

## Associated Alcohols and Breweries Limited

March 05, 2019

### Ratings

| Facilities                  | Amount (Rs. crore)  | Ratings <sup>1</sup>  | Rating Action     |
|-----------------------------|---|---|-------------------|
| Long term Bank Facilities*  | 36.68<br>(reduced from Rs.49.09 crore)                                      | <b>CARE A-; Stable</b><br><b>(A Minus; Outlook: Stable)</b> | <b>Reaffirmed</b> |
| Short term Bank Facilities* | 11.00<br>(enhanced from Rs.5.00 crore)                                      | <b>CARE A2+ (A Two Plus)</b>                                | <b>Reaffirmed</b> |
| <b>Total</b>                | <b>47.68</b><br><b>(Rupees Forty Seven crore and Sixty Eight lakh only)</b> |   |                   |

\*Bank facilities of Rs.6.00 crore reclassified from Long term to Short term  
 Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Associated Alcohols and Breweries Limited (AABL) continues to remain underpinned by the extensive experience of the promoters in the alcohol industry, established operations in the state of Madhya Pradesh (MP), assured off-take arrangement of its major product Country Liquor (CL) through district-wise quota system, exclusive franchisee rights for manufacturing and sale of five brands of United Spirits Limited (USL) in MP for a period of three years and its presence in the beer industry through its group entity i.e. Mount Everest Breweries Limited (MEBL).

The ratings also derives strength from continuous growth in its scale of operations during FY18 (refers to the period April 01 to March 31) and 9MFY19 (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 improvement in its profitability, comfortable capital structure and debt coverage indicators, comfortable liquidity position and favourable outlook for alcoholic beverages in India.

The ratings also take cognizance of timely completion of its capacity expansion project and scaling up of operations therefrom post commencement of operations from October 2018.

The ratings, however, continue to remain constrained on account of geographical and product concentration of its revenue stream along with susceptibility of AABL's profitability to volatile agro-based raw material prices due to 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.

Going forward, AABL's ability to scale up its operations through increased contribution from value-added IMFL segment along with geographical diversification of its revenue profile shall be key rating sensitivities. AABL's ability to maintain its capital structure and improve its profitability in light of volatile raw material prices and competitive & regulated industry while managing its working capital requirements shall also remain crucial. 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

**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, 2018). 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. The Board of directors consist of four directors, of which two are independent directors. The BOD is supported by a well-qualified and experienced team of professionals.

**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 FY18, MP contributed around 80% of the total potable alcohol sales (76% in FY17).

AABL has been allotted 9 districts by the Government of Madhya Pradesh (GoMP) for the sale of CL at pre-determined price. AABL also manufacturers 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 H1FY19, 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, Karnataka and Chhattisgarh. Consequently, the

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

share of MP, which contributed approximately 84% of in-house IMFL brands in FY18, reduced to 59% during H1FY19, thereby gradually diversifying its revenue profile.

AABL also sells ENA to leading manufacturers of potable alcohols across India. During FY18, apart from MP, AABL supplied ENA to eight 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 lieu of 'royalty' payment of Rs.6.20 crore for the state of MP. 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 9% in FY17 to 23% in FY18 and further to 31% during H1FY19.

**Capacity expansion at AABL and commencement of commercial operations thereupon:** AABL increased its production capacity from 314 LLPA to 450 LLPA at a total cost of Rs.26.54 crore, funded through a term debt of 10 crore and balance through internal accruals. The project was completed within envisaged cost and time parameters and commenced commercial operations from October 2018.

**Established presence in beer segment through an associate company (MEBL):** 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. MEBL also undertakes contract manufacturing of 'Kingfisher' brand for UBL. Capacity utilisation and sales volume of MEBL's in-house brands (Mount 6000, Le Mont and Dabang) has increased during FY18 and H1FY19.

**Increase in scale of operations along with improvement in profitability:** The Total Operating Income (TOI) of AABL grew by 12% y-o-y to Rs.328 crore during FY18. The growth was largely on account of increase in IMFL sales of UBL's brands. PBILIDT margin of AABL improved by 212 bps to 16.81% in FY18 on account of increase in share of high margin IMFL sales along with rationalization in its fuel costs. PAT margin also witnessed similar improvement of 192 bps y-o-y to 7.68% in FY18 on account of stable depreciation charge and reduction in interest expenses. AABL's Gross Cash Accruals (GCA) increased by 30% to Rs.35 crore in FY18 as against Rs.27 crore in FY17.

As per the provisional results for 9MFY19, AABL reported a TOI of Rs.291 crore, registering a healthy growth of 16% over that during 9MFY18. PAT margin also improved by 76 bps to 8.44% in 9MFY19.

**Continuous improvement in leverage and debt coverage indicators:** Capital structure of AABL continued to remain comfortable. Overall gearing improved from 0.33x as on March 31, 2017 to 0.18x as on March 31, 2018 on account of scheduled repayment of its term debt, lower utilisation of its fund-based limits and augmentation of net-worth base backed by healthy profitability. Adjusted overall gearing (including guaranteed debt of MEBL) also improved from 0.69x as on March 31, 2017 to 0.42x as on March 31, 2018. The debt coverage indicators during FY18 also improved and remained healthy marked by an interest coverage of 14.4x (FY17: 10.5x) and total debt to GCA of 0.62x (FY17: 1.17x).

**Comfortable Liquidity:** AABL has a comfortable liquidity position marked healthy cash flow from operations of Rs.39 crore during FY18 (FY17: Rs.25 crore). The average month-end utilization of its fund-based working capital facilities remained low at 35% during trailing twelve months ending January 2019. Furthermore, AABL had a free cash and bank balance of Rs.5.55 crore as on September 30, 2018. Against a repayment liability of Rs.6.95 crore in FY19, GJHM reported GCA of 34.65 crore during FY18. The operating cycle remained lean, albeit elongated marginally to 43 days during FY18 (31 days in FY17), primarily on account of increased inventory holding due to increase in scale of operations. Current ratio remained moderate at 1.20x as on March 31, 2018 (1.19x as on March 31, 2017).

**High Entry Barriers:** 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 favor of incumbents as new players find it difficult to start.

**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. 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 favorable effect for liquor manufacturers. According to World Health Organization, the per capita consumption of alcohol in India has increased from 2.4 litres in 2005 to 5.7 litres in 2016. The consumption of liquor (both CL& IMFL) in state of MP have remained stable in the state of MP during FY17 and FY18.

### 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 and consumption 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 monsoons 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. 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.

**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.

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. 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 (rated 'CARE A- (SO); Stable/ CARE A2+ (SO)'). 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 Hectoliters (120 Lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP.

| Brief Financials – AABL (Rs. crore) | FY17 (A) | FY18 (A) |
|-------------------------------------|----------|----------|
| Total operating income              | 293.70   | 328.17   |
| PBILDT                              | 43.16    | 55.15    |
| PAT                                 | 16.91    | 25.19    |
| Overall gearing (times)             | 0.33     | 0.18     |
| PBILDT Interest coverage (times)    | 10.52    | 14.40    |

A: Audited

**Status of non-cooperation with previous CRA:** None

**Any other information:** None

**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](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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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           | NA               | NA          | December 2023 | 19.68                         | CARE A-; Stable                           |
| Fund-based - LT-Cash Credit         | NA               | NA          | NA            | 17.00                         | CARE A-; Stable                           |
| Non-fund-based - ST-Bank Guarantees | NA               | NA          | NA            | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based - LT-Term Loan                       | LT              | 19.68                          | CARE A-; Stable | -   | 1)CARE A-; Stable (05-Jan-18)             | 1)CARE BBB+; Positive (06-Mar-17)         | 1)CARE BBB+ (08-Jan-16)                   |
| 2.      | Fund-based - LT-Cash Credit                     | LT              | 17.00                          | CARE A-; Stable | -   | 1)CARE A-; Stable (05-Jan-18)             | 1)CARE BBB+; Positive (06-Mar-17)         | 1)CARE BBB+ (08-Jan-16)                   |
| 3.      | Non-fund-based - ST-Bank Guarantees             | ST              | 11.00                          | CARE A2+        | -   | 1)CARE A2+ (05-Jan-18)                    | 1)CARE A2 (06-Mar-17)                     | 1)CARE A2 (08-Jan-16)                     |
| 4.      | Commercial Paper- Commercial Paper (Carved out) | ST              | -                              | -               | -   | -   | 1)Withdrawn (06-Mar-17)                   | 1)CARE A2 (17-Feb-16)                     |

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