

Associated Alcohols and Breweries Limited

January 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities*	49.09 (enhanced from Rs.32.42 crore)	CARE A-/ Stable (A Minus; Outlook: Stable)	Revised from CARE BBB+/ Positive (Triple B Plus; Outlook: Positive)
Short term Bank Facilities*	5.00 (reduced from Rs.26.00 crore)	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total	54.09 (Rupees Fifty Four crore and Nine lakh only)		

*Bank facilities of Rs.21.00 crore reclassified from Short term to Long term
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Associated Alcohols and Breweries Limited (AABL) takes into account growth in the company's scale of operations during FY17 (FY refers to the period April 01 to March 31) along with continuous improvement in profitability, mainly on the back of increased focus on sales of value added Indian Made Foreign Liquor (IMFL). The rating revision also takes into account improvement in AABL's capital structure and debt coverage indicators and reduction in reliance on bank borrowings for working capital requirements.

The improvement in ratings also factor in award of exclusive franchisee rights to AABL for five brands of United Spirits Limited (USL) in Madhya Pradesh (MP) for three years in FY18, which is envisaged to increase the contribution of value-added products (IMFL) in its total sales and yield better profitability.

The ratings continue to derive strength from long-standing experience of the promoters of AABL in the liquor industry, established operations in the state of MP along with continuous track record of growth in sales volume of its major product Country Liquor (CL) on the back of assured off-take arrangement through district-wise quota system.

The ratings also take cognizance of favourable outlook for alcoholic beverages in India due to increase in personal disposable income of Indian population along with rising urbanization, favourable demographics and changing customer preferences.

The ratings are, however, constrained on account of susceptibility of AABL's profitability to volatile agro-based raw material prices, along with high regional and product concentration risk; owing to significant revenue being derived from Madhya Pradesh with CL contributing around 55-60% share in total income. The ratings are also constrained due to AABL's presence in a highly regulated liquor industry, characterized by heavy duties & taxes and stringent government controls, exposing the company to adverse regulatory changes.

Going forward, AABL's ability to continue its growth trajectory in IMFL segment while maintaining its established position in the CL segment, diversify its product portfolio, expand its geographical presence, maintain its capital structure and improve its profitability in light of volatile raw material prices and competitive & regulated industry shall be the key rating sensitivities.

This apart, any adverse finding in the Income Tax search conducted in November 2017 shall also remain a key rating monitorable.

Detailed description of the key rating drivers
Key Rating Strengths

Growth in TOI in H1FY18 and continuous improvement in profitability with focus on growth of branded sales: During FY17, AABL's TOI grew by a moderate rate of 3% which was mainly derived from trading of grains, as sales in all categories of potable alcohol, viz. CL, ENA and IMFL largely remained stable. However, during H1FY18, AABL registered an 8% y-o-y growth in its TOI mainly on account of increase in sales of IMFL. While CL is sold in allotted districts in MP, 76% of the ENA is sold outside MP to 10 states including Kerala, Tamil Nadu, Punjab and Maharashtra.

Profitability of the company has improved consistently over last three years ended FY17 and further in H1FY18 on account of improvement in operational efficiency and growth in sales of IMFL. During FY17, PBILDT margin improved by 64 bps y-o-y to 14.12% and further improved by 218 bps y-o-y to 16.29% in H1FY18. PAT margin also improved by 89 bps

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

y-o-y in FY17 to 5.84% and further by 135 bps to a healthy level of 7.19%, with stable depreciation and reduction in interest expenses on the back of scheduled debt repayments and reduction in utilization of fund-based working capital facilities.

Continuous improvement in leverage and debt coverage indicators along with moderate liquidity: The overall gearing improved to 0.32x as on March 31, 2017 and further to 0.25x as on September 30, 2017 as against 0.48x as on March 31, 2016 primarily on account of healthy accrual to reserves which reduced AABL's reliance on external debt and scheduled term debt repayments. The interest coverage improved to 12.24x during H1FY18 (10.39x in FY17; 7.49x in FY16) while Total Debt to Gross Cash Accruals (TD/GCA) also improved to 0.61x in H1FY18 (1.14x in FY17; 1.56x in FY16).

Liquidity of AABL remained moderate with a moderate average month-end utilisation of fund-based working capital limits at 62% (maximum 85% for the aforesaid period) and lean operating cycle of 30 days.

Exclusive manufacturing-cum-marketing rights for five brands of USL in MP: Till FY17, AABL undertook bottling of IMFL for the leading global liquor manufacturer USL, a 54.8% subsidiary of Diageo. In April 2017, AABL was awarded an exclusive franchisee for bottling, branding and sales of five IMFL brands of USL in lieu of 'royalty' payment for the state of MP. The contract of franchisee is for three years (extendable up to five years) and AABL is liable to pay an annual royalty of around Rs.6.25 crore to USL for the same. The franchisee agreement will help AABL to scale up sales volume of value-added products (IMFL) and yield better profitability.

Experienced promoter group: AABL was promoted by late Mr Bhagwat Prasad Kedia and majority of stake is owned by Kedia family (58.45% stake in AABL as on September 30, 2017). Mr. Tushar Bhandari, Whole Time Director, has experience of more than a decade and 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 more than two decades in the liquor industry and with an installed capacity of manufacturing 104 kilo litre per day (KLPD) of rectified spirit (RS). AABL has been allotted 8 districts by the GoMP for sale of CL at pre-determined price during FY18. AABL also manufactures and markets its in-house IMFL brands like 'Central Province' and 'Bombay Special' (in the whisky segment) and 'Titanium' (in the Vodka segment) in Madhya Pradesh, Delhi and neighbouring states. AABL also commenced sales of IMFL to newer states including in southern and central India. The contribution of IMFL sales grew from 9% of total operating income (TOI) in FY17 to 18% in H1FY18, owing to commencement of sales of IMFL in Karnataka through a manufacturing agreement with a local distillery.

Expansion of beer brewing capacity to 10 lakh Hectoliters: MEBL has doubled its manufacturing capacity by setting up an additional brewery with an installed capacity of 5 lakh Hectoliters (60 Lakh cases) of beer per annum at its existing manufacturing facility located at Memdi, MP at a total cost of Rs.53.75 crore, funded through term loans of Rs.31.02 crore, equity contribution of Rs.13.64 crore and Rs.9.09 crore through internal accruals.

Favourable prospects for the alcoholic beverage market in India

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. The state of MP has also witnessed a steady growth in consumption of liquor (both CL and IMFL) during last five years ending FY16 with a marginal de-growth in FY17. With AABL's established position in the CL segment of MP, it is well positioned to cater to the growing consumer demand in the state. However, changes in regulatory environment may adversely impact the profitability of industry players.

Key Rating Weaknesses

Susceptibility of its margins to adverse price fluctuations of grains

AABL's main raw materials are non-food grade grains which contain higher percentage of starch. While the production of food grains in India and its price is dependent upon the vagaries of the monsoons, CL is supplied to the government wherein the rates are fixed. AABL's average cost of various grains consumed increased by 12% to 15,970/ MT during FY17 (9% increase in FY16). 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.

High entry barriers and highly regulated environment with high duties and taxes

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. The players such as AABL also remain exposed to regulatory changes such as ban on sale of liquor. Also, with all the alcohol consuming States/Union Territories having their own regulations and entry-exit restrictions, it is difficult for new entrants to get licenses in new states thus providing a competitive advantage to existing players.

IT search

During Nov. 2017, IT department conducted a search at various locations of Kedia group, including AABL and MEBL. Any adverse finding in the Income Tax search conducted on the company in November 2017 shall also remain a key rating monitorable.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios - Non- Financial Sector](#)

[Criteria for Short Term Instruments](#)

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. The group is engaged in liquor manufacturing business through AABL and another company named Mount Everest Breweries Limited [MEBL; rated 'CARE A- (SO); Stable/ CARE A2+ (SO)'].

AABL is one of the leading distilleries in Madhya Pradesh (MP) and is engaged in the manufacturing of potable alcohol, i.e., RS, ENA, CL and IMFL with an installed capacity of 104 KLPD [314 lakh litre per annum (LLPA)].

AABL also does bottling, branding and sales for international players such as Diageo, the fifth largest alcoholic beverage company in the world by sales. AABL also sells IMFL under its own brands like 'Central Province' and 'Bombay Special' (in the whisky segment) and 'Titanium' (in the Vodka segment) in MP, Delhi and Rajasthan. AABL's distillery and bottling facility is located 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 such as 'Lemount', 'Mount's 6000' and 'Dabang'. MEBL has an assured off take arrangement to the extent of 18 lakh-cases of beer per annum with UBL for its established brand 'Kingfisher', with the actual off-take being higher at an average of 25 lakh-cases in last three years ended FY17. As on March 31, 2017, MEBL had an installed capacity of 5 lakh Hectoliters (60 lakh cases) of beer per annum at its facility located at Memdi, Indore MP. MEBL undertook an expansion project and as on December 15, 2017, MEBL had an installed capacity of 10 lakh Hectoliters (120 lakh cases) per annum.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	288.27	297.33
PBILDT	38.85	41.97
PAT	14.29	17.38
Overall gearing (times)	0.48	0.32
Interest coverage (times)	7.49	10.39

A: Audited

Based on the provisional results for H1FY18, AABL reported a TOI of Rs.152.96 crore and a PAT of Rs.11.00 as against TOI of Rs.141.63 crore and PAT of Rs.7.53 crore during H1FY17.

Status of non-cooperation with previous CRA: CRISIL has reaffirmed its outstanding ratings for the bank facilities of AABL during August 2016 based only on publicly available information as AABL has not cooperated with CRISIL in its surveillance process.

Any other information: Not applicable

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr Ujjwal Patel

Tel: 079-40265649

Mobile: 8511193123

Email: ujjwal.patel@careratings.com

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Annexure-1: Details of Instruments/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	-	-	July 2022	26.09	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	23.00	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	5.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	26.09	CARE A-; Stable	-	1)CARE BBB+; Positive (06-Mar-17)	1)CARE BBB+ (08-Jan-16)	1)Suspended (18-Mar-15) 2)CARE BBB- (02-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	23.00	CARE A-; Stable	-	1)CARE BBB+; Positive (06-Mar-17)	1)CARE BBB+ (08-Jan-16)	1)Suspended (18-Mar-15) 2)CARE BBB- (02-Apr-14)
3.	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A2+	-	1)CARE A2 (06-Mar-17)	1)CARE A2 (08-Jan-16)	1)Suspended (18-Mar-15) 2)CARE A3 (02-Apr-14)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (06-Mar-17)	1)CARE A2 (17-Feb-16)	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 851111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com