

K.C.P. Sugar and Industries Corporation Limited

August 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	73.77 (Reduced from 98.91)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	30.00	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	54.09 (Enhanced from 39.09)	CARE A2+	Reaffirmed
Fixed deposit	91.22	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and fixed deposits of K.C.P. Sugar and Industries Corporation Limited (KCP) derive strength from the established track record of KCP for eight decades in the sugar industry, integrated operations consisting of distillery and cogeneration. Ratings also derive strength from comfortable capital structure and adequate liquidity profile marked by sizeable investments in mutual funds and equities.

Ratings are constrained by lower cane availability and lower recovery rate of sugar cane in its command area affecting profitability margin. Ratings also factor in susceptibility of revenues and profitability to 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 utilisation of capacity leading to improving operational performance on a sustained basis.
- Generating profit from operations on a sustained basis.

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company would maintain its risk profile, considering comfortable capital structure and adequate liquidity.

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 (AP) (Unit I), which is in the fertile Krishna River delta region. The unit has a crushing capacity of 7,500 tonnes of cane crushed per day (TCD), distillery capacity of 50 kilo liters per day (KLPD) and co-generation facility of 15 megawatt (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-fertiliser and bio-compost production facility.

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

In FY20, the company closed its operations at Unit II at Lakshmipuram (4,000 TCD), which was in proximity (~40 Km) to Unit I as there has been a steady decline in availability of cane and cane available from this unit is being diverted and crushed in Unit I. Further, in FY23, the company sold its plant and machinery of Unit II and set up a Black gram (urad dal) processing unit utilising the infrastructure of Unit II.

Strong relationship with farmers

The company's sugar command area is situated in Krishna, AP, 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, and pulses among others. Fertile region of 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 ~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 operations to other business segments

In February 2023, the company started processing black gram (Urad dhal) with installed capacity 22,000 MT. Capex for setting up this plant was ~₹8 crore and got funded through internal accruals. Revenue contribution from this division was ₹11.5 crore and ₹16 crore in FY24 and Q1 FY25, respectively. Revenue from this division is expected to increase in coming years with scaling up of operations. Revenue contribution from engineering division has increased from ₹9.10 crore in FY23 to ₹12.19 crore in FY24. 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 company's overall gearing stood improved at 0.41x as on March 31, 2024 (PY: 0.60x). Overall debt stood at ₹152.17 crore as on March 31, 2024, of which ₹3.85 crore is term loan, fixed deposits is ₹61.08 crore and rest are working capital borrowings. Cash and investments (including investment in mutual funds and equity investments) stood at ₹260.22 crore as on March 31, 2024. Of the equity investments of ₹183.80 crore as on March 31, 2024, ₹72.20 crore is lien marked towards working capital borrowings. The company is net debt negative as on March 31, 2024.

In FY23, the company sold the plant and machineries of Lakshmipuram Unit II. Profits from sale of this asset is recognised in phased tranches aligning to disposal/receipt schedule and for March 2023, profit of ₹16.73 crore, for March 2024, ₹8.04, respectively was recognised. Non-operating income was ₹62.53 crore in FY24, which majorly constitutes ₹48.19 crore of gain relating to fair value of equity investments.

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

Sugar business over the last few years has not been profitable due to lower cane availability and lower recover rates in the Krishna belt. In FY24, cane crushing was lower at 4.4 lakh MT (PY: 4.7 lakh MT) and the recovery rate also decreased to 8.50% from 9.02% in FY23. However, KCP registered a 31.82% growth in total operating income (TOI) due to higher realisation and liquidation of inventory. With improved overhead absorption, profit before interest, lease rentals, depreciation, and taxation (PBILD) margin improved from -1.78% in FY23 to 3.97% in FY24. To improve overall profitability margins on sustainable basis, the company is diversifying in other non-sugar businesses.

Cyclical and regulated nature of sugar business

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

Liquidity: Strong

In the absence of major capex and plough back of profits over the years, the company's liquidity position remains strong. The company has strong liquidity position with cash and investments of ₹260.22 crore as on March 31, 2024. Average working capital utilisation for the last 12 months ended May 2024 is ~45% leaving headroom for meeting additional working capital requirements for other than sugar segments. Current ratio stood at 1.89x as on March 31, 2024, as against 1.75x as on March 31, 2023. The company has repayment of term debt of ₹3.85 crore and fixed deposit (FD) maturity of ₹22.69 crore in FY25.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Sugar](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and other products	Sugar

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

KCP presently owns and operates sugar mill at Vuyyuru, AP with an aggregate capacity of 7,500 TCD, distillery capacity of 50 KLPD and incidental co-generation capacity of 15 MW. It also has facility to manufacture 500 Tonnes Per Annum (TPA) pharma grade calcium lactate, 60 TPA carbon dioxide, 1,200 TPA Bio-fertiliser and 1400 TPA Mycorrhiza. In February 2023, it added to cart another new vertical black gram (Urad dal) processing plant with capacity to process 22,000 metric tonne per annum (MTPA).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1 FY24 (UA)
Total operating income	221.93	292.54	65.75
PBILDT	-3.93	11.63	3.08
PAT	49.53	56.26	43.26
Overall gearing (times)	0.60	0.41	NA
Interest coverage (times)	-ve	1.11	1.05

A: Audited UA: Unaudited; Note: these are latest available financial results

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		-	-	-	71.20	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		-	-	-	50.00	CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	4.09	CARE A2+
Term Loan-Long Term		-	-	31-10-2024	2.57	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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	71.20	CARE A-; Stable	-	1)CARE A-; Stable (22-Aug-23)	1)CARE A-; Negative (12-Sep-22)	1)CARE A-; Negative (13-Oct-21) 2)CARE A-; Negative (20-Aug-21)
2	Non-fund-based - ST-Bank Guarantee	ST	4.09	CARE A2+	-	1)CARE A2+ (22-Aug-23)	1)CARE A2+ (12-Sep-22)	1)CARE A2+ (13-Oct-21) 2)CARE A2+

								(20-Aug-21)
3	Fixed Deposit	LT	91.22	CARE A-; Stable	-	1)CARE A-; Stable (22-Aug-23)	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)
4	Term Loan-Long Term	LT	2.57	CARE A-; Stable	-	1)CARE A-; Stable (22-Aug-23)	1)CARE A-; Negative (12-Sep-22)	1)CARE A-; Negative (13-Oct-21) 2)CARE A-; Negative (20-Aug-21)
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)
6	Fund-based - LT/ST-Working Capital Demand loan	LT/ST	30.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (22-Aug-23)	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	50.00	CARE A2+	-	1)CARE A2+ (22-Aug-23)	1)CARE A2+ (12-Sep-22)	-

LT: Long term; ST: Short term; LT/ST: 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
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 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.

Contact us

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About us:

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