



“Associated Alcohol & Breweries Limited  
Earnings Conference Call”

May 31, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to the Associated Alcohol & Breweries Limited Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Punmiya from Nirmal Bang Equity. Thank you and over to you Sir!

**Vishal Punmiya:** Thank you Aiysha. Good afternoon everyone. On behalf of Nirmal Bang Institutional Equities, I would like to welcome you all to the Q4 FY2021 earnings call of Associated Alcohol & Breweries Limited. From the management with us Mr. Tushar Bhandari Whole Time Director on the call today. Without further ado, I would like to hand over the call to Mr. Bhandari for his opening remarks and post that we can open the floor for the Q&A session. Thank you and over to you Sir.

**Tushar Bhandari:** Thank you very much, Sir. Good afternoon everybody. It is a pleasure to welcome all of you to the earnings conference call for Q4 and the financial year ended 2021. I hope you and your loved ones are keeping safe and doing well during these difficult times. To begin with, let me first give you a brief overview of the company. Associated Alcohol & Breweries Limited is one of the largest single location distillery in India with a state of art integrated multigrade base manufacturing facility strategically located in Central India near Indore, Madhya Pradesh. The company has an existing capacity of 45 million liters per annum and further plans to increase the capacity to 75 million liters per annum. It is present in the entire value chain for manufacturing and selling of extra neutral alcohol, contract manufacturing as well as direct to the consumer sales of the proprietary IML and IMFL brands and also licensed IMFL brands. The company is growing into one of the leading players in the alcohol-based segment, which almost over three decades of presence.

Now let me take you through the Q4 financial performance of our company. The operating income for the quarter was around Rs.128 Crores, which was a decrease of approximately 5% on a year-on-year basis. Operating EBITDA reported around Rs.24 Crores, which was an increase of about 46% on a year-on-year basis. Operating EBITDA margins stood at 18%, which improved by 656 basis points on a year-on-year basis. Net profit after tax reported at around Rs.15 Crores which grew at around 41% yearly and PAT margins were around 11.7%. Despite the sluggish demand environment, the company was able to broadly match the sales on a year-on-year basis in Q4 FY2021. There has been a significant improvement to the bottom line due to the cost control measures and better price realization.



I will now take you through the quarterly segmental performance. In the manufacturing segment revenue for the quarter were around Rs.44 Crores which was a decrease of around 10% on a year-on-year basis. Our merchant ENA sales volume in the quarter was around 55 lakh liters and the revenue from ENA was around Rs.28.4 Crores. In the consumer segment revenue for the quarter was Rs.84 Crores which was a decrease of around 2.7% on a year-on-year basis. Our sale volume of IMFL proprietary and IMFL license brand was around 8 lakh cases, 2.67 lakh cases, and 2.68 lakh cases respectively. Talking about the 12 months performance for the year 2021, the operating income was Rs.453 Crores, which was a decrease of approximately 15% on a year-on-year basis. Operating EBITDA reported at an all-time high on around Rs.89 Crores, which was an increase of 17% on a year-on-year basis. Operating EBITDA margins stood at 19.75%, which was improved by 543 basis points year-on-year basis. Net profit after tax reported at around Rs.58 Crores, which was an all-time high in the history of the company as it grew at around 17.6% on a year-on-year basis. PAT margin was around 12.8%. Despite a weak Q1 due to the complete lockdown, the company was able to have its most profitable performance in the year 2021 driven by cost control measures and supporting price realization during the year. Focus on driving cost control measures as well as managing working capital efficiency remained of our utmost priority in the coming financial year while also driving the sales growth. Talking about the segment performance for the FY2021, in the manufacturing segment revenue for the period were around Rs.160 Crores with a decline at around 18%, our merchant ENA sales volume for the period was 189 lakh liters, which was a decline of around 17% and the revenue from ENA was around Rs.100 Crores, which was a decline of around 18% on a year-on-year basis. In the consumer segment, revenue for the period was around Rs.300 Crores with a decline of around 13%. Our sales volume of IMFL proprietary and IMFL license brands were around 30 lakh cases, 8 lakh cases, and around 9 lakh cases respectively. Finally to update the Capex plan of expanding the manufacturing capacity from 45 million lakh liters to 75 million liters per annum the company has finalized procurement of critical equipment with Praj Industries Limited while other vendor agreements are also on the finalization stage and civil work has also begun at the site. The board has also recommended a dividend of 10% subject to the approval of shareholders at the ensuing AGM. With that, we can open the call for the question and answers.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Nikhil Chaudhary from Criss Portfolio. Please go ahead.

**Nikhil Chaudhary:** Congratulations on a great financial year. Sir, I had just one question. Seeing your EBITDA margins you are best amongst the peers like if you see no one is commanding an EBITDA margin of 20% close to 20%, just wanted to understand how sustainable will be the EBITDA margin?



**Tushar Bhandari:** Good afternoon Mr. Chaudhary. The EBITDA margin of 19% is sustainable for a company like us okay. There might be a slight decline we can see in the EBITDA margin, but see we are being the sole manufactures. The other players who are there in the industry are either taking the ENA from the third party and manufacturing from us, but we being an end to end manufacturer say from ENA manufacturing to sale of our products so that what we do is that if you see the performance of the company also over the years we are the most efficient company in the industry. So we try aggressively to control our cost and apart from that being a unit which is at a single location also gives us economies of scale and in the coming year when our capacity expands to 75 million liters per annum with the same amount of overhead or staff we will be able to double the capacity so that will also give me a contribution to my EBITDA because I will have economies of scale. With a combination of all these, we can maintain this EBITDA margin.

**Nikhil Chaudhary:** Okay and Sir probably when you move into newer geographies like probably now since you have dominated into one single location and you are located into central India so I just wanted to understand more about this industry wherein if you try to expand into new geographies then probably the logistic advantage that you are having will try to fade out? Is my understanding correct?

**Tushar Bhandari:** No. It would not fade out to a greater extent because again that whenever new geography I enter into so there are certain things which we looking into. First, we do not look into straight away doing the Capex expenditure or buying a unit there. What we do is we take up a local unit and we give them our manufacturing for our products and second is where the working capital is required, the major portion of the ENA is transported from our location. So I am transporting my own ENA okay from here to that particular location so that again gives me a benefit to a greater extent vis-à-vis my competitors.

**Nikhil Chaudhary:** Got it understood and Sir lastly Capex timeline any Capex timeline? You are planning to double the capacity so by when we expect the capacity to be on stream?

**Tushar Bhandari:** See almost around a year to around 14 months.

**Nikhil Chaudhary:** Got it. That is it from my side. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Abhishek Maheshwari from Skyradge Wealth Management. Please go ahead.

**Abhishek Maheshwari:** I was asking what is the raw material prices and availability is like at this moment?

**Tushar Bhandari:** What availability?



**Abhishek Maheshwari:** Raw material.

**Tushar Bhandari:** Our raw material availability has never been an issue for us because as we said we are a multiple Greenfield plant. So there are four to five grains out of which we can take any grain and for us, the location advantage is one of the biggest advantages to us because we are surrounded by two of the major raw material producing states be it UP, be it Chhattisgarh, be it Maharashtra and even in Madhya Pradesh itself there is a huge amount of corn belt is there. So raw material availability is not an issue. There might be a slight concern of raw material prices that is a thing for which helps us a company like us because it helps us to switch from grains to grains. Depending on the price and realization of liquor from that particular grain, we take a strategic call at the point of time, which grain to use.

**Abhishek Maheshwari:** Okay, Sir. Sir my second question is regarding the Q1 impact what kind of impact are we seeing post lockdown?

**Tushar Bhandari:** The impact which you are seeing is similar on the lines of last year as is there across the country in most of the sectors so the entire Q1 is almost non-functional only because our major sales are coming from four to five states, which is under lockdown and even ENA sale, which we are doing to South. So south is also under major lockdown. So Q1 completely as the entire industry is suffering we are also one of them, but we are seeing and we hope that in the coming months the demand would completely surge because we have seen an aggressive vaccination drive across the country in most of the states. Though there was a vaccination shortage earlier, now I think that has been mitigated and most of the states are getting sufficient amount of vaccines and within the next three to four months I think major of the population especially the younger generation which is there and the major consumer which is there will be vaccinated and there will be an increase in the demand.

**Abhishek Maheshwari:** Okay Sir thank you. That is it from me. All the best.

**Moderator:** Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

**Keshav:** Thanks a lot for taking my call and congratulations on a very good performance in a very, very difficult year. Sir my first question is I wanted to know the nature of our relationship with MEBL? It used to be a related party back in 2010 and it jumped out of the list in 2011? Firstly Sir I want to know what was the reason?

**Management:** It is promoted by the same group of promoters and they will brewing unit in Madhya Pradesh only and we will be a slightly different line of business which is the complementary and supplementary to our activities and that is why we are getting some business but



certainly those are independent companies and promoted by the same promoter group and the company is having a sizable market in Central India and it is doing well. So this is the basic background of MEBL is concerned.

**Keshav:** Okay, Sir because we have quite a lot of exposure in terms of loans and corporate guarantee till recent years? In terms of loans, it consistently increased to about Rs.16 Crores as per the 2020 annual report so what is the current status of the rate of interest like charging and the reason to put business money has to go to the company in the Q1?

**Management:** When the company was promoted in 2008, but now that loan and exposure including the corporate guarantee, which was given in 2008-2009 now the guarantees stands withdrawn by AABL. That is not required and again the loan exposure was reduced substantially and currently, we are charging about 9.25%. We are expecting to get them working to realize it soon also.

**Keshav:** Sir the second question would be if you could shed some light on the remuneration figure for Mr. Anand Kedia & Mr Prasann Kedia for FY2021?

**Management:** In line with previous year approx Rs.3 Crores each.

**Keshav:** Okay Sir so I feel the remuneration as a percentage of profit has been consistently very high for many years, but we have seen more buybacks and the dividend payment has also not been proportionate to the increments and profits? So what has been the reason and do we expect any buybacks going forward?

**Mnagement:** As far as buyback is concerned we do not have any planning immediately number one. As far as the dividend is concerned you must appreciate the major Capex program is being continued over the years. It is done from internal accrual 2020. That is why we can operate successfully even in this difficult scenario. Every industry is running up and down and even in the current year, the entire CAPEX of Rs.100 plus Crores or Rs.120 Crores is mainly planned from internal accruals only. Certainly, we are having the conservative dividend policy to enable us to make up, now in the lockdown we do not have any debt today, we can maintain zero debt company as far as lockdown are concerned. In this policy, we are working. That is why the dividends as a policy we can work conservative as you rightly pointed out.

**Tushar Bhandari:** Right now the funds majorly for the expansion of the company. Today we are concentrating on that and whatever the expansion would be there we would try and get the entire funding of the expansion from the internal accruals only. That is why the dividend policies have been conservative and as said this year we are a complete zero debt company. Whatever the minimum debt was also there that has also been paid off this year. That also again in the



market like these, but otherwise if you have used that on the book so that has been policy gain for the last 30 decades to always be debt light because that helps the company to go through all the pipelines up and down of the industry because every industry goes through ups and downs of its own. So it helps a company like us who are low debt to sustain the cycle.

**Keshav:** Understood Sir. Sir if I could add one more question. Sir if I see the ENA capacity as per your FY2011 annual report it is stated as Rs.4.2 Crores liters per annum, but later it becomes Rs.3.14 Crores liter per annum. We took an expansion of around 2018 from turn 3.14 to 4.5 so did we have a surplus capacity back then before 2010? Sir, why is the anomaly there if at all?

**Tushar Bhandari:** The 4.2 what you are talking that was initial capacity consisting of multiple plants created the small plants' multiple points of time and post 2011-2012 it was a bigger process plant of various four to five plants were operating at that time that was having the same theoretically with slightly higher capacity but capacity was not there in that way and we have revamped the entire plant between 2011-2013 and the complete sector ware and grain-based distillation. So I think the capacity shown from 2013 onwards post that expansion may be the reason it is coming.

**Keshav:** Okay got that Sir. Adding one more part to this, we had earlier projected to go to 9 Crores liter per annum from 4.5 Crores liters currently but now we have revised that estimate to 7.5 and after Q3 our estimate to go to 9 Crores of roughly 120 Crores of capital outlay, but right now we are doing 1.5 Crores lesser than that and we are incurring roughly the same cost what is the reason for this decrease kind of expansion per se and why are we incurring a similar cost for the same?

**Mangement:** The plan was for going from 4.5 Crores to 9 Crores that is okay. The technical problem was at 4.5 Crores LPA plant. I am at above 4.5 Crores to get the production and can reach to 5 Crores LPA today okay and looking to this result for presently if I will create a similar plant it may break my license capacity of 90 million. That is why technically the additional expansion of this 30 million only is taken from 45 we have taken only 30 million but practically we hope to be able to produce more and as for capacity that is taken to revive the bridge of the actual production, which can bridge the license capacity but otherwise, we are having big enough and operating anything between 85 to 90 only. That is the biggest capacity expansion that is one part. As far as the cost is concerned, we have made the present changes in the project cost by expanding the captive power generation from 6 megawatts to 8 megawatts. We have identified just make the plant alternative to make the ethanol also for power. For the time being, it may not be the reason to go to ethanol but maybe with time production of optimum capacity the capacity which we are having in



Central India because no molasses-based ethanol suppliers are existing. Apart from that, we are going with certain expansion in the other areas bottling and other things. That is why we are getting the Capex program almost 120 or so but with certain additions and certain changes it is going to be there.

**Moderator:** Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

**Yash Agarwal:** You spoke about the raw material cost as a challenge so I just wanted to understand how much of grain cost increase in the recent months?

**Tushar Bhandari:** There can be an increase. The grain prices increased to around the tune of around 10% to 15%, but as I said that we are trying to mitigate that grain price increase to the maximum level as we can do because the price of the other grain which is said for example rice which gives a higher yield of alcohol is similar to the price of furn. So we have shifted ourselves in buying of rice and apart from that we have gone a step ahead and we are purchasing it directly through mandis and eliminating the brokers so that we get a value price from there. So we are doing a couple of things to mitigate that price rise also, but the price is already increased in the range of around 10% to 12%.

**Yash Agarwal:** What is the outlook on ENA prices in light of the rising grain price situation for the next financial year?

**Tushar Bhandari:** The outlook of ENA prices is that ENA prices are always linked to the grain prices, so the grain prices go up the price of ENA also goes up to the tune of an equivalent increase in the grain price. So there might be a slight change up and down here and there, but it is almost in the lines to that only because we have got contracts with for example USL and other major contracts, which are there. So we have got an agreement, but whatever the increase in the grain would be there will be passed on in the price of ENA.

**Yash Agarwal:** Roughly what is the difference between IMIL and ENA prices for you Sir?

**Tushar Bhandari:** IMIL is different. IMIL is a lower end of product which is country liquor.

**Yash Agarwal:** What is the realization in IMIL?

**Tushar Bhandari:** What is the realization for case in IMIL.

**Yash Agarwal:** Per liter if you could give it?

**Tushar Bhandari:** Per case you are asking about.





- Yash Agarwal:** Yes, per case Sir?
- Tushar Bhandari:** Per liter our realization is approximately Rs. 55.
- Yash Agarwal:** Done. Thank you.
- Moderator:** Thank you. The next question is from the line of Arjun Chaudhary, a Retail Investor. Please go ahead.
- Arjun Chaudhary:** Sir thanks for the opportunity. Sir recently one of our competitors announced ENA capacity and they were allotted several distillers in MP for country liquor so Sir what is your take on the increasing competition?
- Tushar Bhandari:** Country liquor is increasing competition as we have already said that the country liquor according to us it was the very lowest margin business for us. So there is not much difference. If you see our country liquor sales have been stagnant and, in the market, also the country liquor market could be stagnant and if have to grow exponentially and if we have to grow our profit realization also EBITDA contribution if we have to increase so we have to concentrate more on IMFL business which we have been doing over the years. That is why the contribution to the bottom line has been increasing over the years. So our focus is more on IMFL products. Country liquor we continue to hold the market share, which we used to hold earlier and realization is as per the earlier years only and country liquor market is growing at a very reasonable or in terms of you ask me last year the country liquor market has decreased by around 8% and our country liquor sale has decreased by only 2% as compared to the market decrease of 8%.
- Arjun Chaudhary:** Okay Sir but this fresh allocation of several distillers in our major state of MP so Sir would that somewhat increase competition for us, we are doing 30% business in IMIL that is why I am asking?
- Tushar Bhandari:** That has not impacted us to a major extent. Maybe one quarter has let up, one month was completely gone, but as far as the slight decrease is concerned certainly the new players they have got the licenses. They were on hold for several years and having distributors in Madhya Pradesh. They have been announced this year by the government as part of the policy. I think there have been some restrictions, but looking at the economy the scale, centering, and completion I think there may be minor impact certainly cannot be ruled out but we do not foresee any major impact looking at our track record.
- Arjun Chaudhary:** Okay, Sir just a follow-up to that Sir. On our district allocation cost how is it allotted and Sir what duration is the district allotted if you could explain?



- Tushar Bhandari:** It will be on a tendering process and on the tendering process whoever is the lowest bidder would get that district that is there, and the tender was done last year and it is being continued for this year also. Probably this year-end there will be a new tender for next year. It all comes from the lowest tender, the past track record, and competency that the government sees, and apart from that what is also done government has capped a particular individual so we are almost at our cap. We are bursting at almost at our cap because what had happened earlier is that new players have come and bid for the entire MP and they have not been able to supply. So the government suffered huge revenue losses. So the government has capped at the individual. So I am almost at my upper limit.
- Arjun Chaudhary:** Okay, Sir apart from this are we also at an advantage when it comes to even IMIL brands? When a new player comes in with their brands for country liquor so do we also stand at an advantage to them in terms of branding?
- Tushar Bhandari:** Yes, definitely because country liquor has its tendering process. So apart from that as branding and quality we are definitely at an advantage, but apart from that we have other advantages as per the competitors because we have got economies of scale plus the major consumption of packaging material is bottles. We have got our spread bottle captive manufacturing. So there also we get a margin because other competitors are buying from outside. So we have done a couple of things because our focus has always been on the increase of sales we have to concentrate on our bottom line also. So we have a competitive advantage plus we are located in the center of Madhya Pradesh also. So we are equally in distance to most of the destinations so our transport cost is also at a reasonable price. There are advantages are there and our experience and our good track record for the last three decades also plays a very vital role in this.
- Moderator:** Thank you. The next question is from the line of Yogesh Bhansal from B Square. Please go ahead.
- Yogesh Bhansal:** Sir my question is like when do you think the Capex you said you wanted to increase from 4.5 Crores liters to 7.5 Crores liters so when do you expect that to happen next year when you start the production on 7.5 Crores liters?
- Tushar Bhandari:** It will take around say for example 12 to 14 months from today.
- Yogesh Bhansal:** That will be what like that will be September next year? Do you see the setting cost or you are seeing top-line revenue?
- Tushar Bhandari:** Yes, the second quarter next year. I think we are targeting to complete the entire project for the road map with the suppliers. By then we should be targeting commercial production.



This little one month plus or minus I hope everything will be close by Q1 of the next year and we could be able to generate the revenue from Q2 onwards.

**Yogesh Bhansal:** Okay thanks, but you said with the present capacity of 4.5 Crores you can generate 5 Crores liter and you are expecting from 7.5 when the capacity increases to 7.5 next year you want to generate close to 9 Crores liters is that correct?

**Tushar Bhandari:** Yes, around 8.5 to 9. We are having monthly production of 40 plus what we are having with different capacities.

**Yogesh Bhansal:** Your voice is not clear. Can you say that one more time?

**Tushar Bhandari:** We are already able to get 40 to 43 liter per month based on existing capacity, so I think we are almost 5 Crores with the existing capacity we are in a position to generate a capacity up to 4.5. Looking at that we have slightly reduced our plant specification to make it less so it will not break my upper line of the licensed capacity. We hope we will be able to reach between 8.5 to 9 with the full capacity operation.

**Yogesh Bhansal:** Then afterward you are planning to expand it to close to 12 Crores is that correct?

**Tushar Bhandari:** That would be the next phase around we will be expanding again around 3 Crores to 4 Crores liters on that but first, this phase gets over and then the stabilization of the entire plant so that is again a process of around three to four years and post that we will look into it. It is too early to discuss beyond that.

**Yogesh Bhansal:** Understood and how is this quarter looking like maybe you answered it? Maybe I did not understand that so what is this quarter looking like? Are you affected the same last year as with the lockdown? There was no manufacturing happening or manufacturing happening with some amount of sales?

**Tushar Bhandari:** Certainly, in Q1 we were very confident we were able to gain reach to the original figure of March 2020 in this year 2021-2022 with the expanded territory and slightly better we were expecting, but unfortunately, the entire COVID situation is repeated. Now again we have to go on the very same level to protect our bottom line and we may not be aggressively expanding and is very dynamic today. Looking to that situation we had to again go very conservative even in this 2021-2022. I think that the history of FY2020-2021 is going to be repeated otherwise we are expecting a good performance and good response from Q2 onwards in certain other categories but the main focus will be on the bottom line approach. You cannot affect the top line and getting some losses.



- Yogesh Bhansal:** Got it. Thanks. I am done with the questions.
- Moderator:** Thank you. The next question is from the line of Umakant Sharma from EM Investco Capital. Please go ahead.
- Umakant Sharma:** Hi, Tushar I hope everybody in your team is keeping well in this tough time. I just had a couple of quick questions. When you look at the current quarter numbers in terms of volume there has been quite a bit of a fall if you look at since I believe that lockdowns were enforced somewhere at the end of March or towards April so could you just throw some color on what happened exactly and on the other contrasting question which I had was that when I look at the IMFL proprietary brands, the performance over there, there has been a deflationary trend compared to the inflationary pricing that we saw in the others segments so could you also throw some color on that, please?
- Tushar Bhandari:** See basically in the last quarter if I say, see the entire year last quarter also there was the certain impact of the COVID and most of the internal areas which are there so the demand was down so if I compare the entire IMFL demand in the last quarter in Madhya Pradesh and say other major state of ours Kerala, last quarter in Madhya Pradesh, the sale was down by around 18%, okay the industry was down by 18%, where vis-à-vis our sales were down by around only 8% so we were able to out beat the industry on that track, same in the case of if you see IMIL also, the industry was down by around 7-8% then vis-à-vis we were only down by around 2-3% so we were able to mitigate that and we were able to perform better than the industry.
- Umakant Sharma:** And can you also throw some color on the proprietary brand of IMFL and the deflationary pricing trend that we have seen compared to the inflationary side on the other brand?
- Tushar Bhandari:** Our pricing trend?
- Umakant Sharma:** Yes in the IMFL proprietary, so I think the realization has fallen from 678 to 670 right? Compared to other brands where we have seen a meaningful increase in the prices?
- Tushar Bhandari:** See what happens in that IMFL proprietary brands which we see the combination of the sale across the state so what is happening is that sale in Kerala has increased, okay and Kerala primarily the state is of the lower end brand so we have introduced a new brand for this year that is why the difference in the price realization.
- Umakant Sharma:** Okay got it and could you also throw some color around the new geographies that you have entered and how have they been in the current quarter?



- Tushar Bhandari:** See in the last year we have planned to enter at least 2-3 states and we were not able to enter due to this pandemic, we were only able to enter Uttar Pradesh market and Uttar Pradesh market we enter in the third quarter last year which is doing fairly well and we had introduced only a lower end brand earlier and this year we have also planned to introduce a premium brand also we are introducing two brands, it is the lower end brand and second is the Central Province Whisky, which is the premium brand which we went at this year because UP is again a big market and we have seen a favorable response in the fourth quarter there in our lower end brand because of quality and other benefits and other strategic call which we have taken in the UP market is basically what we have done is that in the lower end brand generally moving to the players who are there in that market are using only single label that is a front label so our team suggested that why do not we go in for double label because in that price range if we get double label the perception of the customer is that it is the premium product so the same price we are giving double label though slight increase in the cost is there but that has seen a tremendous response in that market because see entering any new market is definitely a very difficult job to enter a new market and get the sales from them because we have a tough competition there so we have to do something which is competition is not doing some things that we have to do to get the sales there. So that gives us a favorable response in the lower end brand and now we have introduced a premium brand so because of this lockdown we were not able to bend it across so as soon as the lockdown opens, the sales will start there that was the case last year and this year also we are starting two markets so Pondicherry and Odisha so depending on how the market will fare and how the market opens up, we will take a call, a study has already been done on these two markets, players have been identified and as soon as the markets open and we see the time is right because entering in other markets also requires certain huge cost and fixed cost is there so depending on the market situation and opening of the market we will enter into those markets.
- Umakant Sharma:** So in the Pondicherry and Odisha that you are talking about so all the distributorship and everything has been finalized?
- Tushar Bhandari:** Yes to a certain extent.
- Umakant Sharma:** Okay, and could you also throw some color on the acceptance of your product of the higher end in your proprietary IMFL brand in Kerala?
- Tushar Bhandari:** Acceptance of?
- Umakant Sharma:** Acceptance of higher-end brands which you introduced in the current quarter in Kerala?
- Tushar Bhandari:** So see what had happened in Kerala is that in Kerala earlier we were doing only lower-end brands okay? And Kerala is primarily in the south market what is there is that most of the



brands are made from molasses-based ENA and ours was grain-based ENA so which gave a favorable response in the terms of quality of our products so that is how we were able to cater on the sales and we were able to perform well then apart from that again as I said that earlier also in the case of the UP market to enter any other market we have to have something unique so what we lost in Kerala is that, Kerala is primarily a brandy market okay? And there are a lot of female drinkers and other people also who are drinking brandy and it is primarily brandy market so what we did is that we introduced something which is not there across the world, we will tell you something called white brandy okay? And his we made it from our most triple distilled ENA so we gave white brandy to the customers and they will say for example a long term two to three months itself we have clocked the number of 10000 cases per month which is a big achievement for our team so again in the premium segment what we did is firstly started with something unique so we introduced Lemount White Brandy and it does fairly well and it has got a great acceptance in that market and people now know us by the name that we were the one who introduced white brandy and of very good quality so now this year we are launching Lemont Golden Brandy and Lemont one more brandy on the premium side also, to capture now the big market which is there is the golden brandy market on the premium side so now we will launch that and to capture that market share. And this year we have also tied up with one more player for manufacturing in Kerala as our sales are growing there so we will be having two manufacturing tie-ups in Kerala.

**Moderator:** Thank you. The next question is from the line of Nitish Khatavkar from IndAsia Fund. Please go ahead.

**Nitish Khatavkar:** Sir, can you highlight so you are going to grow your IMFL proprietary portfolio for the next three to five years considering that we have planned a big Capex how much of the increase in the Capex will be attributable to the IMFL proprietary products?

**Tushar Bhandari:** See basically as I have said earlier also that we are planning to expand into the newer boundary, see Madhya Pradesh we hold almost from 20-25% market share in Madhya Pradesh, so we will grow in Madhya Pradesh as per the growth rate of the industry but now beyond if you want to grow we have to expand our boundary so that is what we are doing that first that also step we are taking cautiously is basically we are entering into one state stabilizing it then moving into other states instead of going across and entering into 10-15 states so as I said earlier whichever states we are entering also, we are entering with something unique proposition for the customer because otherwise it is very difficult to enter into someone else's territory and eat their market share so that is what we have realized so we have to have something unique like as I said double label in the cheaper brand in UP, entering with white brandy which no one have entered in Kerala so these kind of propositions which we have come up with we are entering into other states so that



is the target what we are looking into and apart from that as we said that whatever the, see our aim is to convert the maximum ENA into our value added products in our home products so that has been aim and that is what we are focusing on, we are also very aggressively focusing on the international market and international space where there is a huge demand so we have seen an increase in demand in that also plus in para military and CSD also there is a huge gap available for a quality brand manufacturers so we are seeing that also as a huge market so apart from expanding boundaries in India we have also looking into other avenues that is expanding abroad and even in India the gaps which are available like there is in paramilitary, there is a gap and CSD there is a gap so these are the markets which we are trying to capture, our aim is definitely do well as much as value added products as we can.

**Nitish Khatavkar:** Can you give me a number as to how much of their revenue comes from exports and the additional services?

**Tushar Bhandari:** Just to add I think to clarify your point, in the last 5 years 4-5 plus cases of IMFL have grown to almost 25-30 lakh cases today and having almost to one-third of my volume today. On one-third of production is going to IMFL division now and when we expanded last time, we from 31-45 then now with the vision to convert my additional CMA to reach the extent the maximum possible to my value-added product and setting up is not a problem and even today that is not an issue even with the same pattern we are going certainly the way we have grown from last 5 years of 4-5 lakhs to 25-30 lakh cases up IMFL of the branded product I think it would be the same trend and we can think we will be able to double in the next 4-5 years as far as my peer brands are concerned and we will try to get maximum ENA capacity into my value-added product to the extent possible. But certainly not at price loss we will be entering into the market where I can make some bottom line and maybe short run we may lose something strategically but long term we would like to make some bottom-line contribution, we will not be entering any market for the stake up just doing to the business and introducing the top line with some heat on the bottom line.

**Nitish Khatavkar:** Sure could you also help me with the export contribution and the defense sales?

**Tushar Bhandari:** Overseas exports we did around, say around 15-20 containers last year and this see exponential growth and we see it growing by almost 50% very year-on-year basis?

**Moderator:** Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

**Manish Dhariwal:** Congratulations to the management for continuing good performance and the focus on the higher value-added side of the business as per my understanding your proprietary



brand is focused on Karnataka and Uttar Pradesh in terms of the new sales other than MP and Kerala so you have given us a flavor of UP can you also give us a flavor of how this is going ahead in Karnataka?

**Tushar Bhandari:** See Karnataka we are just to be frank with you Karnataka, we are not doing fairly well because see Karnataka is a very brand loyal market so we are also looking into right now increasing our sale of premium products because see whichever state we enter we first try and enter with a lower end products and try to capture the market so in Karnataka what happens is that the Karnataka lower end market is the huge market that is approximately around say 2 million cases per month so we thought that if we are able to capture a slight portion of that market also we would be able to capture substantial amount of market share and then with that basis we will ride our premium products so that has been a strategy across the country in different States so this is same in Karnataka because Karnataka is a very brand loyal market, so it is very difficult to capture that State so in Karnataka we have changed our strategy and we have planned to introduce the super premium products so as soon as we launch our super premium products of gin and super premium whisky within this year and so that we will do well in Karnataka.

**Manish Dhariwal:** Thank you. Can you also give us the difference in the prices for your popular products and the premium and the super-premium and probably only about the IMFL?

**Tushar Bhandari:** So first giving you a pricing difference because every market is different, every market is different and see in India we have to understand liquor is a very big challenge to enter into other States because every state is a different country all together so every state has gotten own policies, taxes, duties which we have to furnish with, so just to give you a broad picture as per the Madhya Pradesh market if I tell you so the people and product is value had run about Rs. 800 a case which is our Bombay Special Whisky then come at our Rs.900 a case which is our James McGill Whisky then come around Rs.1200 a case, which is our Central Province Whisky and we have planned to launch our new whisky which is in the range of around Rs. 900 to Rs. 2000 a case.

**Manish Dhariwal:** One accounting question I was looking at your cash flow statement and the way the working capital has moved I noticed that the debtors actually in the cash flow are showing a small increase of \_\_ whereas in the balance sheet they are showing a small drop, secondly the inventory there is a Rs. 30 lakhs increase from the balance sheet but the cash flow shows an increase of Rs. 3.11 Crores so how will that be explained?

**Tushar Bhandari:** Can I get back to you on that?

**Manish Dhariwal:** Yes that would be helpful. Thank you.





- Tushar Bhandari:** You can just email our IR so we can get you on that.
- Manish Dhariwal:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Jeetu Panjabi from EM Investco Capital. Please go ahead.
- Jeetu Panjabi:** Thanks for explaining the business details over the call. One broad question when you take your key businesses which is either the raw material that you sell in the wholesale or the franchise business or your brands, can you take up through the next 12 or 18 months, which of these businesses are you more optimistic about and which are you less optimistic about over the next 18 months?
- Tushar Bhandari:** See if I look into the next 18 months perspective and if I look into next five years also and 10 years also our objective is very clear we want to increase our own in house brand and value added products so that is our key objective and we focus on that only because that will be the key driver for both the top line and the bottom line to a greater extent probably if see for example in 18 months if you ask in another 12-14 months my new capacity will come up so in 14 months I have the additional capacities of ENA that is not a big deal for me as because over the last three decades we are known for the quality of the ENA which we sell just to add to this the quality of ENA what we sell is that there has been one more pressure in a cash for the company this year is that this year we have exported triple distilled ENA to European market so basically for their Diageo which is number one company in the country, they used to manufacture ENA triple distilled ENA in the European market only and this year we have taken ENA from us to manufacture and sell Smirnoff in the European market so that is the quality what we see so for us selling out ENA is not a big issue so our main focus over the last three years as we basically say from 5 lakhs we will reach to 25 lakh cases we closed last year so our focus is always and will always be in the coming year to increase the sale of our value added products.
- Jeetu Panjabi:** So as you reiterated I understand the broad objective but what happened last quarter was certain markets of we can certain other things did much better than, some segment business did better than the others so if I would use that framework would you think that there is a market for some parts of the business will be better than others that is the broader question I am trying to get to?
- Tushar Bhandari:** See if all the other parameters being the same last year and this year has been a very abnormal year across the country or across the world so it has been tough time so we cannot compare this year as compared to the coming years to come but definitely we are very bullish, one has to be bullish on India economy per se and we as a company are very



bullish on the Indian economy we see that if the vaccination drive goes on very well so the entire country will come back on track and we have seen also that last year also that most of the companies during this tough time also have given very phenomenal numbers across the industry, I am not talking about only in liquor industry I am talking about other industries also so we are very bullish on the Indian economy, if Indian economy is doing well definitely the alcohol breweries industry will do well, because we are still under consumed country in a world and people today now young generation and people are ready to try new products, what was there in the market earlier is that there was a very strong brand loyalty so for example if someone is drinking Black Labels he will not touch any other brand so now if someone is drinking Black Label he is ready to go downward also if the quality is good and he is ready to go upward also so that kind of flexibility or scale we have seen in the market so that gives an opportunity for a players like us who are quality manufacturers, who are providing good quality at a reasonable price so that is a big opportunity for us and seeing this opportunity we are expanding other avenues we are launching new brand, we are getting into innovative products so that is what we are looking into and targeting in achieving that.

**Jeetu Panjabi:**

Okay excellent and one final clarification Sir along the way I heard you answered one of the questions that we are seeing top-line growth it has to be margin positive and it should be a profitable growth and you have got a 19% of EBITDA margin in this quarter is it fair to assume that focus in margin sustain?

**Tushar Bhandari:**

See we would try to sustain this margin but depends on certain other factors also but as what we meant to say that we are not only looking at top-line growth we are also looking at bottom-line growth also is that see certain calls which we have taken last year and which we have taken this year also is that in certain areas and certain pockets we have not gone aggressive in selling because in certain areas where they are private clear as to sell into private vendors if I go aggressive in selling there is a huge chance of rates coming down because of the uncertainty in the market so which we took on last year is that we have to conserve our capital rather than going aggressive once the market stabilizes then we can again come back to that approach, but last year was this approach and this year also we are trying to see the trend because in fact market whereas the chances the back debt also by that what we need to see not only top-line growth we have to see the bottom line growth also and conserve the bottom line also.

**Jeetu Panjabi:**

Okay excellent, Thank you.

**Unknown Speaker:**

Just to add to a point to the basic question basically we are core if you manufacturing company and having the prudent expertise and having the best efficiency in spite of having my major volume from core ENA and regular range products I am able to



generate my EBITDA better than some of the premium brand that is there in the country, this is our core, but certainly now we are in the process, we are trying to convert ourselves from the core manufacturers to the branded this transformation we are taking from last three, four years in this transformation there may be a risk also but that risk we will be going very cautiously and carefully in the market like we have entered in the Karnataka not succeeded in that way and decided to being conservative, we have gone in the Kerala now we are experimenting the market but with our fundamental of the concentrate on the bottom line, we cannot go huge one is, we cannot exceed our credit, we cannot do our budget there may be growth of 15-20% per annum but certainly we will try to maintain our bottom line sustained growing. As for coming to the maintainability of your 19% EBITDA certainly the FY2021 despite RO there was a certain very favorable trend like we were having the highest crop and grain production which resulted into the substantial reduction in the raw material that is one of the major factors, but suddenly in this year we will try to cut down our cost and maybe or may not be roped in the bottom line we try to maintain the efficiency if we are seeing pricing upward movement in the raw material prices so we are trying to offset from my upper and premium products we are trying to launch in the market, is the mix we will be tracking the calculation and I think certainly the 17-18% maybe, may not be 19% above but almost 17% maybe, 18% may sustain margin that continuously will help.

**Jeetu Panjabi:**

Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

**Keshav:**

Sir let us take on of ENA capacity expansion that we are undertaking and earlier you mentioned that if I am guessing it would be coupled with ethanol or ethanol capacity would be separate from ENA? How will it be?

**Tushar Bhandari:**

Sir, it will be a dual base plant which we manufacture ethanol as well as ENA because see there are sometimes bigger opportunities in the market wherein the price of ethanol is higher than the price realization of ENA so we are trying both opportunity and it will be dual based plant wherein we can manufacture the equal amount of ethanol whereas the equal amount of ENA basically as we pointed the additional capacity is the major capacity creation for our value addition that is the one part but at the same time we try to exit of maximum operation within a month or within next few months for that taking objective we have designed the plan to dual and looking to next two, three years are very good for even ethanol the input credit on the plant, GST stabilize and all these taken into consideration and even the prices of ENA which is being offered and even the central India not heading competition from one of our great suppliers and my plants are closely



located to the petroleum companies were located near Bhopal and Indore looking to that we have designed the plant initially we may go for initial capacity utilization optimum this year and all and then later on we may switch to our ENA the better and finally it would be our value added products this is the business. So primary focus is our value-added product and primarily we are in liquor company and we will remain to achieve our figures on that area.

**Keshav:** Okay, so Sir if I got it wrong so initially we are going for ethanol then we will move to ENA and then to the value-added products that is what you meant to say?

**Tushar Bhandari:** No see the plant, I can make a plant, in that plant I will be able to make the equal amount of ENA or the full amount of Ethanol so depending on the opportunities in the market I will take my call in part capacity and the additional plant is concerned.

**Keshav:** Got it Sir and for FY2021 what is the State-wise distribution of sales?

**Tushar Bhandari:** Primarily main sales coming from right now in Madhya Pradesh and the Kerala market, selling market, the double market we reduced last year because as I said that there are a lot of private players also whom we should sell and there was a strong chance of back debts in the private player markets so that is why our sales were slightly got reduced in the Delhi market.

**Keshav:** Okay and if you can put a number in the Uttar Pradesh sales how much could it be roughly any idea Sir?

**Tushar Bhandari:** In Uttar Pradesh sales last year we did hardly around 15000 to 20000 cases because we started only in the fourth quarter and once the sales started coming up then the entire forward scenario came up that was hardly only 10000 to 15000 cases. We aim to stabilize our operations in UP.

**Keshav:** Okay Sir all right that is all from my side. Thanks a lot.

**Moderator:** As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Tushar Bhandari:** I would like to thank all of you for sparing out time and participating in this earning call. I hope we have been able to answer your questions satisfactorily if you have any further questions or you would like to know more about the company please reach out to our investor relation manager at Valorem Advisors and I would like to thank you and would request you to be safe and healthy.



*Associated Alcohol & Breweries Limited*  
*May 31, 2021*

**Moderator:** Thank you. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.