

K.C.P. Sugar and Industries Corporation Limited

August 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	98.91 (Reduced from 129.80)	CARE A-; Stable	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	30.00	CARE A-; Stable / CARE A2+	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	39.09	CARE A2+	Reaffirmed
Fixed Deposit	91.22 (Enhanced from 89.27)	CARE A-; Stable	Reaffirmed; Outlook revised from Negative

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of K.C.P. Sugar and Industries Corporation Limited (KCP) derives 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. The rating also derives strength from the comfortable capital structure and adequate liquidity profile marked by sizeable investments in Mutual funds and equities.

The ratings are constrained by lower cane availability and lower recovery rate of sugar cane in the its command area affecting the profitability margin. The rating also factors in the susceptibility of the revenues and profitability to the demand-supply dynamics, cyclical and regulated nature of the sugar industry in terms of command area and plant location.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the registered cane area and effective utilization of capacity leading to improvement in operational performance on a sustained basis.
- Profitable scaling up of operations in Black gram processing and engineering division to more than 30% of the total operating income.

Negative factors

- Any increase in leverage position resulting in net term debt/equity >0.3x on sustained basis.
- Continued decline in cane crushed/cane availability leading lower capacity utilization.

Analytical approach: Standalone

Outlook: Stable

CARE had earlier placed the outlook as "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. While the cane crushed has shown a marginal improvement in FY23, the outlook is revised to stable primarily on account of other initiatives taken by the company to diversify from its dependence on sugarcane. The company has closed and sold the Unit-2 which had a 4,000 TCD capacity. Further, it has diversified into black gram processing with operations commencing in Feb 2023 and going forward this is expected to take a larger share of the income, thus stabilizing to an extent the drop arising out of the cane operations. Further, the company is net debt negative as on March 31,2023 and with no major capital expenditure planned the capital structure and liquidity cushion are expected to help maintain a stable credit profile.

Detailed description of the key rating drivers:

Key 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 co-generation facility of 15 MW. The unit also has a chemical

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

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 FY20, the company closed its operations at Unit II at Lakshmipuram (4,000 TCD) which was located in close proximity (around 40 Km) to Unit I. Further in FY23 company had sold its plant and machinery of Unit II. The company is utilizing existing infrastructure in Unit II for setting up Black gram (urad dal) processing unit.

Strong relationship with farmers

The sugar command area of the company is situated in Krishna District, Andhra Pradesh, which has high fertility, irrigated by Krishna River water through canals. In last few years, farmers in the district are preferring cultivation of alternate cash crops like Paddy, black gram, vegetables, pulses etc. The fertile region of the Krishna Delta with presence of developed irrigation systems provides conducive environment for growth of alternate crops. Though there is decrease in cane cultivation, black gram cultivation has been consistent and increasing with the region contributing about 30% of AP's total black gram production. KCP enjoys a strong relationship with farmers due to long standing presence in the region facilitating them in procuring cane and black gram with ease.

Diversifying the operations to other business segments

In Feb 2023, the company started processing of Black gram (Urad dhal) with installed capacity 22,000 MT. The capex for setting up this plant was around Rs. 8 Cr and got funded through internal accruals. Revenue contribution from this division was Rs. 0.27 Cr and Rs. 3 Cr in Q4 FY23 and Q1 FY24 respectively. The revenue from this division is expected to increase in the coming years with the scaling up of operations. The sales from Engineering division was Rs. 9.11 Cr and Rs. 0.88 Cr in FY23 and Q1 FY24 respectively. The company in long run expects to diversify itself across Black gram (Urad dal) processing, engineering and chemicals manufacturing.

Continuous improvement in capital structure

The overall gearing stood at 0.60x as on March 31, 2023 (PY: 0.71x). During FY23, KCP has brought down the term debts levels to Rs.8.99 Cr from Rs.42.95 Cr by preclosing its GECL loan of Rs. 26.5 Cr. The overall debt stood at Rs. 189.10 crore as on March 31, 2023, of which Rs. 8.99 Cr is term loan, fixed deposits is Rs. 68.78 crore and rest are working capital borrowings. The Cash and investments (incl investment in mutual funds and equity investments) stood at Rs. 216.73 Cr as on March 31, 2023. Of the equity investments of Rs. 130.80 crore as on March 31, 2023, Rs.61.40 crore is lien marked towards Working capital borrowings. The company is net debt negative as on March 31, 2023.

During FY23, the company sold the plant and machineries of lakshmipuram unit II. The profits from sale of this asset is recognised in phased tranches aligning to disposal/receipt schedule and for the year ended Mar 2023, profit of Rs.16.73 Cr was recognised. Non-operating income was Rs.67.66 Cr in FY23 which majorly from Rs. 38.17 Cr of profit on sales of equity investments and mutual funds, Rs. 16.74 Cr sales from lakshmipuram unit II.

During FY24, company plans to expand capacity of Calcium lactate plant by 500 tonnes and cost of this project is around Rs.10 Cr, proposes funding through internal accruals. With no major debt funded capex for the near term, the capital structure is expected to be comfortable for the medium term.

Key weaknesses

Lower cane recovery rate affecting operating margins

The sugar business over the last few years has not been profitable due to lower cane availability and lower recover rates in the Krishna belt. The cane crushing and sugar production of KCP stood marginally higher in FY23 albeit the lower cane recovery rate. The recovery rate has decreased from 9.22% in FY22 to 9.02% in FY23. However, the sugar crushing saw a marginal increase from 3.87 lakh quintal in SS21-22 to 4.23 lakh qtl in SS22-23. Despite the higher production of sugar in FY23 when compared with previous two years, there was drop in sales of 18% in FY23 due to increased inventory holding levels on closing of 31st Mar 23 and this has translated to higher sales in Q1FY24 over Q1FY23 by 55% and company reported PBILDT margin of 4.80%(PY:-14.57%). The PBILDT margin dropped from 5.42% in Fy22 to -1.77% in FY23 on account of higher employee cost, lower sales volume and one time power settlement dues of Rs. 2.7 crores with APGENCO. To improve the overall the profitability margins, the company is diversifying itself into other non-sugar businesses.

Cyclical and regulated nature of Sugar Business

The industry is cyclical by nature and is vulnerable to government policies for various reasons, such as its importance in the wholesale price index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of state advised prices (SAP) and fair and remunerative prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country, and thus, affect the profitability of the sugar companies.

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.216.51 crore as on March 31, 2023. Average working capital utilization for last 12 months ended May 2023 is around 50% leaving headroom for meeting additional working capital requirements for other than sugar segments. The current ratio stood at 1.75x as on March 31, 2023 as against 1.88x as on March 31, 2023. The company has repayment of term debt of Rs. 5.14 crore and FD maturity of Rs. 24.40 crore in FY24.

Applicable criteria

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Sugar](#)

About the company and industry**Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

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 Mycorrizha. In Feb 2023, it added to its cart another new vertical i.e. Black gram (Urad dal) processing plant with capacity to process 22,000 MTPA.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1 FY24 (UA)
Total operating income	271.10	221.93	79.62
PBILDT	14.69	-3.93	3.82
PAT	-1.74	49.53	24.64
Overall gearing (times)	0.71	0.60	NA
Interest coverage (times)	0.77	-ve	1.05

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	Up to three years	91.22	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	91.20	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	30.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Working Capital Demand loan		-	-	-	35.00	CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	4.09	CARE A2+
Term Loan-Long Term		-	-	March 2026	7.71	CARE A-; Stable

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	91.20	CARE A-; Stable	-	1)CARE A-; Negative (12-Sep-22)	1)CARE A-; Negative (13-Oct-21) 2)CARE A-; Negative (20-Aug-21)	1)CARE A; Stable (03-Sep-20)
2	Non-fund-based - ST-Bank Guarantee	ST	4.09	CARE A2+	-	1)CARE A2+ (12-Sep-22)	1)CARE A2+ (13-Oct-21) 2)CARE A2+ (20-Aug-21)	1)CARE A1 (03-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
3	Fixed Deposit	LT	91.22	CARE A-; Stable	-	1)CARE A-; Negative (12-Sep-22) 2)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)
4	Term Loan-Long Term	LT	7.71	CARE A-; Stable	-	1)CARE A-; Negative (12-Sep-22)	1)CARE A-; Negative (13-Oct-21) 2)CARE A-; Negative (20-Aug-21)	1)CARE A; Stable (03-Sep-20)
5	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)Withdrawn (12-Sep-22)	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-; Stable / CARE A2+	-	1)CARE A-; Negative / CARE A2+ (12-Sep-22)	1)CARE A-; Negative / CARE A2+ (13-Oct-21)	-
7	Fund-based - ST-Working Capital Demand loan	ST	35.00	CARE A2+	-	1)CARE A2+ (12-Sep-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT/ ST-Working Capital Demand loan	Simple

Sr. No.	Name of the Instrument	Complexity Level
4	Fund-based - ST-Working Capital Demand loan	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Note on the 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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