

Mount Everest Breweries Limited

February 6, 2017

Ratings

| Facilities | Amount (Rs. crore) | Ratings ^{1*} | Rating Action |
|--|--|---|--|
| Long-term Bank Facilities | 24.09 (reduced from Rs.28.17 crore) | 'CARE BBB+ (SO)/ Positive' [Triple B Plus (Structured Obligation); Outlook: Positive] | Reaffirmed |
| Long-term / Short-term Bank Facilities | 2.00 | 'CARE BBB+ (SO) / Positive / CARE A2 (SO)' [Triple B Plus (Structured Obligation); Outlook: Positive / A Two (Structured Obligation)] | Reaffirmed |
| Long-term Bank Facilities | 17.00 | 'CARE BBB+ (SO)/ Positive' [Triple B Plus (Structured Obligation); Outlook: Positive] | Final rating assigned to 'Provisional CARE BBB+ (SO)' [Provisional Triple B Plus (Structured Obligation)] |
| Total facilities | 43.09 (Rupees Forty Three crore and Nine lakh only) | | |

Details of instruments/facilities in Annexure-1

**Backed by unconditional and irrevocable corporate guarantee (CG) of Associated Alcohols and Breweries Limited (AABL; Rated CARE BBB+/ Positive / CARE A2).*

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.

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

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.

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](#)

[Rating Methodology: Factoring Linkages in 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 August 1999, Mount Everest Breweries Limited (MEBL) is a part of Indore-based Kedia group promoted by the late Mr Bhagwati Prasad Kedia. MEBL operates a brewery in Indore (Madhya Pradesh). MEBL also undertakes contract manufacturing of beer for United Breweries Limited and manufactures and sells beer under its own brands Le Mont, Mount 600, and Dabang. MEBL operates with an installed capacity of 5 lakh Hectoliters (51.28 Lakh cases) of beer per annum at its manufacturing facility located at Memdi, MP. MEBL is doubling its manufacturing capacity by setting up an additional brewery with an installed capacity of 5 lakh Hectoliters (51.28 Lakh cases) of beer per annum at its existing manufacturing facility located at Memdi, MP at a total cost of Rs.47 crore. The project is envisaged to be operational by March 2017.

About the Guarantor – AABL

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.

Analyst Contact:

Name: Mr Kalpesh Patel

Tel: 079-40265611

Mobile: 9909026322

Email: kalpesh.patel@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital

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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 |
|---|------------------|-------------|---------------|-------------------------------|---|
| Term Loan-Long Term | - | - | Oct 2021 | 19.09 | CARE BBB+ (SO); Positive |
| Term Loan-Long Term | - | - | Oct 2021 | 15.00 | CARE BBB+ (SO); Positive |
| Fund-based - LT-Cash Credit | - | - | - | 5.00 | CARE BBB+ (SO); Positive |
| Fund-based - LT-Cash Credit | - | - | - | 2.00 | CARE BBB+ (SO); Positive |
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 2.00 | CARE BBB+ (SO); Positive / CARE A2 (SO) |

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-Cash Credit | LT | 5.00 | CARE BBB+ (SO); Positive | - | 1)CARE BBB+ (SO) (11-Jan-16) | - | - |
| 2. | Term Loan-Long Term | LT | 19.09 | CARE BBB+ (SO); Positive | - | 1)CARE BBB+ (SO) (11-Jan-16) | - | - |
| 3. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 2.00 | CARE BBB+ (SO); Positive / CARE A2 (SO) | - | 1)CARE BBB+ (SO) / CARE A2 (SO) (11-Jan-16) | - | - |
| 4. | Fund-based - LT-Cash Credit | LT | 2.00 | CARE BBB+ (SO); Positive | - | 1)CARE BBB+ (SO)Provisional (11-Jan-16) | - | - |
| 5. | Term Loan-Long Term | LT | 15.00 | CARE BBB+ (SO); Positive | - | 1)CARE BBB+ (SO)Provisional (11-Jan-16) | - | - |

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

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. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@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**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**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**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**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**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**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

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