

ROBUST

Associated Alcohols & Breweries Limited



Annual Report 2018-19

- 4 Corporate Snapshot

- 6 Milestones

- 8 The Whole Time Director's Letter to Shareholders

- 14 Our robust business model

- 22 How AABL is enhancing value for its stakeholders

- 24 Our performance in 2018-19

- 26 Our value-enhancing resources

- 28 Value that we shared with various stakeholders

- 30 Management Discussion and Analysis

- 37 CSR Activity

- 38 Notice

- 46 Directors Report

- 64 Corporate Governance Report

- 77 Financial Statements

4

Corporate Snapshot

6

Milestones

8

The Whole Time Director's Letter to Shareholders

30

Management Discussion and Analysis

46

Directors Report

64

Corporate Governance Report

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions.

We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

77

Financial Statements

THE INDIAN ALCO-BEVERAGE INDUSTRY FACES UNFORESEEN REGULATORY CHALLENGES.

Increasing tax incidences.

Significant changes in input costs.

Increased competition from international players.

Growing need for product diversification.

The result is a premium on alco-beverage players to address these challenges.

ASSOCIATED ALCOHOLS. INTEGRATED FUTURE-FACING ALCO-BEVERAGE COMPANY.

*Addressing the challenges
of the present.*

*Equipped to grow its
business sustainability in
the future.*



- 
- Possessing an integrated business model - from ENA manufacture to bottling to marketing
 - Strong financial structure with deep financial reserves and a willingness to invest in its future
 - Wide product portfolio servicing the growing needs of diverse customers
 - Presence in multiple markets, de-risking the Company's presence from an excessive geographic skew
 - More than three decades of presence in the industry with an experience of various market cycles

ASSOCIATED ALCOHOLS.

ONE OF THE MOST
EXCITING ALCO-BEVERAGE
COMPANIES IN INDIA.

EXTENDING FROM
PROFITABILITY TO
LONG-TERM BUSINESS
SUSTAINABILITY.

Background

The Company was founded by Late Shri Bhagwati Prasad Kedia in 1989. Associated Alcohols & Breweries Limited is the flagship company of the Associated Kedia Group involved in the manufacture and bottling of liquor. The Company took over the small distillery of the promoter group and grew into one of the largest distilleries of India with a diversified product portfolio comprising IMIL, ENA, IMFL and quality blended products.

Promoters

The promoters possess more than three decades of experience. The promoters of the Company comprise Mr. Anand Kumar Kedia (Chairman

– Business Promotion and Development) and Mr. Prasann Kumar Kedia (Vice Chairman – Operation and Business Development).

Our ethos

Vision: To become an industry leader in liquor manufacturing, distillation and bottling in India and to establish a foothold in the liquor industry as one of the most reputed manufacturing and marketing company

Mission: Associated Alcohols & Breweries Limited undertakes to dedicate itself and all its resources to achieving global excellence in the present sectors of operations and seeking growth.

Values

- To cultivate the highest standards of professionalism, fairness and total customer satisfaction in all our transactions and dealings.
- To create a profound and everlasting impact on our customers through commitment and sincerity.
- To continue the ongoing journey towards honesty, sincerity and integrity with all our stakeholders.
- To spread our wings all across the country and play a dominant role in the liquor industry in India.

Market presence

The Company is one of the largest distilleries in India. The Company has achieved an extensive geographical presence (5 states)

across the sectoral value chain. The Company's principal revenues are derived from the States of Madhya Pradesh, Karnataka and Kerala, cumulatively account for 95% of the Company's revenues.

Products

The Company widened its product portfolio to address the diverse needs of people belonging to all strata of society. Its product range comprises:

- Premium extra neutral alcohol/ grain spirit
- Indian Made Indian Liquor (IMIL)
- Indian Made Foreign Liquor (IMFL)
- Rectified spirit
- Contract manufacturing partner (Diageo – USL)

Facilities

The Company's state-of-the-art manufacturing facility is located at Khodigram Barwaha District, Khargone, Madhya Pradesh which is responsible for alcohol production, bottling and packaging of liquor. All business operations are overseen from the corporate office in Indore.

Expansion

The Company has undertaken expansion initiatives to address the growing needs of domestic and international customers. It is proposed to increase its ENA production capacity from 45 Million litres to 90 million litres by 2021.

Clients

- Diageo/ United Spirits Limited
- Government-regulated retail contractors/agencies (Both IMFL and IMIL)
- Karnataka State Beverages Corporation Limited
- Kerala State Beverages (M&M) Corporation
- Chhattisgarh State Beverages Corporation

Licensed brands/franchised brands

- Bagpiper Deluxe Whisky
- Directors Special Whisky
- Flavoured White Mischief
- Director's Special Gold Whisky
- McDowell's No. 1 XXX Rum.

Proprietary products

- Central Province Whisky
- Titanium Triple Distilled Vodka with Orange and Green Apple flavor
- James McGill Whisky
- Jamaican Magic Rum
- Super Man Series
- Bombay Special Series

Contracted manufacturing brands

- Black Dog Scotch Whisky
- VAT 69 Scotch Whisky
- Smirnoff Vodka
- Black & White Scotch Whisky

Credit rating

CARE reaffirmed the A-/A2 rating on the Company for bank borrowings.

BIG NUMBERS

4.5

(crore litres) ENA manufacturing capacity as on 31st March 2019

32

Bottling lines

12.50

(mn) Bottling capacity as on 31st March 2019

1989

Incorporated as a public limited company

1990

Started manufacturing and marketing of potable alcohols

MILESTONES

2015

Created a completely integrated system including implementation of SAP-ERP across the Board.

2016

Issuance of bonus shares in the ratio of 1:1

1995

Modernisation and expansion of the distillery

2012

Revamping of manufacturing facilities and processes as per the requirement of the day.

2017

- Embarked on an ambitious expansion project from 31.4 MLPA to 45 MLPA

2018

Completed ENA expansion (Phase-1) project successfully

THE WHOLE TIME DIRECTOR'S LETTER TO SHAREHOLDERS

Dear shareholders,

I am pleased to present an overview of our performance for 2018-19.

The year under review was challenging for the Indian alcoholic beverage sector following a significant increase in key input costs and a slowdown of the Indian economy that led to lower consumer spending, lower incidence of eating out and related spending on alco-beverages.

Despite these realities, Associates Alcohols reported its best ever performance: 24.35% growth in revenues, 13.30% increase in EBIDTA and 20.14% rise in PAT.

The only concession to our all-round improvement was a decline in margins following an increase in input costs; the Company's EBIDTA margin declined 149 bps and PAT margin declined 23 bps during the course of the year, which we believe is temporary.

On the overall, the management of the Company is optimistic about its business model which continues to remain robust, resilient and relevant to prevailing business opportunities.

Challenges and counter-initiatives, 2018-19

In a business where the end realisations need to remain stable even as raw material costs are often volatile, there is a premium on the ability to absorb costs and insulate against price spikes to the extent possible.

Since the Company generates 45% of its revenues from Indian made Indian liquor (IMIL) where realisations are fixed by the government, it was unable to pass the cost increase to consumers.

Besides, since the IMFL segment is marked by growing competition, it was difficult to pass on cost increases at will.

During the last quarter of the year under review, alcohol consumption declined on account of restrictions placed in view of the impending general election. The fact that the Company reported only a slight decline in margins in spite of these realities is a testimony to its deep multi-year competitiveness derived from scale, product mix, experience and logistical advantage.

Countering an increase in resource costs: This competence was tested during a challenging 2018-19, when the cost of grain – especially for a company like ours that manufactures grain-based ENA - increased from ₹14,000 per metric tonne to ₹21,000 per metric tonne (at peak). This had a corresponding impact on the Company's financials: there was a 154 bps increase in cost as a percentage of revenue from 48.37% in 2017-18 to 49.91% in 2018-19.

Low gearing: At AABL, we have created a robust business model, strengthening our Balance Sheet. This positive is reflected most visible in the

Company's gearing: the Company's debt-equity ratio was an attractive 0.09 during the year under review; interest outflow was ₹2.23 crore against a revenue base of more than ₹400+ crore; interest cover was an attractive 28x and the Company possessed an unutilised working capital limit of 45% in 2018-19, indicating adequate borrowing room within the system should the Company need to mobilise afresh.

New markets: The Company recognised the importance of broad-basing its presence across new markets with the objective to grow revenues on the one hand and de-risk the Company's geographic presence on the other. The Company entered Kerala for the following reasons: sustained increase in income, high urbanisation, matured alcohol appetite, respect for quality brands and the presence of few bottlers. The Company's decision was validated: it encountered strong demand (monthly volume rising to 50,000+ cases), providing a stronger basis to increase investments.

Robust business model

At AABL, we believe that market cycles are temporary; a robust business model endures considerably longer.