

K.C.P Sugar and Industries Corporation Limited

September 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	129.80 (Reduced from 220.95)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	30.00	CARE A-; Negative / CARE A2+ (Single A Minus ; Outlook: Negative/ A Two Plus)	Reaffirmed
Short Term Bank Facilities	35.00	CARE A2+ (A Two Plus)	Assigned
Short Term Bank Facilities	4.09	CARE A2+ (A Two Plus)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	198.89 (₹ One Hundred Ninety- Eight Crore and Eighty- Nine Lakhs Only)		
Fixed Deposit	89.27	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Total Medium Term Instruments	89.27 (₹ Eighty-Nine Crore and Twenty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from the established track record of K.C.P. Sugar and Industries Corporation Limited (KCP) for eight decades in the sugar industry, integrated nature of its operations consisting of distillery & cogeneration offering diversified revenue stream, comfortable capital structure and adequate liquidity profile characterized by sizeable investments in liquid mutual funds.

The ratings are however constrained by susceptibility of the revenues and profitability to the demand-supply dynamics as evidenced in the last few years with lower availability of cane and higher prices of the same, cyclical and regulated nature of the sugar industry with the absence of diversification in terms of command area and plant location.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in the registered cane area and effective utilization of capacity leading to improvement in operational performance on a sustained basis
- Generating profit from operations on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any debt funded capex, resulting in net term debt/equity >0.3x on sustained basis
- Continued decline in cane crushed/cane availability on a sustained basis leading lower capacity utilization

Outlook: Negative

The outlook continues to remain "Negative" due to subdued cane availability in the command area and higher cost of cane which is expected to result in moderation of financial and operational performance. Though the company has undertaken various initiatives to increase the command area and increase sugar cane production, there exists risks in execution and the outlook may be revised to "Stable" if there is improvement in cane availability while containing cane costs.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of KCP in Sugar Industry and integrated nature of operations

KCP has an established track record of over eight decades in the sugar industry. KCP currently owns and operates an integrated sugar complex at Vuyyuru, Andhra Pradesh (Unit I), which is located in the fertile Krishna river delta region. The unit has a crushing capacity of 7,500 TCD, distillery capacity of 50 KLPD and incidental co-generation facility of 15 MW. The unit also has a chemical division with facility to manufacture pharma grade calcium lactate, carbon dioxide (by-product of distillery division) and bio-tech division with facility to manufacture bio-fertilizer and bio-compost production facility.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

During FY20, the company closed down its other unit which was located in close proximity (around 40 Km) to Unit I at Lakshmipuram (Unit II) as there has been a steady decline in the availability of cane. Further, the company is in the process of selling the plant and machinery of Unit II, the sale proceeds shall be used to diversify its business operations.

Improved capital structure

The overall gearing stood at 0.71x as on March 31, 2022 (PY: 1.00x). During, August 2022, the company preclosed loans (GECL) to the tune of Rs.26.50 crores by liquidating the mutual fund investments. The cash and investments as on 31st March 2022 stood at Rs.173.69 crore

Diversifying its operations at Lakshmipuram to start a black gram processing unit.

The Company didn't crush any cane at the Lakshmipuram Unit (4,000 TCD out of total capacity of 11,500 TCD) since FY20 due to inadequate supply of sugarcane. The company is in the process of selling its plant and machineries and has decided to utilise the space available for processing black gram (Urad Dal), for which it proposes to implement black gram processing plant with a capacity of 26000 MT per annum. The company is in talks with machinery supplies and expects to commence operations from January 2023. The cost for this project is expected to be Rs 8.00crore. This is expected to be funded from the sale proceeds of the plant and machinery of unit -II. The company has an identified buyer for the same and has received Rs25.00crore as the first instalment for the same. Overall, it is expected to realise Rs.43 crore over a period of two years (FY23 and FY24).

Key Rating Weaknesses

Continuous decline in cane availability leading to lower sugar output

The command area of the company is situated in Krishna District, Andhra Pradesh, which has high fertility, irrigated by Krishna river water through canals. However, sugarcane cultivation in the Krishna Delta region has been severely affected due to preference for alternate crops due to lower profitability through cultivation of cane in comparison to other crops (typically vegetables, pulses of shorter growing period). Being the fertile region of the Krishna Delta and presence of developed irrigation systems provides conducive environment for growth of alternate crops.

With declining cane area over the years, the company closed the factory (unit II) at Lakshmipuram and diverted the cane to Unit I (Vuyyuru), despite that overall cane availability remain at lower levels for its existing unit. Due to low cane availability, the crushing days have come down from 98 days to 93 days between FY 2019 to FY 2022 and recovery rate have also come down from 9.5% to 9.22% in the same period.

Susceptibility of the revenues and profitability to the demand-supply dynamics along with cyclical and regulated nature of sugar industry

Sugar industry in India is cyclical in nature and is largely driven by the supply side dynamics as well as price volatility, which in turn significantly impacts the operating performance of sugar companies. Sugar industry is also highly regulated and is vulnerable to the government policies due to its importance in the Wholesale Price Index (WPI), as it classifies as an essential commodity. The government resorts to various regulations like fixing the raw material prices in the form of state-advised prices (SAP) and fair & remunerative prices (FRP). The closing stock of sugar is estimated to be around 7 MT (a five-year low) at the end of the current sugar season (October 2021- September 2022) led by 23.6% decline in opening stock at 8.2 MT and record high sugar exports in sugar season 2021-22 backed by assistance from the government in the form of subsidies, thereby reducing the supply glut.

The revenue of the company has reduced from Rs.299 crores in FY21 to Rs.271 crores in FY22 on account of lesser release quota by the Authorities. However, the company managed to earn profits at PBILDT level due to reduction in purchase of traded goods and employee costs. The employee costs reduced significantly from Rs. 31.99 crore in FY 2021 to Rs. 24.15 crore in FY 22 on account of closure of Lakshmipuram Unit Both these cumulatively improved PBILDT to Rs.14.72 crore in FY 22 against loss of Rs.3.22 crore in FY 2021. On an average the company earns non-operating income between Rs.10 crore to Rs.12 crore as interest/dividend from investments.

Liquidity: Strong

In the absence of any major capex and plough back of profits over the years, the liquidity position of the company remains strong. The company has strong liquidity position with cash and investments of Rs.173.70 crore as on March 31, 2022. Average working capital utilization for one year period ended May 2022 is around 60%.

For FY 2023, the company is expected to have adequate cash accruals to manage the repayment obligations of Rs.10.14 crore. The inventory levels have come down from Rs. 247.26 crores to Rs.193.55 crores, marginally reducing the operating days from 328 days in FY 21 to 314 days in FY 22.

Analytical approach: Standalone

Applicable Criteria

[Financial ratios - Non Financial Sector](#)

[Rating outlook and credit watch](#)

[short term Instruments](#)

[Manufacturing Companies](#)

[Sugar](#)

[Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Policy on withdrawal of ratings](#)

About the Company

K.C.P Sugars and Industries Corporation Ltd. (KCP) is part of the KCP group. K.C.P. Limited (KCPL), the flagship company of the group, was promoted by late Mr V. Ramakrishna in 1941. Over the years, KCPL diversified into various industries including cement, engineering, apart from sugar. In 1995, KCP was formed under the leadership of late Mr V.M. Rao to take over sugar mills and workshop of KCPL.

KCP presently owns and operates sugar mill at Vuyyuru (Andhra Pradesh) with an aggregate capacity of 7,500 TCD (Tonnes of Cane Crushed per Day), distillery capacity of 50 KLPD (Kilo Liters per Day) and incidental co-generation capacity of 15 megawatt (MW). In addition to the above, it also has facility to manufacture 500 Tonnes Per Annum (TPA) pharma grade calcium lactate, 60 TPA carbon dioxide, 1,200 TPA Bio-fertilizer and 1400 TPA Mycorrhiza.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23(P)
Total operating income	354.54	299.62	271.10	51.27
PBILDT	12.31	-3.22	14.72	-5.97
PAT	-11.15	19.15	-1.71	-6.71
Overall gearing (times)	1.05	1.00	0.71	NA
Interest coverage (times)	0.57	-ve	0.77	NA

A: Audited; NA: Not Available; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	March 2026	11.60	CARE A-; Negative
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	30.00	CARE A-; Negative / CARE A2+
Fund-based - ST-Working Capital Demand loan		-	-	-	35.00	CARE A2+
Fund-based - LT-Cash Credit		-	-	-	118.20	CARE A-; Negative
Non-fund-based - ST-Bank Guarantee		-	-	-	4.09	CARE A2+
Fixed Deposit		-	-	Up to three years	89.27	CARE A-; Negative

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	118.20	CARE A-; Negative	-	1)CARE A-; Negative (13-Oct-21) 2)CARE A-; Negative (20-Aug-21)	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)
2	Non-fund-based - ST-Bank Guarantee	ST	4.09	CARE A2+	-	1)CARE A2+ (13-Oct-21) 2)CARE A2+ (20-Aug-21)	1)CARE A1 (03-Sep-20)	1)CARE A1 (02-Jul-19)
3	Fixed Deposit	LT	89.27	CARE A-; Negative	1)CARE A-; Negative (22-Jun-22)	1)CARE A-(FD); Negative (13-Oct-21) 2)CARE A-(FD); Negative (20-Aug-21)	1)CARE A (FD); Stable (23-Sep-20) 2)CARE A (FD); Stable (03-Sep-20)	1)CARE A (FD); Stable (02-Jul-19)
4	Term Loan-Long Term	LT	11.60	CARE A-; Negative	-	1)CARE A-; Negative (13-Oct-21) 2)CARE A-; Negative (20-Aug-21)	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)
5	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)CARE A2+ (13-Oct-21) 2)CARE A2+ (20-Aug-21)	1)CARE A1 (03-Sep-20)	-
6	Fund-based - LT/ST-Working Capital Demand loan	LT/ST*	30.00	CARE A-; Negative / CARE A2+	-	1)CARE A-; Negative / CARE A2+ (13-Oct-21)	-	-
7	Fund-based - ST-Working Capital Demand loan	ST	35.00	CARE A2+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4	Fund-based - ST-Working Capital Demand loan	Simple
5	Fund-based - ST-Working Capital Limits	Simple
6	Non-fund-based - ST-Bank Guarantee	Simple
7	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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