

Associated Alcohols and Breweries Limited

February 6, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	32.42 (reduced from Rs.40.80 crore)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short-term Bank Facilities	26.00 (enhanced from Rs.4.00 crore)	CARE A2 (A Two)	Reaffirmed
Total facilities	58.42 (Rupees Fifty Eight crore and Forty Two lakh only)		

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) continue to derive strength from long-standing experience of the promoters of AABL in the liquor industry, established operations in the state of Madhya Pradesh (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, improvement in its profitability during FY16 (refers to the period April 01 to March 31) and 9MFY17 and low leverage which further improved as on March 31, 2017. 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 its operating margins to cyclicity in agro-based raw material prices risk as well as high regional and product concentration (CL) risk. The ratings are also constrained on account of AABL's presence in a highly regulated industry characterized by heavy duties and taxes and stringent government controls, exposing it to changes in the state policies regarding pricing and sales of country liquor.

Going forward, AABL's ability to maintain its growth in the CL segment along with diversification of its product portfolio by increasing the share of high-margin in-house Indian Made Foreign Liquor (IMFL) brands and Extra Neutral Alcohol (ENA), expand its geographical presence and improve its profitability margin by managing volatility associated with its agro-based raw materials amidst a competitive and highly regulated environment would be the key rating sensitivities.

Outlook: Positive

CARE believes that AABL will continue to benefit over the medium term from its established position in CL segment in the state of MP and its focus on growth in sales volume of in-house premium IMFL brands in MP and neighbouring states resulting in improvement in profitability, liquidity and leverage.

The outlook, however, may be revised to 'Stable' in case of deterioration in capital structure owing to increase in working capital requirements or large-size debt-funded capex and reduction in profitability margin which is susceptible to volatile raw material prices.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group with established track record of operations in the state of MP

AABL was promoted by late Mr Bhagwat Prasad Kedia and majority of stake is owned by Kedia family (58.45% stake in AABL). Mr Ashish Gadia, Executive Director, is associated with the company for more than a decade and manages the entire operations of the company with the guidance provided by the promoter family.

AABL has an established track record of more than two decades in the liquor industry and with an installed capacity of manufacturing 104 KLPD of rectified spirit (RS), it is the second largest grain-based distillery in Madhya Pradesh. AABL has been allotted 8 districts by the GoMP for sale of CL at pre-determined price during FY17. 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.

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

Moderate scale of operations along with continuous improvement in profitability

Sale of country liquor constitutes a major part of total potable alcohol sales of AABL followed by ENA and IMFL. During FY16, sales of CL and IMFL grew by 5% (Rs.165 crore) and 6% (Rs.23 crore) respectively; However, the total operating income (TOI) of AABL remained stable (reduced marginally by 4%) during FY16 primarily on account of reduction in sales of ENA. During FY16, the PBILDT and PAT margin improved by 265 bps (to 13.48%) and 87 bps (to 4.96%) respectively.

Improvement in leverage and debt coverage indicators with moderate liquidity

The overall gearing improved to 0.48x as on March 31, 2016 from 0.67x as on March 31, 2015 primarily on account of repayment of term debt and unsecured loans from the promoter group and related corporates. The interest coverage improved to 7.49x during FY16 when compared with 4.97x during FY15. The Total Debt to Gross Cash Accruals (TD/GCA) remains comfortable at 1.56 times as on March 31, 2016.

With increase in scale of operations during 9MFY17 and improvement in profitability, the reliance on debt reduced further as evidenced by overall gearing of 0.18x as on December 31, 2016.

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 6% to 13,533/ MT during FY16 after reducing in FY15 and it has further increased by 19% during H1FY17.

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. 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 thus providing a competitive advantage to existing players.

Favourable prospects for the alcoholic beverage market in India

India is the world's second largest liquor market. 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 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.

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, AABL is a public limited listed company and the flagship entity of the Indore-based Kedia group promoted by late Mr Bhagwati Prasad Kedia. The group is currently owned and managed by Mr Anant Kedia and Mr Prassan Kedia along with their family members/associate concerns.

AABL is the second-largest distillery in MP and is engaged in the manufacturing of potable alcohol, ie, Rectified Spirit (RS), ENA, CL and IMFL with an installed capacity of 104 kilo litre per day (KLPD) and undertakes bottling of IMFL for Diageo India Private Limited (Diageo). 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, the Kedia group had also setup a brewery unit under AABL's associate company, Mount Everest Breweries Limited [MEBL; rated 'CARE BBB+ (SO); Positive / CARE A2 (SO)']. MEBL undertakes contract manufacturing of beer for United Breweries Limited (UBL); apart from manufacturing and selling beer under its own brands 'Le Mont', 'Mount's 6000' 'Dabang' etc. MEBL has an assured off take arrangement to the extent of 18 lakh-cases of beer per annum with

UBL. As on March 31, 2016, MEBL had an installed capacity of 4 lakh Hectoliters (51.28 lakh cases) of beer per annum at its facility located at Memdi, Indore, MP.

During FY16 (refers to the period April 1 to March 31), AABL earned a PAT of Rs.14.29 crore on a TOI of Rs.288.27 crore as against a PAT of Rs.12.34 crore on a TOI of Rs.300.04 crore in FY15. As per the provisional results for 9MFY17, AABL reported TOI of Rs.232 crore and earned a PAT of Rs.12.81 crore as against TOI of Rs.215.84 crore and PAT of Rs.9.95 crore during 9MFY16.

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.

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About CARE Ratings:

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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	-	-	FY20	15.42	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	17.00	CARE BBB+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	26.00	CARE A2
Commercial Paper-Commercial Paper (Carved out)	-	-	-	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	15.42	CARE BBB+; Positive	-	1)CARE BBB+ (08-Jan-16)	1)Suspended (18-Mar-15) 2)CARE BBB- (02-Apr-14)	-
2.	Fund-based - LT-Cash Credit	LT	17.00	CARE BBB+; Positive	-	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	26.00	CARE A2	-	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)CARE A2 (17-Feb-16)	-	-

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