

Shri. R. V. Ravikumar
Managing Director
Ravikumar Distilleries Ltd.
1-C, Nandita Apartments,
No. 47, Thirumalai Pillai Road,
T. Nagar, Chennai,
Tamil Nadu - 600 017

June 03, 2010

Confidential

Dear Sir,

IPO Grading

Please refer to your request for grading of the Initial Public Offering (IPO) of **Ravikumar Distilleries Ltd.** for 1.15 crore equity shares of face value of Rs.10 each.

2. CARE has assigned a '**CARE IPO Grade 2**' [**Grade Two**] to the proposed IPO issue of Ravikumar Distilleries Ltd. (RKDL). **CARE IPO Grade 2** indicates **below average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 2**' [**Grade Two**] appears, it should invariably be followed by the definition '**CARE IPO Grade 2** [**Grade Two**] indicates below average fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within two months from the date of this letter.
6. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.

7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings. As such, in the absence of any request for review of grading within a week of this letter, CARE will disclose this IPO grading to the public.
8. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Sujit Pradhan".

[Sujit Pradhan]
Manager

A handwritten signature in blue ink, appearing to read "Padmaja Parange".

[Padmaja Parange]
Senior Manager

Encl: As above

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Annexure 1

CARE IPO grading Scale

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

GA

Shri. R. V. Ravikumar
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June 15, 2010

Dear Sir,

IPO Grading

Please refer to our letter dated June 03, 2010 on the above subject.

2. The rationale for the rating is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above rating is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by June 22, 2010 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


[Padmaja Parange]
Senior Manager

Encl: As above

**Annexure - I
Grading Rationale**

Ravikumar Distilleries Ltd.

IPO Grading

CARE IPO Grade 2

CARE has assigned a 'CARE IPO Grade 2' to the proposed Initial Public Offer (IPO) of Ravikumar Distilleries Ltd. (RKDL). CARE IPO Grade 2 indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of that issuer. RKDL proposes an IPO of 1.15 crore equity shares of face value of Rs.10/- each, at a price which will be determined through the book-building process.

The grading is constrained by the small size of operations, high overall gearing ratio and low entry barriers in the local market. Further, the grading is constrained by competition from established regional and Pan-India players, highly-regulated nature of the alcohol industry characterised by high taxation and inter-state restriction on movement of products and dependence on IPO proceeds for the proposed expansion.

However, the grading derives strength from the promoters' experience and long track record in the liquor business, established presence in Puducherry market, tie-up arrangements with reputed clients and improved profitability during the last two years.

Background

Ravikumar Distilleries Limited (RKDL) was incorporated in 1993 by Mr.R.V. Ravikumar and it commenced commercial production from 1999. Mr. Ravikumar is involved in the liquor distribution business since 1978 and forayed into liquor manufacturing by incorporating RKDL. RKDL is engaged in the manufacturing and marketing of Indian Made Foreign Liquor (IMFL) with presence in all segments viz rum, brandy, whisky, gin and vodka. The manufacturing facility of RKDL is located at Puducherry and has an installed capacity of 14,25,000 cases per annum and bonded ware house capacity of 26,000 cases.



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RKDL undertakes manufacturing and marketing of its own brands as well as for the other brands under the tie-up arrangements. In addition, RKDL is also involved in trading of IMFL in local market. The company has 30-owned brands with 'Capricorn' being its flagship brand. RKDL has been drawing majority of its sales from local markets of Puducherry. It has entered into tie-up arrangements with established players such as Radico Khaitan and John Distilleries for manufacturing of their brands.

As on December 31, 2009, RKDL did not have any subsidiary. However, the promoter had other group companies in segments such as real estate, tourism, food and pharmaceuticals.

Management

As on December 31, 2009, RKDL's Board of Directors comprised eight members including four Independent non-executive directors. Mr. R.V. Ravikumar is serving as the Managing Director. The Board is assisted by a team of senior executives.

Corporate Governance

Separation of ownership and management

RKDL has complied with the requirements of corporate governance contained in the listing agreement. The company has a total of four Independent Directors on Board out of total of eight Directors. Amongst the four Independent Directors, three were appointed in November 2007 and one in October 2009.

Board Committees

Further, in order to comply with the corporate governance requirements, RKDL has constituted committees such as Audit Committee, Shareholders/Investors Grievance, Share Allotment and Share Transfer Committee, Remuneration Committee and IPO Committee in October 2009 and had Audit Committee meetings in October 2009, January 2010 and March 2010.

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Pending legal cases & their status

I. Litigations filed by RKDL

Money recovery proceedings filed by the company – RKDL has filed a suit against Kapitan Distilleries Ltd. for non-payment of amount realised from sales made to Andhra Pradesh Beverages Corporation Ltd (APBCL) and deducting excessive service charges aggregating to Rs.0.37 crore for FY03. RKDL has also filed a petition before Court to direct APBCL to withhold Rs.0.38 crore payment of Kapitan. The suit is pending for hearing.

II. Litigations against RKDL

A) Civil Proceedings against the company – Mohan Breweries and Distilleries Ltd (MBDL) has alleged that RKDL has copied its registered design with words "MBDL" embossed on Whisky bottles and bottling Whisky under brand name "Goal Keeper". Further, MBDL has alleged that RKDL has committed a piracy under Designs Act, 2000 by copying the design, causing serious hardship and losses to MBDL. MBDL has demanded from Court for rendition of a true and faithful account of the profits earned by RKDL through sale of whisky under brand name "Goal Keeper" using the offending bottle design. RKDL has filed a reply denying some of the allegations and the matter is sub judice.

B) Proceeding under labour laws - In February 2006, Mr. E. Raghavan, a casual labourer employed with RKDL was dismissed from services. Mr. Raghavan filed a dispute before the Labour Officer (conciliation), Government of Puducherry challenging his dismissal. RKDL had filed a reply to the charges levelled by Mr Raghavan. Later on, the matter was referred to Labour Court Puducherry for adjudication and is pending before the same.

C) Indirect tax proceedings –

Turnover Tax, Puducherry, A.Y 2002-03 & 2003-04: In January 2006, the Commercial Tax Officer (CTO) made a demand of Rs.0.14 crore and Rs.0.20 crore on RKDL for turnover tax for the Assessment Year 2002-03 and 2003-04 respectively. The company has filed an appeal before Appellate Assistant Commissioner for stay against the demand on the ground that the company is eligible for a tax holiday and is not required to pay the

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turnover tax. The stay for collection of tax was granted on furnishing of a security bond. The appeal is still pending and shall come for hearing in normal course.

Turnover Tax, Puducherry, A.Y 2004-05: In March 2007, CTO made a demand of Rs.0.22 crore on RKDL for turnover tax for the Assessment Year 2004-05. The company has challenged the demand by a writ petition before the Honourable High Court Madras against the demand on the ground that the company is eligible for a tax holiday and is not required to pay the turnover tax. The Honourable High Court has set aside the demand with liberty to the Assessing Officer to levy turnover tax at the rate of 0.5%. RKDL has not received any further communication from the Assessing Officer.

Sales Tax, Kerala, AY 2001-02, AY 2002-03 and AY 2003-04: The Assistant Commissioner, Kozhikode has issued a demand notice for payment of Turnover tax and interest thereon on RKDL. The demand for Turnover tax was Rs.0.22 crore, Rs.0.13 crore and Rs.0.08 crore respectively for AY 2001-02, AY 2002-03 and AY 2003-04. The demand for interest for the same periods was Rs.0.21crore, Rs.0.13 crore and Rs.0.03 crore respectively. RKDL has filed a Writ Petition against the said demand to the Honourable High Court of Kerala and a stay order till May 23, 2006 has been passed by the court. RKDL has not received any further communication from the Assessing Officer.

III. Potential Litigation

RKDL is in receipt of notices from the Registrar of Companies (RoC), Tamil Nadu for non-compliance of provisions of Section 210, 295 and 297 of the Companies Act, 1956 for the financial years 2004-05, 2005-06 and 2006-2007. The RoC has issued a show cause notice for levy of penalty, as RKDL has entered into an agreement with its Managing Director for hiring cars on lease rental basis owned by its Directors and Relatives. The liability for such compounding has been ascertained to Rs.0.05 crore.

Operations

RKDL is engaged in business of manufacture of Indian Made Foreign Liquor (IMFL) for own brands and under tie-up arrangement for other IMFL manufacturers. RKDL's manufacturing unit is located in Union Territory of Puducherry and caters to the local market. It operates in all segments of IMFL, viz Whisky, Brandy, Rum, Gin and Vodka. RKDL owns 30 brands, with three registered brands viz 'Capricorn', 'Super White' Rum



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and 'Freedom' Brandy with 'Capricorn' being the flagship brand. RKDL has presence only in the Puducherry market, which is an open market with no State Corporation involvement. RKDL has tie-up arrangements with known companies such as Radico Khaitan Ltd., John Distillers Ltd, Shashi Distilleries Ltd and Gemini Distilleries Pvt. Ltd. amongst others. In respect of tie-up arrangements, RKDL enters into production and marketing arrangement with its customers. The sales for such arrangements are routed through RKDL and it remits the surplus net of its bottling charges to the brand owners. In addition, RKDL is also involved in trading of IMFL in Puducherry.

IPO Details

Size of the Issue

RKDL is proposing to make an Initial Public Offer (IPO) of 1,15,00,000 equity shares of face value of Rs.10/- each for cash at a premium to be determined through a book-building process.

Terms of the issue

Out of the total issue of 1,15,00,000 equity shares, up to 57,50,000 equity shares will be allotted to Qualified Institutional Buyers (QIBs) (being 50% of the issue size). Not less than 17,25,000 equity shares shall be available for allocation to Non-Institutional bidders (being 15% of the issue size) and the retail portion would be at least 40,25,000 equity shares (being 35% of the issue size). 2,87,500 equity shares (being 5% of the QIB portion) shall be available for allocation on a proportionate basis to Mutual Funds, and the balance of the QIB portion shall be available for allocation on a proportionate basis to all QIBs, including Mutual Funds.

Purpose of the issue

- to expand its existing facilities to meet the demand in the existing market and to penetrate into neighbouring markets like Kerala, Karnataka and Andhra Pradesh. Further, RKDL also plans to undertake backward integration by setting up re-distillation plant at its existing facility at Puducherry.
- to part-finance the marketing and corporate branding expenses
- to part-finance incremental working capital requirements
- balance proceeds to meet the general corporate expenses and issue-related expenses

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The utilisation of IPO proceeds would be as follows:

Particulars	Total Expenditure
Expansion of existing unit (increase in bottling capacity and installation of re-distillation plant):	
- Civil & Structure related work	0.40
- Purchase & Installation of Machines	10.82
Marketing and Corporate branding expense	3.00
Incremental working capital requirements	33.97
General corporate purposes and issue-related expenses*	-
Total	48.19

Financial Analysis

RKDL's net sales have been stable at around Rs.40 crore over the last three years. Net sales in FY09 increased y-o-y by 11.84% backed by higher volumes. PBILDT margin increased in FY09 mainly due to lower manufacturing expenses partially offset by higher selling expenses. Interest and finance charges in FY09 increased almost 33% over FY08 on account of higher working capital borrowings resorted by the company to support the increase in the level of operations. Despite the increase in interest expenses, the interest coverage ratio improved marginally during FY09. The company reported a growth of almost 30% in PAT during FY09 supported by higher PBILDT as well as non-operating income offset partly by higher interest expenses. PAT margin in FY09 increased by 118 basis points to 5.37%. The Return On Net Worth (RONW) has been stable at around 13.5% over the last three years, backed mainly by the improvements in profitability. The restated EPS (post-bonus issue) for FY09 was Rs.1.42, an increase of 29.09% over the restated EPS of FY08. RKDL's Tangible Net Worth has shown an improvement over the last two years on account of accretion to reserves. With the increase in tangible net worth, RKDL's long-term debt to equity ratio showed an improvement during the last three years. Being a working capital intensive company, dependence on working capital borrowing is high resulting in high overall gearing ratio. RKDL's current ratio has been on declining trend in the past three years due to high working capital borrowings. RKDL's total inventory levels have been increasing during the past three years mainly on account increase in the raw material inventory. Accordingly, the inventory-holding period



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has shown an increasing trend since FY08. However, the average collection period improved from 94 days in FY08 to 79 days in FY09 with better receivables management. The Working Capital Cycle has declined marginally from 106 days in FY08 to 101 days in FY09 on account of the better-managed receivables, offset to an extent by higher inventory levels.

As per provisional results of FY10, RKDL's net sales increased by 3.19% with PBILDT and PAT margins of 18.38% and 5.71% respectively.

Industry Review

The IMFL segment is a 125-million cases industry that is worth USD 2 billion. It constitutes 31% of the total liquor market and is expected to grow at a Compounded Annual Growth Rate (CAGR) of 9.7% over the next three years. The per capita consumption of liquor in India is low at about 0.82 litres per annum as compared to global average of 4.63 litres per annum, indicating potential for growth in the industry. The growth of domestic alcohol industry is being driven by favorable demographics, rising disposable income and changing social habits leading to a shift from the country liquor (unbranded) segment towards the branded segment (IMFL). The uniqueness of the industry lies in its convoluted tax structure, especially the imposition of import and export duties on inter-state transfer of liquor, apart from various other taxes. This led to the setting up of a number of small production capacities across the country by liquor manufacturers, contract distillers and bottlers. They tie up with State-level bottlers and distillers for production of liquor, which is then branded, labelled and marketed through the prevalent distribution system in the State. The consumption in the IMFL segment is dominated by Whisky (about 59.5%), Brandy (18.2%), Rum (17.6%), Gin (3.5%) and Vodka (1.2%). However, the mix varies from State to State according to consumers' preferences. In northern States like Punjab, Haryana and Rajasthan, more whisky is consumed; whereas, in southern States like Andhra Pradesh and Tamil Nadu, brandy is the dominant drink. In Kerala however, 60-65% of the sales of IMFL is rum. Andhra Pradesh is the largest market of IMFL in India. As per Andhra Pradesh Beverages Corporation Ltd., during the 11 months for FY10, the IMFL sales in Andhra Pradesh were 381.27 lac cases which was higher than FY09 sales of 365 lac cases. As per Kerala State Beverages Corporation, during FY10, the IMFL sales in Kerala were 188.03 lac cases with Rum dominating the portfolio. The sales in Karnataka are dominated by

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Whisky with 73% of total IMFL sales. As per Karnataka State Beverages Corporation, for FY09, the aggregate sales of IMFL and Beer in Karnataka were 468.41 lac cases. However, Puducherry is an open market with no State Corporation involvement. The distribution channel in Puducherry is direct with manufacturer, distributor and retailer channel as a result of which it has lower entry barriers as compared to the other States.

Prospects

The outlook for IMFL segment in India is favourable given the rising disposable incomes and a shifting trend from country liquor (unbranded) segment towards the IMFL (branded) segment. RKDL plans to increase its existing capacity and expand its presence in to the neighbouring markets of Andhra Pradesh, Karnataka and Kerala. However, the company's growth is dependent to a large extent on its successful expansion, which in turn depends on successful completion of the IPO. Further, regulatory hurdles and intense competition are also causes for concern.

Financial Performance

(Rs. crore)

For period ended/As on March 31,	2007 <i>(12m, A)</i>	2008 <i>(12m, A)</i>	2009 <i>(12m, A)</i>
Working results			
Net Sales	42	38	43
Total Operating Income	38	32	32
PBILDT	4	4	5
Depreciation	1	1	1
Interest	2	2	3
PBT	1	2	2
PAT (after Deferred Tax)	1	1	2
Net Cash Accruals	2	2	3
Financial position			
Equity Share Capital	5	10	10
Net Fixed Assets	6	9	9
Net Working Capital	24	24	24
Tangible Net Worth	8	12	14
Total Debt	22	26	25
Total Capital Employed	30	38	39
Ratios:			

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Growth (%)			
Growth in Total Income	17.69	(15.97)	(0.04)
Growth in PBILDT	(10.99)	7.92	32.05
Growth in PAT	92.21	32.25	29.35
Profitability (%)			
PBILDT / Total Operating Income	9.58	12.30	16.25
PAT / Total Income	2.70	4.19	5.37
ROCE (Total Capital Employed)	10.89	11.10	13.71
RONW	13.42	13.56	13.82
EPS	1.03	1.10	1.42
Solvency (Times)			
Long Term Debt Equity ratio	0.87	0.78	0.47
Overall Gearing ratio	2.67	2.21	1.82
Interest Coverage	1.92	1.47	1.49
Term Debt / Gross Cash Accruals	12.27	14.51	9.78
Liquidity (times)			
Current Ratio	1.44	1.27	1.21
Quick Ratio	1.21	0.95	0.89
Working Capital Cycle			
Average Collection Period (days)	84	94	79
Average Inventory Holding (days)	51	70	86
Average Creditors Period (days)	36	58	65
Working Capital Cycle (days)	98	106	101

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Annexure - II

Press Release

CARE assigns 'CARE IPO Grade 2' to Ravikumar Distilleries Ltd.

CARE has assigned a 'CARE IPO Grade 2' to the proposed Initial Public Offer (IPO) of Ravikumar Distilleries Ltd. (RKDL). 'CARE IPO Grade 2' indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of that issuer. RKDL proposes an IPO of 1.15 crore equity shares of face value of Rs.10/- each, at a price which will be determined through the book-building process.

Grading Rationale

The grading is constrained by the small size of operations, high overall gearing ratio and low entry barriers in the local market. Further, the grading is constrained by competition from established regional and Pan-India players, highly regulated nature of the alcohol industry characterised by high taxation and inter-state restriction on movement of products and dependence on IPO proceeds for the proposed expansion.

However, the grading factors derives strength from the promoters' experience and long track record in the liquor business, established presence in Puducherry market, tie up arrangements with reputed clients and improved profitability during the last two years.

Company Profile

RKDL is engaged in the manufacturing and marketing of Indian Made Foreign Liquor (IMFL) with presence in all segments viz. rum, brandy, whisky, gin and vodka. The manufacturing facility of RKDL is located at Puducherry and has an installed capacity of 14,25,000 cases per annum and bonded ware house capacity of 26,000 cases. RKDL undertakes manufacturing and marketing of its own brands as well as for the other brands under the tie-up arrangements with established players such as Radico Khaitan and John Distilleries.

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The proceeds from the proposed issue of shares are intended to be deployed for increasing the existing capacity and installation of re-distillation plant, financing the marketing and branding expenses, financing incremental working capital needs and to meet the general corporate and issue-related expenses.

On a total income of Rs.32.17 crore, RKDL earned a PBILDT and PAT of Rs.5.23 crore and Rs.1.77 crore respectively in FY09. RKDL's tangible net worth as on March 31, 2009 was Rs.13.70 crore.

As per provisional results of FY10, RKDL's net sales increased by 3.19% vis-à-vis FY09 with PBILDT and PAT margins of 18.38% and 5.71% respectively.

Analyst Contact

Name: Ms. Padmaja Parange

Tel # 6754 3433

Mobile # 99875 75584

Email: padmaja.parange@careratings.com

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November 04, 2010

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Dear Sir,

IPO Grading

Please refer to our IPO Grading letter dated June 03, 2010 and your subsequent letter dated October 21, 2010 requesting us to revalidate the grading assigned to your Initial Public Offering (IPO) of 1.15 crore equity shares of face value of Rs.10 each.

2. It has been decided to reaffirm the grading of '**CARE IPO Grade 2**' [**Grade Two**] to the proposed IPO issue of Ravikumar Distilleries Ltd. (RKDL). **CARE IPO Grade 2** indicates **below average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
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[Sujit Pradhan]
Manager



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Senior Manager

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