alcoholic beverages producers and the third largest liquor market in the world, with an estimated retail market size of USD 35 billion. 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 CL& IMFL in state of MP have increased by ~5% and ~7% respectively during FY19

However, with the outbreak of COVID 19 pandemic, Indian Government has declared a nationwide lock down, cancelled all of its non-official visas offered and also advised to curb all non-essential travels across the country in the view of preventing the spread of virus. This may impact the financial profile of the company with production and retail sales of liquor being closed down for the time being.

**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 through setting of minimum support prices. On the other hand, the main product of AABL, viz. CL, is supplied to the government at fixed rates which is determined 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 continues to contribute 48% 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 other than MP regions, out of total sales of potable alcohol, nearly 80% comes from single state of MP reflecting its regional concentration.

**Analytical approach:** Standalone along with factoring corporate guarantee extended to part of the bank facilities of MEBL

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' 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](#)

[Rating Methodology - Factoring Linkages in Ratings](#)

**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 Prassan 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 419 lakh litre per annum (LLPA) at Khargone, MP. AABL also has a wind-based power plant of 0.75 megawatt in Tamil Nadu.

In 2009, Kedia group setup a brewery unit under AABL's associate company 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 assured off take arrangement to the extent of 18 lakh cases of beer per annum. MEBL has an

installed capacity of 10 lakh Hectolitres (120 Lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP. Part of the bank facilities of MEBL is backed by corporate guarantee of AABL.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	328.17	402.59
PBILDT	55.15	61.72
PAT	25.19	30.26
Overall gearing (times)	0.18	0.19
PBILDT Interest coverage (times)	14.40	27.65

A: Audited

During 9MFY20 (Prov.), AABL reported a TOI of Rs.400.85 crore (9MFY19: Rs.291.04 crore) with a PAT of Rs.38.59 crore. (9MFY19: Rs.24.55 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	-	-	December 2023	12.50	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	12.50	CARE A-; Stable	-	1)CARE A-; Stable (05-Mar-19)	1)CARE A-; Stable (05-Jan-18)	1)CARE BBB+; Positive (06-Mar-17)
2.	Fund-based - LT-Cash Credit	LT	17.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Mar-19)	1)CARE A-; Stable (05-Jan-18)	1)CARE BBB+; Positive (06-Mar-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A2+	-	1)CARE A2+ (05-Mar-19)	1)CARE A2+ (05-Jan-18)	1)CARE A2 (06-Mar-17)
4.	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (06-Mar-17)

**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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