

MANAGEMENT DISCUSSION AND ANALYSIS

Global economic overview

In 2017, a decade after the global economy spiralled into a meltdown, a revival became visible. Every major economy expanded and a growth wave created jobs. This reality was marked by ongoing Euro-zone growth, modest growth in Japan, late revival in China and improving realities in Russia and Brazil leading to an estimated 3.7% global economic growth in 2017, some 60 bps higher than the previous year. Crude oil prices increased in 2017, the prices at the beginning of the year bring US\$54.13 per barrel, declining to a low of US\$46.78 per barrel in June 2017 and closing the year at US\$61.02 per barrel, the highest since 2013.

Outlook

The outlook for advanced economies improved, notably for the Euro area, but in many countries inflation remained weak, indicating that slack was yet to be eliminated, and prospects for growth in GDP per capita were held back by weak productivity growth and rising old-age dependency ratios. Global growth forecasts for 2018 and 2019 were revised upward by 20 bps to 3.9%, reflecting improved momentum and the impact of tax policy changes in the US. (Source: WEO, IMF)

Indian economic overview

After registering GDP growth of over 7% for the third year in succession in

2016-17, the Indian economy headed for slower growth estimated at 6.7% in 2017-18. Even with this lower growth for 2017-18, GDP growth averaged 7.3% for the period 2014-15 to 2017-18, achieved through lower inflation, improved current account balance and reduction in fiscal deficit to GDP. The year under review was marked by various structural reforms by the Government. In addition to GST introduction, the year witnessed significant resolution of problems associated with bank non-performing assets, FDI liberalisation, bank recapitalisation and privatisation of coal mines. After remaining in negative territory for a couple of years, export growth rebounded during 2016-17 and strengthened in 2017-18; foreign exchange reserves rose to US\$ 414 billion as on January 2018. (Source: CSO, economic survey 2017-18)

Global alcoholic beverages industry overview

The global alcoholic beverages market is pegged to cross the US\$1.9-trillion mark by 2025, growing from US\$1.2 trillion in 2017 at a CAGR of 6.4%. Globally, beer is expected to remain the largest sub-segment by value with a 42.7% share. Global revenues from alcoholic beverages industry amounted to US\$67,661 million in 2018 and this is expected to grow at a CAGR of 10.4% during 2019.

Many alcoholic beverage manufacturing companies are



Mr. Anshuman Kedia from Associated Alcohols & Breweries Limited receiving Award for Best Popular Vodka (Silver) – Titanium Triple Distilled Vodka

increasing their customer base through e-commerce platforms. It facilitates online alcoholic drink sales and also gives companies access to new markets without heavy investment in distribution channels. Alcohol e-commerce is a well-developed market in European countries such as the UK, Germany, France and Italy. (Source: Business Wire, Transparency Market Research, Statista)

Indian alcoholic beverages industry overview

India is the third-largest and fastest-growing liquor market in the world with ~30% of India's population consuming alcohol. The industry is considered a sunrise industry owing to its high-growth potential and the increasing social acceptance of alcohol as a recreational beverage.

The alcoholic beverages market in India is expected to grow at a CAGR of ~7.72% to ₹5.3 trillion by 2026. Consumption of

liquor is also increasing in rural areas thanks to easy availability of alcohol. Though India is one of the largest consumers of alcohol in the world, the per capita alcohol consumption of India is lower than Western countries. The per capita consumption of alcohol per week for the year 2016 was estimated at 147.3 millilitres and is expected to grow at a CAGR of 7.5% to 227.1 millilitres. An average Indian male drinker consumed 3x more alcohol than an average female drinker each year. Andhra Pradesh, Telangana, Kerala, Karnataka, Sikkim, Haryana and Himachal Pradesh were among the largest consumers of alcohol in India. The most popular channel of alcohol sale in India were liquor stores as alcohol consumption was primarily an outdoor activity and supermarkets and malls were primarily present in Tier-I and II cities.

IMFL accounts for 93.1% of the alcohol consumed in India with beer being the fastest-growing segment in the country (CAGR of 7.5% between 2017

and 2021). The Indian whiskey market grew at a CAGR of >7% between FY2010-11 to FY2016-17, and is expected to reach new heights in the near future. The growing Indian whisky market is the result of the economic development translating into higher purchasing power. Moreover, changing demographics and consumption patterns strengthened whiskey offtake. Southern India accounted for a >33% share of the total whisky consumed in the country. The year 2017 was riddled with policy changes that put volumes under the pump. Those changes included demonetisation, the Supreme Court's liquor sales ban proximate to highways and GST implementation that enhanced input costs. The result: sales volumes declined 1-3% in 2017. Few companies in the premium space with smaller bases grew at a healthy pace. (Source: Business Wire, PR Newswire)

Global economic growth for 6 years

Year	2014	2015	2016	2017 (e)	2018 (f)	2019 (f)
Real GDP Growth (%)	3.5	3.2	3.1	3.7	3.9	3.0

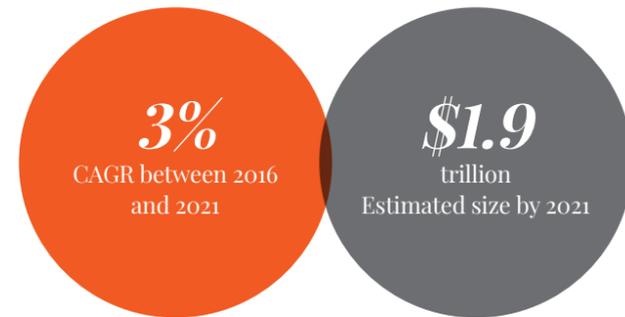
[Source: World Economic Outlook, January 2018] e: estimated f: forecasted

Estimation for the FY2017-18 versus FY2016-17

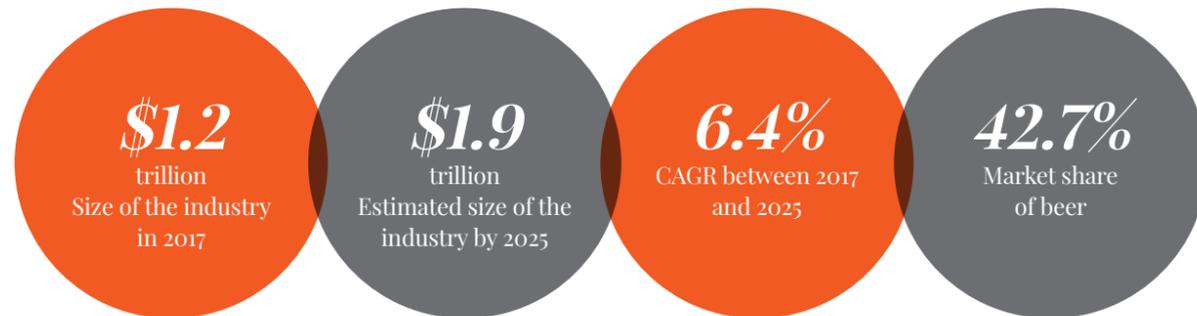
Year	2017-18*	2016-17
GDP growth	6.7%	7.1%
GVA growth	6.4%	9.0%
Farm growth	3%	9.0%
Manufacturing growth	5.1%	9.3%
Power and gas growth	7.3%	6.5%
Mining growth	3%	1.9%
Construction growth	4.3%	3.5%
Trade, hotel, transport, telecom growth	8.3%	9.8%
Financials, realty growth	7.2%	9.8%
Public, admin, defence growth	10.1%	16.6%
Per capita income growth	8.3%	9.7%

*Estimated (Source: PIB)

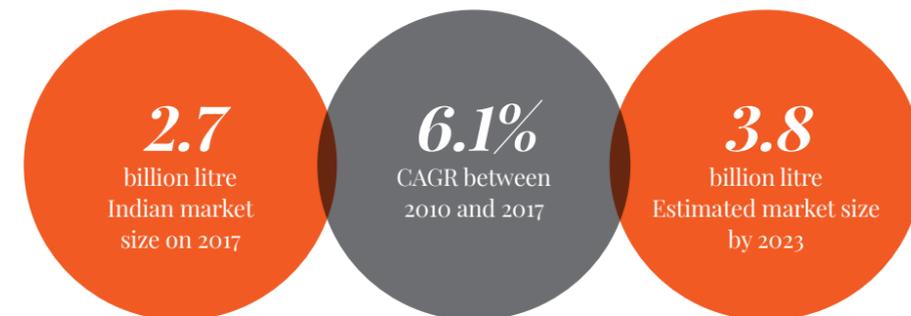
GLOBAL BEVERAGE MARKET



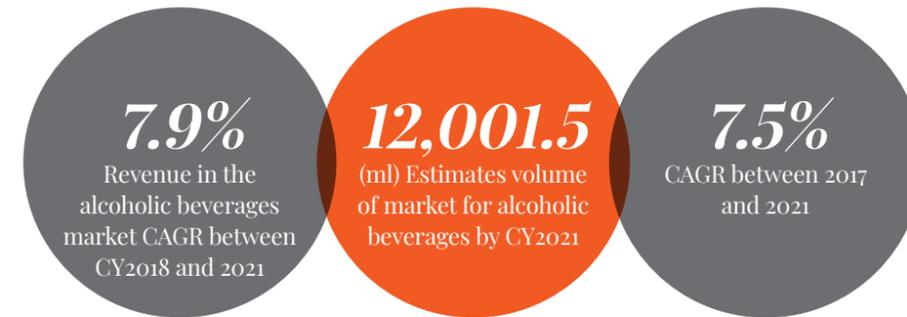
GLOBAL ALCOHOLIC BEVERAGE MARKET



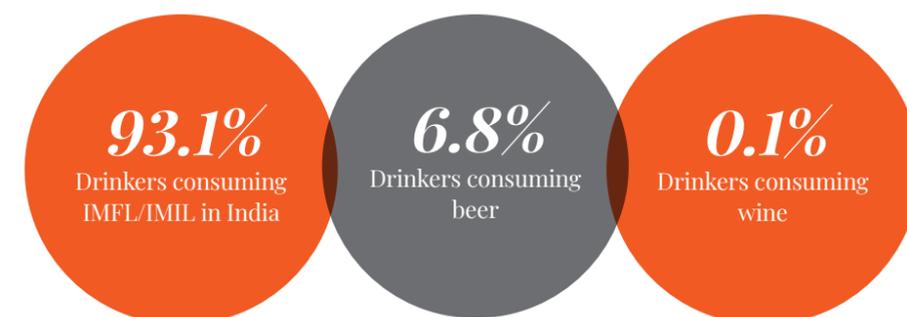
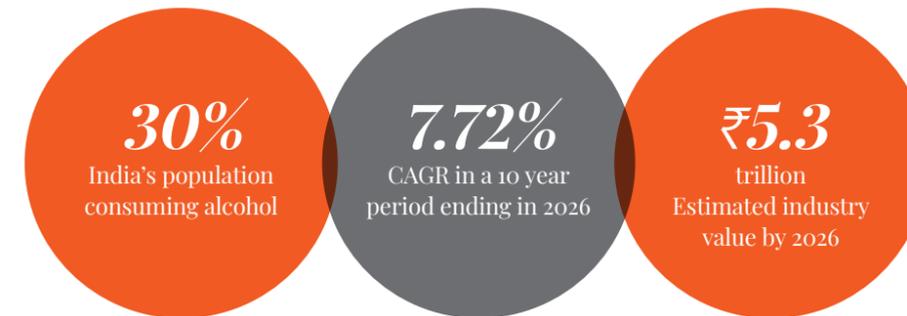
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ALCOHOLIC BEVERAGE MARKET IN INDIA

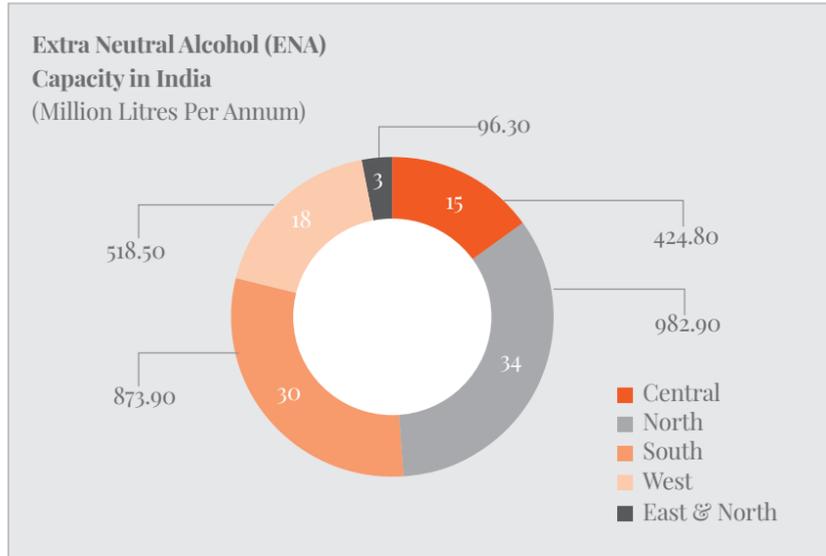


(Source: Business wire)

Outlook

From 2018 onwards, India's premium spirits space is expected to grow at ~12% while the regular range is expected to grow at ~5-7%. In value terms, the spirits industry is expected to grow at a CAGR of 2.9% till 2021, slower than the CAGR of 6.6% registered between 2011 and 2016. It is also slower than the overall volume growth of ~4.2% between 2016 and 2021. Haryana, Punjab and Uttar Pradesh could possibly change the way alcohol is distributed to give the respective State Governments more control over the process. This could pose a challenge for organised liquor firms as sometimes those managing state-run alcohol

- The Supreme Court issued restrictions on the sale of alcohol near both state and national highways leading to the closure of ~33% of the country's liquor vendors, and a drop in the demand for whiskey, brandy, rum, vodka and gin. The decline was sharper when it came to price-sensitive products, causing sales to fall by 1-3% after the previous year's sales dip of 2.2%.
- The Indian spirits market was valued at ₹1.84 trillion in 2016. Whiskey accounted for more than 60% of this figure. The country is not only the largest market for the spirit but also the largest global producer of whiskey. Whiskey consumption in India has grown by >2x, from 80.2 million nine-litre cases in 2007 to 193.1 million nine-litre cases in 2016. During the same decadal period, global whiskey consumption rose from 242.8 million to 399.2 million nine-litre cases. Of all the whiskey consumed in India last year, 189.7 million nine-litre cases, or 98.24%, was Indian-made. (Source: Global Data, International Wine and Spirits Research)



outlets are lowly-paid employees, leading to grafting. Also, election years have traditionally been good for liquor consumption as political parties provide incentives and policies. (Source: Euromonitor, Edelweiss, Livemint)

IMFL industry overview

Imported alcohol accounted for a meagre ~0.8% share of the Indian market. Heavy import duties and taxes levied on imported alcohol put it beyond the reach of most individuals. Though the popularity of wine and vodka is increasing at a remarkable CAGR of 21.8% and 22.8%, respectively, India remains the largest consumer



of whiskey in the world consuming almost half the whisky produced worldwide, accounting for ~60% of the IMFL market. From the cheapest IMFL variant to limited-edition single-malt Scotch, Indians are drinking more whiskey today than ever. Demand growth had been most conspicuous in the entry-level IMFL category (all alcoholic spirits made in India, except beer and wine). (Source: businesswire, Livemint)

ENA industry overview

The output of the extra neutral alcohol industry in India reached 2.7 billion litres in 2017, a CAGR of ~6.1% over the previous few years. Punjab was the largest producer of extra neutral alcohol in India. The market for extra neutral alcohol gained momentum majorly as a result of the increasing consumption of alcohol in the region. In India, ~90% of the extra neutral alcohol is used for manufacturing potable alcohol. This figure is expected to reach 3.8 billion litres by 2023 owing to a rise in the demand for potable alcohol. Extra neutral alcohol is a >₹30,000-crore industry and, apart from scotch, beer and wine, most IMFL manufacturers use extra neutral alcohol as raw material with other blends. (Source: IMARC, Times of India)

DEMAND DRIVERS

Growing urbanisation: The urbanisation of India stands at 33.2% and is expected to reach 36.2% by 2025. Growing urbanisation has resulted in more consumers willing to try new products. (Source: Worldometers)

Rural push: Although a large number of people from rural India consume country liquor, the scenario in these areas is changing swiftly. With the so-called barriers between rural and urban India slowly dissipating, consumption levels are forecasted to skyrocket.

Rising incomes: With rise in earnings people are gradually shifting their preferences. Per capita incomes during FY2017-18 was estimated at ₹1,11,782, rising by 8.3% compared to FY2016-17. Rising disposable incomes will lend support to greater discretionary spending and spending on alcoholic drinks. (Source: Economic Survey)

Youthful population: India is prepared to become the youngest country in the world by 2020, with two-third of its population consisting of people under the age of 35. This, in turn, will boost the consumption of alcoholic beverages across the nation. (Source: Bloomberg)

Demographic dividend: By 2025, India's population is expected to be 1.46 billion and is projected to overtake China as the most populous country in the world. (Source: Population Pyramid)

Social acceptance: The taboos surrounding alcohol are progressively being disbanded across India, especially in metro cities, where it has been accepted as a way of socialising, not only among adults but also teenagers.

Consumption levels: ~30% of India's population consumes alcohol regularly. The percentage of under-15 boys who have never had alcohol has gone down from 44% to 30% and for girls it has decreased from 50% to 31%. (Source: World Health Organisation, Organisation for Economic Cooperation and Development)

Emerging trends: Easy availability of liquor, access to alcohol at home, curiosity, peer pressure and its association with a certain kind of lifestyle have contributed to a shift in drinking patterns. With rising aspirations and increasing disposable incomes, consumers are upgrading towards premium segments in the country, within the IMFL segment or to international brands.



STRENGTHS

Strict regulations: Due to a strict regulatory regime, obtaining a license for manufacturing as well as distributing liquor is difficult, reducing competition from new entrants

Brand loyalty: It has been observed that generally consumers do not believe in switching their preferred brands

Growing population: Because of India's demographic dividend, there is always sufficient demand for various categories of liquor

CHALLENGES

High taxes: Liquor companies have heavy taxes levied on them, which vary from state to state. The decision to keep liquor out of the GST regime has been a concern as input costs are going up and cascading taxes will need to be eventually passed on to the consumers thereby leading to higher prices.

Brand creation: Advertising alcoholic beverages is prohibited in India and hence a large section of the Indian population lacks brand awareness, most people only know a couple of liquor brands and their variants. Surrogate advertising has managed to raise awareness of brands and this trend will continue to hold away over the medium-term.

THREATS

Agricultural prices: The liquor industry is heavily dependent on the agriculture industry for raw materials and any fluctuation on upper side in prices directly impacts the liquor industry.

Regulatory issues: The fragmented tax structure for Indian liquor industry leads to various inefficiencies, as most states impose high 'import' duties on alcohol made in other parts of the country. Manufacturers are thus forced to operate small plants to serve every state instead of a handful of bigger ones serving larger regions, making logistics and quality control difficult.



Newly launched premium whisky (May 2018)

Internal control systems and their adequacy

The company has engaged the services of independent professional to carry out the internal audit and ensure that recording and reporting are adequate and proper, the internal controls existing in the system and further that sufficient measures are taken to improve, update and strengthen the internal control system.

In addition to statutory audit, the financial controls are also reviewed by the Internal auditors, who report their findings to the Board and the Audit Committee. The committee ensures the progress of the internal audit initiatives, significant and major audit observations and further planning and implementation of follow up action required.

Information technology

In line with overall growth objectives and strengthening of infrastructure base, the Company continues to invest in IT (Information Technology) viz SAP Enterprising Resource Planning System and with the implementation of these software's the Company has improved its operational efficiencies through various functional integration.

Human resources and industrial relations

The company constantly facilitates and encourages its employees at all levels to enhance their knowledge and skills and also firmly believes that Human Resource Development (HRD) strategies and practices will continue to provide a sustained competitive advantage. The management of your company deeply appreciate the spirit and commitment of its dedicated team of 11 Employees as on 31.03.2018

Cautionary statement

Estimates and expectations stated in this Management Discussion and Analysis Report may be "forward-looking statements" within the meaning of applicable securities, laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to your company's operations include economic conditions affecting demand / supply and price conditions in the domestic and international markets, changes in the governments regulations, tax laws and other statutes and incidental factors.



SEGMENT-WISE PERFORMANCE

The company has only one major operational business segment encompassing liquor and related products, which accounts for around 90% of the total turnover of the Company.

IMIL / COUNTRY LIQUOR

The company observed steady volume growth in the category, the Company continues to enjoy the monopoly over the allotted districts. This business mainly composes of cash & convey. However geographical boundary is the limitation in this category.

IMFL

The Company's market share on account of franchise agreement has increased, the own brands category also showed a moderate growth. The company's objective is to maintain the percentage of the IMFL in sales mix.

ENA/RS

The company continued to be a sectoral leader in supply of ENA/RS and enjoyed premium owing to superior quality ENA.

BY PRODUCTS

The company's byproducts are commonly known as poultry feed, cattle feed which continued to add to its top line. These byproducts are protein-rich and in high demand throughout the year. Besides, the Company also sold CO₂ and fusel oil as byproducts.

