

Rewriting our **DNA**

Associated Alcohols & Breweries Limited

Annual Report **2016-17**



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Associated Alcohols & Breweries Limited is at an inflection point in its existence.

The company reported profitable growth in 2016-17.

The company is making the largest investment in its existence.

The company is graduating from the mid-end to the value-added.

The company is evolving from the commoditised to the branded.

*Transforming its **DNA**.*

The background of the entire page is a close-up, artistic photograph of several glasses filled with spirits. In the foreground, a glass of amber-colored whiskey is prominent, with light reflecting off its surface. Behind it, another glass containing a clear liquid, likely vodka, is visible. The background is softly blurred, showing more glasses and what might be a bar setting. The overall color palette is warm, dominated by the golden-brown of the whiskey and the clear tones of the vodka.

OUR VISION

An energetic organization on a long haul charting a distinct course for customer admiration, led by a disciplined team of vibrant people thus creating a value for the stake holders

OUR MISSION

AABL undertakes to dedicate itself and all its resources to achieving global excellence in the present sectors of operations and seeking growth via diversification.

OUR BRANDS

Central Province Whiskey.

Competing with McDowell No. 1 Whiskey and Imperial Blue Whiskey

Titanium Triple Distilled Vodka.

Competing with magic Moment Vodka.

Jamaican White Rum.

ABOUT US

Associated Alcohols & Breweries Limited (AABL) is one of the leading and largest liquor manufacturers in central India and the flagship company of the Associated Kedia Group a ₹5000 million liquor conglomerate with interests in liquor & beer manufacturing and bottling.

The Company was incorporated in 1989, and set up by the Founder Chairman, the Late Shri Bhagwati Prasad Kedia, whose vision envisaged the formation of the Group. The legacy carried forward by Mr. Anand Kumar Kedia and Mr. Prasann Kumar Kedia, the promoters of the Group today.

PROMOTER BACKGROUND

Mr. Anand Kumar Kedia and Mr. Prasann Kumar Kedia are Founders and key promoters of the Group

Mr. Anand Kumar Kedia is the Chairman - Business Promotion & Development with a rich experience of the business and industry extending across 28+ years.

Mr. Anand Kumar Kedia is a dynamic self-motivated entrepreneur spearheading the strategic initiatives of Associated Alcohols & Breweries Ltd.

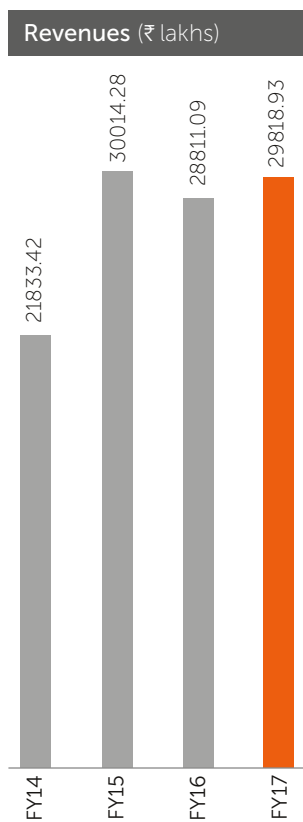
Mr. Prasann Kumar Kedia is the Vice Chairman – Operation & Business Development, engaged and involved with 22+ years of experience.

Mr. Prasann Kumar Kedia is leading the day-to-day responsibilities and operations of the company.

OUR MANUFACTURING FACILITIES

We have a fully operational modern distillery at Khodigram, Tehsil Barwaha, District Khargone, in Madhya Pradesh, about 50 kms from Indore, the commercial capital of the State.

HOW WE ENHANCED VALUE IN THE LAST FEW YEARS



Definition

Sales growth.

Why we measure

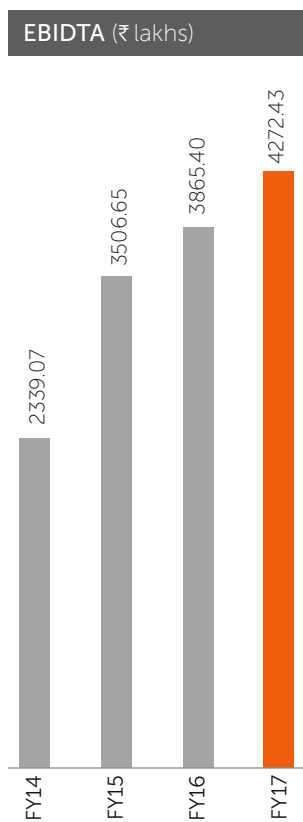
This measure reflects the result of our ability to understand market trends and service customers with corresponding products, superior technologies and competent supply chain management.

Performance

Our aggregate sales increased in FY 17, which compared favourably with the growth of the country's liquor sector.

Value impact

Creates a robust growth engine on which to build profits.



Definition

Earning before the deduction of fixed expenses (interest, depreciation, extraordinary items and tax).

Why we measure

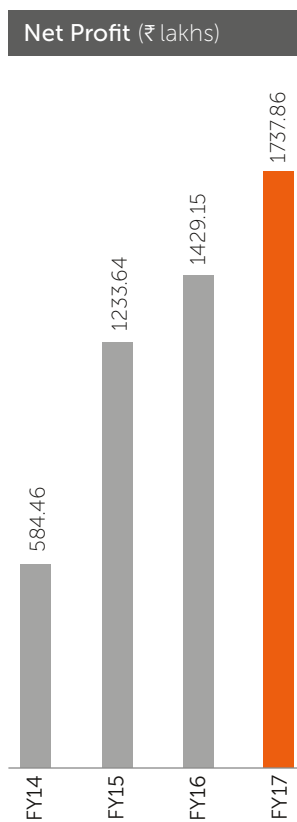
It is an index that showcases the company's ability to optimize operating costs despite inflationary pressures.

Performance

The company's EBIDTA grew every single year in the last year. The company reported a 10.53 per cent increase in its EBIDTA in FY 17 – an outcome of painstaking efforts of its team in improving operational efficiency.

Value impact

Adequate surplus available to grow the Company.



Definition

Profit earned during the year after deducting all expenses and provisions.

Why we measure

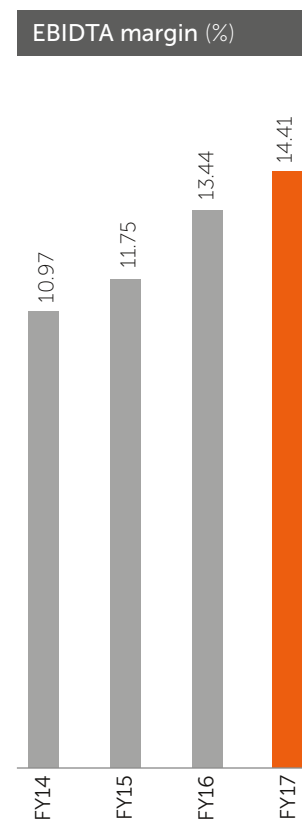
It highlights the strength of the business model in generating value for its shareholders.

Performance

The company's net profit grew every single year in the last year. The company reported a 21.6 per cent increase in its net profit in FY17 – reflecting the robustness and resilience of the business model in growing shareholder value despite external vagaries.

Value impact

Adequate cash pool available for reinvestment, accelerating the growth engine



Definition

EBIDTA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency. Higher the operating margin, the better for the company.

Why we measure

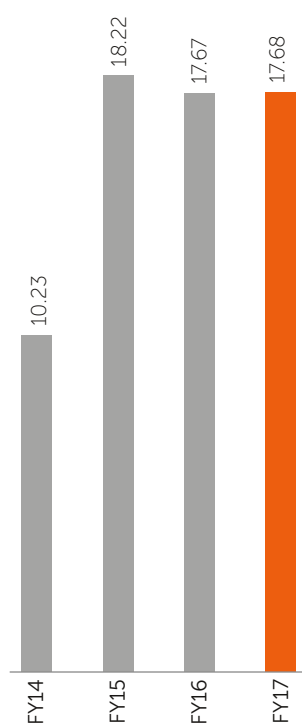
The EBIDTA margin gives an idea of how much a company earns (before accounting for interest and taxes) on each rupee of sale.

Performance

The company reported a 97 bps increase in EBIDTA margin in FY 17 while enriching its product basket with superior products and improved operating efficiency.

Value impact

Demonstrates adequate buffer in the business, which, when multiplied by scale, enhances supluses

ROCE (%)**Definition**

It is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed in the business.

Why we measure

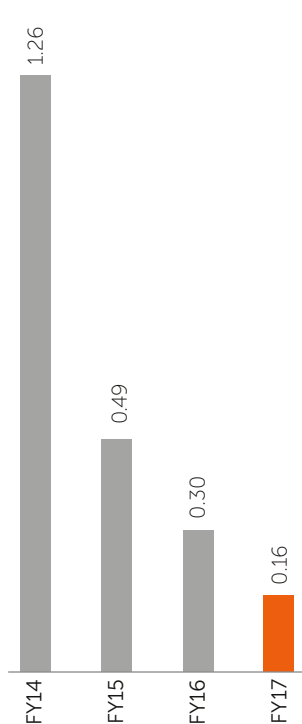
ROCE is a useful metric for comparing profitability across companies based on the amount of capital they use - especially in capital-intensive sectors.

Performance

A showcase of prudently investing every rupee in profitable spaces that generate higher returns for shareholders.

Value impact

Enhanced ROCE can potentially drive valuations and perception (on listing)

Debt-equity ratio (x)**Definition**

This is derived through the ratio of debt to net worth (less revaluation reserves).

Why we measure

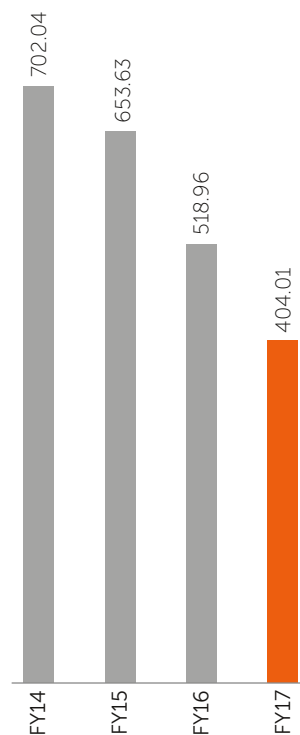
A measure of a company's financial health, indicating the ability of the company to remunerate shareholders over debt providers.

Performance

The company's gearing moderated from 1.26 in FY14 to 0.16 in FY17. We recommend that this ratio be read in conjunction with net debt/operating profit (declining, indicating a growing ability to service debt).

Value impact

Enhanced shareholder value by keeping the equity side constant; enhanced flexibility in progressively moderating debt cost

Finance cost (₹ lakhs)**Definition**

Derived through calculating average cost of the consolidated debt.

Why we measure

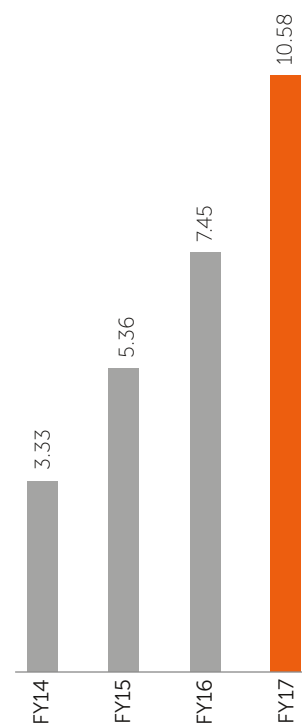
This indicates our ability in convincing bankers and other debt providers of the robustness of our business model.

Performance

The company's interest outflow has progressively declined from a ₹7.02 cr (3.3% of sales) in FY14 to ₹4.04 cr (1.36% of sales) in FY17. We recommend that this be read in conjunction with our rising interest cover (rising, indicating higher liquidity).

Value impact

Enhanced cash flows; strengthened credit rating for successive declines in debt cost

Interest cover (x)**Definition**

This is derived through the division of EBIDTA by interest outflow.

Why we measure

Interest cover indicates the company's comfort in servicing interest, the highest the better.

Performance

The company strengthened its interest cover from 3.33 in FY14 to 10.58 in FY17.

Value impact

Enhanced cash flows

Letter to Shareholders

"We have brought a new passion – speed, scale and sophistication – to our multi-decade sectoral presence."

TUSHAR BHANDARI, DIRECTOR, EXPLAINS THAT OUR EXCITING TRANSFORMATION IS UNDERWAY AT ASSOCIATED ALCOHOLS & BREWERIES LIMITED

India is the second most populous country at a significant transformation in incomes, mindsets and lifestyles.

It is our experience that countries at inflection points present the biggest sectoral opportunities.

In India, lifestyle transformation is possibly emerging as one of the biggest opportunities; the spirits industry is at the apex of this lifestyle-derived transformation.

India represents one of the most compelling large spirit markets in the world for some good reasons.

India's per capita alcohol consumption is a fraction of the global average. India's per capita income has continuously risen through the last few years of the economic slowdown. It grew significantly in the three years leading

to 2016-17 on the hand coupled with a gradual replacement of social taboos related to the consumption of spirits.

The consumption of alcohol has increased among India's youth. There is a growing incidence of family consumption and it is now considered socially acceptable for women to drink, something that would have been inconceivable as recent as even a couple of decades ago. This is reflected in the numbers: per capita alcohol consumption in India has increased from 1.6 liters in 2003-2005 to 4.3 liters today.

The result is that the Indian alcohol industry, under-performing global consumption across the decades, has begun outperforming the global spirits consumption growth especially in the premium categories.



AT ASSOCIATED ALCOHOLS, WE CAN CONTINUE TO PLAY THE GAME THE WAY IT WAS PLAYED OR WE CAN TRANSFORM WITH SPEED TO CAPITALISE.



OUR OPTIMISM

Some of the largest multinational brands in the country have already responded to the projected growth in size and sophistication of consumption: the largest player has consolidated, the largest players have stated their intention to vacate the mid-end and low-end spaces; they intend to premiumise their offerings instead.

The result of these three opportunities – consolidation, market expansion and the vacation of specific market spaces by some of the largest players – is creating an unprecedented sectoral opportunity.

At Associated Alcohols, we can continue to play the game the way it was played or we can transform with speed to capitalise.

I am pleased to state that we have selected the latter.

We believe that as the industry space becomes increasingly challenging, attrition will transpire. This will create an unprecedented opportunity. We already enjoy some enduring advantages: access to superior technology reflected in an unmatched ENA integrity, a locational advantage that makes it possible for us to deliver with speed and economy anywhere in the country, and the ability to access diverse raw materials cheaper and quicker.

We intend to double our ENA capacity in the coming years. The expansion will not be cosmetically linear; a mere 50 per cent investment in assets will double manufacturing capacity, strengthening our capital cost efficiency and validating the conviction that the larger we get, the more competitive we will become.

We also intend to create truly Indian brands, we intend to premiumise our offerings, we intend to provide a bouquet across the prominent liquor categories and we intend to increase our brand spend. We believe that this combination should evolve the personality of our company, translating into quicker growth than ever.

SECTORAL CHALLENGES AND COUNTER-STRATEGY

It would be naïve to assume that the mere vacation of specific market spaces will result in market share accretion for the existing players.

The reality is that the Indian liquor industry is one of the most challenging in the country for a number of reasons. Consumer preferences change every few hundred kms; what works in one market may not work in another. In this business, throwing money at a problem and expecting that brands would start generating revenues is more likely to create a hole in the Balance Sheet faster than enhance

market share. Building markets for specific brands is more grassroots-driven, requiring a patient working with trade channels to build a promotional momentum.

At Associated Alcohols, we are addressing the need to transform from a regional to a national player through a prudent strategy. The extensive challenges notwithstanding, there is a solution leading to sustainable growth. We believe that this solution lies in the ability to think long-term and plan for slow sustainable growth. I cannot over-emphasise this point; India's liquor industry is marked by a number of brands that intended to grow fast, faltered along the way and eventually return to the starting point considerably poorer and having expended precious years.

We are convinced that sustainable growth in the brand-driven end of India's liquor industry needs to begin with a secure Balance Sheet. We believe that companies that are considerably under-borrowed stand a better chance of succeeding; even when they falter in specific markets or product categories, the very fact that they would not have a large interest obligation would make it possible to live and fight another day.

At Associated Alcohols, we are attractively placed. Our debt-equity ratio (based on long-term debt) was 0.16 as on 31 March 2017. We spread our risks across two businesses – conversion arrangement for a large client that enhanced our revenue predictability and generated a sizable cash flow on the one hand coupled with a growing basket of proprietary brands on the other. Whereas most people would have considered it fit to launch one brand across a number of markets, we believe that one brand for one market would be a slower but surer way of growing in a sustainable manner. Besides, we would rather launch one brand per product category than be tempted into adding a number of products in the hope that a larger basket would translate into larger market share accretion.

The result of this ultra-cautious approach is that perhaps Associated Alcohols would generate modest, but sustainable growth, over aggressive, but completely erratic and even volatile earnings.

DREAM

At Associated Alcohols, our dream is to create truly Indian brands for a truly Indian audience. All that I can assure is that we will take our time to get there, will draw from the lessons that the marketplace has taught us over the last decade – and in doing so, enhance value in a sustainable way for all those associated with our company.

Sincerely

Tushar Bhandari
Director



OUR FIVE-PRONGED STRATEGY

Double ENA capacity. Accelerate launch of proprietary brands. Extend from the regional to a pan-Indian entity. Increase pipeline of ENA supply to existing clients. Become completely self-sufficient in power availability.

