

K.C.P. Sugar and Industries Corporation Limited

October 13, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	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)	Assigned
Short Term Bank Facilities	8.32 (Reduced from 38.32)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	259.27 (Rs. Two Hundred Fifty-Nine Crore and Twenty-Seven Lakhs Only)		
Fixed Deposit	89.27	CARE A- (FD); Negative [Single A Minus (Fixed Deposit); Outlook: Negative]	Reaffirmed
Total Medium-Term Instruments	89.27 (Rs. Eighty-Nine Crore and Twenty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of K.C.P. Sugar and Industries Corporation Limited (KCP) factors in the moderation in operational and financial performance of KCP during past two years ended FY21 (refers to the period April 01 to March 31) driven by sharp drop in cane availability leading to lower utilisation of capacities and higher cost of Cane. Further, the net debt level of the company has increased over the last two years.

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, however, continue to factor in the susceptibility of the revenues and profitability to the demand-supply dynamics, cyclical and regulated nature of the industry along with the absence of diversification in terms of command area and plant location.

Furthermore, in respect of short-term bank facility of Rs.30 crore (Working Capital Demand Loan), the rating has been reclassified as long-term/short-term facilities.

Key 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:*

- Increase in the leverage levels with 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 has been revised to '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.

The outlook may be revised to 'Stable' if there is improvement in cane availability while containing cane cost.

³Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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 KLDP 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.

During FY21, 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.

Capital structure continues to remain comfortable

The overall gearing stood at 1.00x as on March 31, 2021 (PY: 1.05x), while term debt to equity ratio stood at 0.46x (PY:0.45x). During March 2021, the company has availed term loan (Guaranteed Emergency Credit Line) of Rs.29.5 crore having repayment in forty-eight equal instalments (interest rate of around 8%) with one-year moratorium in March 2021. This apart the company has fixed deposits of Rs.68 crore outstanding as on March 31, 2021. The cash and investments stood at Rs.163 crore (including investments in Mutual funds and Equity investments). Adjusting for that, net overall gearing stood at 0.40x (PY: 0.51x) as on March 31, 2021.

It is to be noted that value of equity investments stood at Rs.101.4 crore as on March 31, 2021, of which Rs.69.6 crore is lien marked towards certain borrowings.

Key Rating Weaknesses

Moderation in financial and operational performance largely due to lower cane availability

Owing to the reduced cane availability from its command area, volume of cane crushed has witnessed a significant drop in FY21 (-47 %). During FY21, the company crushed 4.1 lakh tonne of sugarcane as compared with 7.8 lakh tonne in FY20. Lower crushing operations also had an impact on the production of by-products like industrial alcohol, bagasse and power. The revenue from the bi-products stood at Rs.57.7 crore (PY: Rs.76.0 crore). Due to the fall in sugar sales and bi-products, KCP reported total operating income of Rs.310 crore (PY: Rs.364 crore).

The PBILDT margin witnessed moderation in FY21 to 2.32% as against 6.07% in FY21 on account of (1) higher cost of Production of sugar (due to increase in FRP and increase incentives to Farmers) and (2) lower sales from by-products. Also, the cost of opening inventory in FY21 was higher at Rs.32.27/kg as against Rs.31.41/kg in FY20.

Including fair value gain in equity investments of Rs.31 crore in FY21 (PY: loss of 12 crore), KCP reported PAT of Rs.19 crore (PY:- net loss of Rs.11 crore).

Presence in high-yield area; however, cane availability impacted owing to farmers' preference for shorter duration crops

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 in FY21 shut the Unit -II at Lakshmipuram . Cane available from this unit is being diverted and crushed in Unit I. Though there may not be any crushing operations, cane development activities in Unit II region is expected to continue and crushing activities will be restricted to Unit I. The company is planning to sell the movable fixed asset, and existing infrastructure in Unit II is expected to be used in some form for value additional purposes.

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

Sugar industry is highly regulated, cyclical, and seasonal which significantly impacts the operating performance of sugar companies. Sugar production in India for SS21 (October 2010 to September 2021) is expected to increase with major contribution coming in from Maharashtra and Karnataka because of increased sugarcane area and better yields. India continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government. The domestic consumption in SS21 is likely to sustain at last year's level due to higher industrial demand driven by increased consumption of packaged foods and stable household demand.

While the international sugar prices have improved, domestic wholesale sugar prices continue to remain range-bound (Rs.33 per kg – Rs.34 per kg) for the past 3 years (SS 2017-18 to SS 2020-21 (mid-June 2021)) due to high inventories. It is to be noted that the prices are mainly backed by revision in Minimum Selling Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg in June 2018. Subsequently, the industry has been looking forward for a hike in sugar MSP for quite some time now.

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.163 crore (Rs.59 crore in Mutual funds, Rs.102 crore in quoted equity, free cash of Rs.2 crore) as on March 31, 2021 and Rs.174 crore as on June 30, 2021. Scheduled repayment for FY22 of long-term debt is at Rs. 12 crore while remaining Rs.18 crore is towards FD maturity. The current ratio of the company is comfortable at 1.74 times as on March 31, 2021, with average working capital utilization of 69.67% for 12 months ended June 2021 offering headroom when additional working capital is required. As on March 31, 2021, closing inventory stood at Rs.243 crore as against net debt of Rs.107 crore.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Sugar Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

K.C.P Sugars and Industries Corporation Ltd. (KCP) is a 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)	FY20 (A)	FY21 (A)
Total operating income	364	310
PBILDT	22	7
PAT	-11	19
Overall gearing (times)	1.05	1.00
Interest coverage (times)	1.03	0.30

A: Audited, NM – Not meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	173.62	CARE A-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	4.09	CARE A2+
Term Loan-Long Term	-	-	March 2026	47.33	CARE A-; Negative
Fund-based - ST-Working Capital Limits	-	-	-	4.23	CARE A2+
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	30.00	CARE A-; Negative / CARE A2+
Fixed Deposit	-	-	Up to 3 years	89.27	CARE A- (FD); Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	173.62	CARE A-; Negative	1)CARE A-; Negative (20-Aug-21)	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)
2	Non-fund-based - ST-Bank Guarantees	ST	4.09	CARE A2+	1)CARE A2+ (20-Aug-21)	1)CARE A1 (03-Sep-20)	1)CARE A1 (02-Jul-19)	1)CARE A1 (03-Jul-18)
3	Fixed Deposit	LT	89.27	CARE A-(FD); Negative	1)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)	1)CARE A (FD); Stable (03-Jul-18)
4	Term Loan-Long Term	LT	47.33	CARE A-; Negative	1)CARE A-; Negative (20-Aug-21)	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)
5	Fund-based - ST-Working Capital Limits	ST	4.23	CARE A2+	1)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+				

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**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 Limits	Simple
5	Non-fund-based - ST-Bank Guarantees	Simple
6	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

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

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact No.: +91 22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Mr. Jaganathan A
Contact no. : 044-28501000
Email: jaganathan.a@careratings.com

Relationship Contact

Name: Mr. V Pradeep Kumar
Contact no. : 044-28501000
Email ID : pradeep.kumar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**