K.C.P. Sugar and Industries Corporation Limited

August 20, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	220.95 (Enhanced from 213.87)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	38.32 (Reduced from 41.09)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Total	259.27 (Rs. Two hundred fifty nine crore and twenty seven lakh only)		
Fixed Deposit programme	89.27 (Rs. Eighty nine crore and twenty seven lakh only)	CARE A- (FD); Negative (Single A Minus (Fixed Deposit); Outlook: Negative)	Revised from CARE A (FD); Stable / (Single A (Fixed Deposits); Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings 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 KCP for eight decades in the sugar industry, integrated nature of its operations consisting of distillery and 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.

Key rating sensitivities

Positive factors

- 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

- 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.

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.

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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

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 Lakshimipuram . 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 Mycorrizha.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Abridged)
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	-	-	-	34.23	CARE A2+
Fixed Deposit	-	-	Upto 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; 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 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); 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; 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	34.23	CARE A2+	-	1)CARE A1 (03-Sep-20)	-	-

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 the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Term Loan-Long Term	Simple

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.*

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About CARE Ratings:
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