

Ravi Kumar Distilleries Ltd.

Price Band	: Rs 56-64 per share	December 7, 2010
Minimum Bid Lot Size	: 100 Equity Share	
IPO open during	: December 08 – 10, 2010	
Book Running Lead Manager	: Comfort Securities Pvt. Ltd.	
To list on	: NSE & BSE	
IPO Grading	: 2 / 5 (CARE)	
PE	: 35x (based on base price)* : 40x (based on cap price)*	
Market Cap post-listing	: Rs153.6Cr or \$34.17mn (based on the cap price)	
Market Cap of Free Float	: Rs73.6Cr or \$16.37mn (based on the cap price)	

* based on FY10 EPS.

IPO of 11.5mn equity shares of Rs10/- each, aggregating to Rs73.6Cr or \$16.37mn (at the cap price).

Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters & Promoters Group	12,500,000	100.00%	12,500,000	52.08%
QIBs excl. Mutual Funds	0	0.00%	11,500,000	47.92%
Mutual Funds				
Non-Institutional Investors				
Public				
Total	12,500,000	100.0%	24,000,000	100.0%

Executive Summary

- Ravi Kumar Distilleries Ltd. (RKDL) is engaged in the business of manufacturing and trade of Indian Made Foreign Liquor (IMFL) under its own brand portfolio as well as under tie-up arrangements with other companies.
- RKDL started with initial capacity of 7,20,000 cases per annum and a bond capacity of 6300 cases of excise bonded warehouse. The company subsequently increased its installed capacity to presently at 14,25,000 cases per annum and 26000 cases of excise bonded warehouse.
- RKDL has established several brands successfully across segments and flavors thereby enjoying brand recall from customers. IMFL products under its own brand portfolio as well as under various tie-up arrangements with other Companies include Capricorn, 2 Barrels, Chevalier, Konarak, and Green Magic amongst others.
- Due to very existence in the Industry for past 10 years, RKDL has developed its brand on technical front. The company has developed state-of-the-art Quality Control and in-house R&D Department and has already developed technology in the field of manufacturing a wide range of IMFL products.

Company Background

Ravi Kumar Distilleries Ltd. (RKDL) was incorporated in October 1993. RKDL is promoted by Mr. R.V. Ravikumar and is currently engaged in manufacturing of IMFL products under its own brand portfolio as well as under tie-up arrangements with other companies. The company entered into the distillery industry in 1999 by setting up its distillery unit which is located at Pondicherry with an installed capacity of 7,20,000 cases per annum with initial production running on two semi auto lines.

Promoters and Management

Mr. R.V.Ravikumar is Managing Director of RKDL since October 2000 and looks after the overall management of the company. He, having over 30 years of experience in liquor industry, has enabled the company to reach at a respectable position in liquor manufacturing industry. He is the secretary of Puducherry Distilleries & Breweries Association and was a member of 'All India Distilleries Association'. He is the recipient of one of the prestigious awards 'Chevalerie Due Verre Galant' from France and 'Gem of India Award' from all India Achievers Conference, New Delhi.

Mrs. R. Amirthavalli is Whole Time Director of RKDL since October 2000. She, having over 20 years in the field of liquor industry, is actively involved in day-to-day operations of the company.

Industry Overview

India is the third largest market for alcoholic beverages in the world. The demand for spirits and beer is estimated to be around 373 million cases (each case with 12 bottles containing 750ml liquor in each bottle).

The Alcohol Industry in India can be divided into the following five categories: -

- Industrial Alcohol
- Potable Alcohol
- Mixed Distilleries (Industrial and Potable Alcohol)
- Bottling Plants (purchasing alcohol and bottling alcoholic beverages)
- Distilleries producing alcohol from substrates other than molasses.

Majority of distilleries manufacture alcohol from Sugar Cane Molasses.

Alcohol industry is the second largest source of revenue of the state exchequer, nearly Rs25,000Cr. The Industry turnover is Rs6,000Cr.

Indian demographics are favorable to consumption of alcohol. The 18-35 age group in India is 247mn and growing at 3.4% p.a. With net addition of 40mn to this segment over next 5 years, alcohol demand will aggregate 40mn cases over FY05-10. Of this, IMFL will account for 45-50%, owing to the higher aspiration levels of the new generation. With growing income of young consumers and increasing consumption of lifestyle products, demand for alcohol is set to rise.

Potable alcohol segment has been growing at rate of 10% over the last few years and is expected to rise at a CAGR of 13% over the next 5 years. Consumption is largely skewed towards whisky, which accounts for more than half of the market. Country liquor market is a regional market and there exist a large number of small manufacturers spread across various States, however major IMFL manufacturers have a countrywide presence.

IMFL includes liquor produced, manufactured or compounded in India in the same manner as gin, brandy, whisky or rum imported into India and other liquor. The size of organized liquor Industry included around 40 Breweries and 25 IMFL manufacturing units. The IMFL Industry with a size of around 214 million cases produces Extra Neutral Alcohol

(ENA) Products and Rectified Spirits (RS) based products. Rectified Spirit is plain undenatured alcohol of strengths of not less than 52 degrees and includes absolute alcohol.

ENA-based products, which are of better quality and have a longer shelf life, are the focus of main players like the UB Group and Shaw Wallace. The low-priced Rectified Spirit Segment is quite price-sensitive and characterized by the presence of a number of small players.

IMFL (Indian-made foreign liquor) industry is poised to grow at 15% CAGR over 2007-10. The total market for IMFL in India for the year 2007 was estimated at Rs9,31,367mn. In volume terms, the spirits market was estimated at approx. 3.7bn litres for 2007 (excluding beer and country liquor segments). The shares of whisky and rum in the overall spirits market in India were approx. 30% and 4%, respectively for the year 2007. In FY08, the IMFL industry grew at 12-15%, of which value growth was 8-10% and volume growth was 3-5%.

However, the IMFL industry in India is constrained by a multitude of factors:

- Capacity Restrictions
- High Duty Structure
- Distribution and Trading Restrictions

Business Operations

Ravi Kumar Distilleries Ltd. (RKDL) is engaged in the business of manufacturing and trade of Indian Made Foreign Liquor (IMFL) under its own brand portfolio as well as under tie-up arrangements with other companies. The IMFL comprises of Whisky, Brandy, Rum, Gin & Vodka.

The company currently operates through its manufacturing unit located at Pondicherry. The manufacturing unit is equipped with state-of-art infrastructure facilities & technology, which encompasses all modern facilities for blending and bottling, can undertake the manufacturing of IMFL.

RKDL started with initial capacity of 7,20,000 cases per annum and a bond capacity of 6300 cases of excise bonded warehouse. The company subsequently increased its installed capacity to presently at 14,25,000 cases per annum and 26000 cases of excise bonded warehouse.

The core competencies of the company is its in-house technical and formulation knowledge, skilled workforce and well-equipped manufacturing facilities, which enables it to manufacture a wide range of IMFL products to meet diverse client requirements. The company is an ISO 9001:2000 certified company since 2007.

Strengths

Experienced management team

RKDL is managed by a team of experienced and professional managers with experience in different aspects of Distillery industry including production, sales, marketing and finance. The management of the company is well qualified and has an experience of around 30 years in Liquor industry.

Brand presence

RKDL has established several brands successfully across segments and flavors thereby enjoying brand recall from customers. IMFL products under its own brand portfolio as well as under various tie-up arrangements with other Companies include Capricorn, 2 Barrels, Chevalier, Konarak, and Green Magic amongst others.

Entry barrier for new entrants

It is at the discretion of the State and Union Territory Government for permitting any new entrants and preference is given to existing licensees and manufacturers for manufacturing and marketing of IMFL products. Thus the market is presently fully protected in respect of RKDL's existing business operations.

Established Manufacturing facility

RKDL's existing manufacturing facility is located in Puducherry and is equipped with state-of-art infrastructure facilities & technology. The company has started with initial capacity of 7,20,000 cases per annum and a bond capacity of 6300 cases of excise bonded warehouse and subsequently increased it to 14,25,000 cases per annum and 26000 cases of bonded warehouse. Further, RKDL plans to expand the capacity to 36,00,000 cases per annum.

Research & development and designing capabilities

Due to very existence in the Industry for past 10 years, RKDL has developed its brand on technical front. The company has developed state-of-the-art Quality Control and in-house R&D Department and has already developed technology in the field of manufacturing a wide range of IMFL products.

Leveraging the experience of the Promoter, Mr. R.V. Ravikumar

The Promoter of RKDL, Mr. R. V. Ravikumar, has experience in the Industry of over 30 years and has developed good clientele base, technical expertise and has contributed immensely in making RKDL a specialized player in manufacturing of IMFL products.

Wide product portfolio

The product portfolio of RKDL consists of a variety of IMFL products such as of Whisky, Brandy, Rum, Gin & Vodka, thus catering to diverse needs of markets.

Objects of the Issue

The objects of the Issue are:

- Expansion of its unit by increase in existing capacity and installation of Re-distillation plant,
- To part-finance the marketing and corporate branding expenses,
- To part-finance incremental working capital requirements,
- To part-finance the general corporate expenses and
- To meet the expenses of the Issue.

Utilisation of Net Proceeds

(Rs Cr)

Expansion of Unit	
Civil & Structure related work	0.40
Purchase & Installation of Machines	10.82
To part-finance the marketing and corporate branding expenses	3.00
To part-finance the incremental working capital requirements	33.97
General Corporate Purposes	[•]
Issue Expenses	[•]
TOTAL	[•]

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- At present RKDL has market presence only in Puducherry and propose to tap the markets of adjoining states of Kerala, Karnataka and Andhra Pradesh and these states are characterized by regulatory restrictions. The company will be dependent on government agencies for sale of its products and any change in government policies will adversely affect its business operations.
- Any delay in the commencement of operations as scheduled as per the proposed expansion plan may affect profitability of the company.
- The business of RKDL is dependent on its manufacturing facility. Any loss of or shutdown of operations of its manufacturing facility may have a material adverse effect on its business, financial condition and results of operations.
- The manufacturing process of RKDL is dependent on the timely supply of quality raw materials to its plant, which are subject to various uncertainties and risks. The company is dependent on third party suppliers and transport agencies and raw material prices are also subject to fluctuations.

Restated Profit & Loss Statements

(RsCr)

For Period Ended,	31.03.06	31.03.07	31.03.08	31.03.09	31.03.10	30.06.10
Sales of Goods Manufactured	48.90	60.59	63.39	69.93	80.43	18.15
Sales of Goods Traded	3.65	4.40	6.95	14.90	17.29	6.87
Gross Sales	52.54	64.99	70.34	84.83	97.72	25.01
Excise Duty	17.29	22.80	32.34	41.96	49.37	11.78
Net Sales	35.26	42.19	38.00	42.87	48.35	13.23
Discounts Received	0.23	0.19	0.34	0.61	0.68	0.19
Surplus on Excise Holograms	0.00	0.00	0.00	0.15	0.22	0.06
Total Income	35.49	42.39	38.34	43.63	49.25	13.48
Expenditure						
Raw Material & Packing	13.32	17.82	18.05	18.18	18.31	4.67
Other Manufacturing & Operating Expenses	9.81	11.60	6.30	4.42	5.03	1.47
Cost of Goods Traded	3.10	4.01	6.85	10.08	16.37	4.75
Employee's Cost	1.24	1.38	1.33	1.27	1.33	0.32
Administration Expenses	1.44	1.30	0.71	1.11	0.97	0.35
Selling & Distribution Expenses	2.63	2.54	1.22	1.95	1.86	0.61
Increase/(Decrease) in Inventories	-0.15	0.08	-0.70	0.62	-0.92	-0.43
Total Expenditure	31.38	38.73	33.76	37.64	42.95	11.73
EBITDA	4.11	3.65	4.58	5.99	6.30	1.74
Other Income	0.03	0.07	0.16	0.09	0.06	0.02
Depreciation	1.03	0.71	0.65	0.77	0.71	0.15
Interest & Finance Charges	1.89	1.54	2.25	2.99	2.80	0.73
Net Profit before Tax	1.22	1.48	1.84	2.32	2.85	0.88
Less: Provision for Current Tax	0.35	0.36	0.36	0.57	0.90	0.30
Deferred Tax	0.33	0.06	-0.21	0.01	-0.04	-0.01
Fringe Benefit Tax	0.02	0.04	0.04	0.04	0.00	0.00
Net Profit After Tax	0.52	1.02	1.65	1.71	1.99	0.59
Weighted average number of Shares	9,967,328	10,000,000	10,218,579	12,500,000	12,500,000	12,500,000
EBITDA margin (%)	11.6%	8.7%	12.1%	14.0%	13.0%	13.2%
EPS (Rs)	0.53	1.02	1.62	1.36	1.60	0.47
Book Value (Rs)	6.32	7.31	11.22	10.54	12.03	12.20

Restated Balance Sheets

(RsCr)

As at,	31.03.06	31.03.07	31.03.08	31.03.09	31.03.10	30.06.10
Assets						
Gross Block	12.17	12.13	16.14	16.05	14.61	14.65
Less: Depreciation	5.77	6.23	6.84	7.62	8.30	8.45
Net Block	6.41	5.90	9.30	8.44	6.31	6.20
Capital WIP	0.00	0.00	5.00	5.00	11.00	11.00
Total	6.41	5.90	14.30	13.44	17.31	17.19
Investments	0.01	0.01	0.01	0.01	0.01	0.01
Current Assets, Loans and Advances						
Inventories	5.12	5.05	8.09	8.74	9.90	11.08
Receivables	12.26	17.97	18.63	19.64	20.57	18.57
Cash & Bank Balances	0.64	2.27	1.26	1.14	1.71	1.28
Loans & Advances	4.20	4.97	2.63	4.11	3.73	3.28
Other Current Assets	0.64	0.99	1.66	0.37	0.51	0.48
Total Current Assets	22.86	31.26	32.27	34.00	36.42	34.70
Total Assets	29.27	37.17	46.57	47.45	53.73	51.90
Liabilities & Provisions						
Loan Funds:						
Secured Loans	12.53	14.87	21.50	21.81	24.83	24.89
Unsecured Loans	5.71	7.21	4.83	3.12	3.47	1.45
Current Liabilities & Provisions:						
Current Liabilities	3.45	6.02	6.85	8.27	8.98	8.60
Provisions	0.68	1.08	1.48	0.60	1.00	1.30
Deferred Tax Liability	0.61	0.66	0.46	0.47	0.42	0.41
Total Liabilities & Provisions	22.97	29.85	35.11	34.27	38.70	36.65
Net Worth	6.29	7.31	11.47	13.17	15.03	15.25
Share Capital	4.50	4.50	10.00	10.00	12.50	12.50
Reserves & Surplus	1.79	2.81	1.47	3.17	2.67	3.26
Less: Misc. expenditure not w/o	0.00	0.00	0.00	0.00	0.13	0.51
Total Net Worth	6.29	7.31	11.47	13.17	15.03	15.25

Keynote Capitals Ltd.

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