

## K.C.P. Sugar and Industries Corporation Limited

July 02, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	258.25 (enhanced from 162.38)	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	6.50	<b>CARE A1</b> <b>(A One)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>264.75</b> <b>(Rupees Two Hundred Sixty Four crore and Seventy Five lakh only)</b>		
Fixed Deposit programme	89.27 (Rupees Eighty Nine crore Twenty Seven lakh only)	<b>CARE A (FD); Stable</b> <b>(Single A (Fixed Deposit); Outlook: Stable)</b>	<b>Reaffirmed</b>

*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 six decades in the sugar industry, integrated nature of operations consisting of distillery & cogeneration resulting in diversified revenue stream, comfortable capital structure, adequate liquidity position of the company and improved profitability in FY19 (refers to the period April 1 to March 31).*

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

*Going forward, the ability of the company to ensure cane availability through maintaining good relationship with farmers, improve its profitability and any prolonged down trend in the sugar industry would be the key rating sensitivity.*

### Detailed description of the key rating drivers

#### **Established track record of KCP in sugar industry and Integrated nature of operations**

KCP is part of the KCP group which has an established track record of over six decades in the sugar industry. KCP is presently having two sugar mills, one each at Vuyyuru and Lakshmipuram. Both the units are situated at Krishna District of Andhra Pradesh. Vuyyuru unit is an integrated sugar complex with cane crushing facility with crushing capacity of 7,500 TCD, distillery facility with capacity of 50 KLPD, incidental co-generation facility of 15 MW. It 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.

Lakshmipuram unit has a cane crushing facility with capacity of 4000 TCD, and incidental co-generation facility of 5 MW. It does not have a distillery unit; however, it has storage facility for molasses. The integrated nature of operations at company level provides flexibility to KCP to change its product mix according to the market demand and insulates it to a certain extent from the cyclical nature in sugar prices.

#### **Presence in high-yield area**

The command areas of both the units are situated in Krishna District, Andhra Pradesh. The command area is present in a region which has highly fertile land and irrigated by Krishna river water through canals. In addition to above, various cane development activities including supply of bio-fertilizers, periodical introduction of new cane varieties and financial incentives to farmers based on yields helps the company to achieve better cane yield. The total cane crushed during FY19 was 11.26 Lakh Tonne as against 8.69 Lakh Tonne in FY18. Cane crushed improved in FY19 due to higher registered cane area and favourable climatic conditions. The recovery improved slightly at 9.50% in FY19 as against 9.42% in FY18. KCP has developed good relationship with farmers over the years ensuring cane supply for crushing.

#### **Improvement in performance during FY19 with comfortable capital structure**

During FY19, the performance of the company improved with PAT of Rs.10 cr and GCA of Rs.38 cr on total operating income of Rs.327 cr as against net loss of Rs.7 cr on TOI of Rs.331 cr in FY18. During FY18, the sugar prices were in an increasing trend from Apr'17 to Nov'17 however the sugar prices started declining in Q4FY18. On account of fall in sugar prices during Q4FY18 and MTM of the same, the company incurred inventory loss of around Rs.80 cr, which has resulted in moderation in profitability in full year FY18. During FY19, with sale of low cost opening inventory at higher prices, the company registered

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

improvement in profitability during the period. The average sugar realization in FY19 was Rs.31.07/Kg (PY36.55/Kg) with total sugar sales volume of 6.78 lakh (PY:6.83 lakh quintals) quintals in FY19.

This apart with increase in cane crushing in FY19 at 11.3 lakh MT (PY 8.7 lakh MT), the revenue from by-products also improved during the period. Sales from bagasse grew by 74% and from Ethanol/Alcohol increased by 42% in FY19 as against the previous year. The company sells ethanol mainly to all three major oil marketing companies in the country. The company also directly sells surplus Baggase in the market. During FY19 the company earned Rs.26 Cr from sale of bagasse.

With increasing in cane crushing in FY19 and similar sugar sales volume during the period as against the previous year mainly on account of regulated release mechanism, the year end inventory levels and trade payables of KCP have increased.

The capital structure of the company remains comfortable with debt equity ratio of 0.26 times (PY 0.30 times) and overall gearing of 0.84 times (PY 0.82 times) as on March 31, 2019.

### Key Rating Weaknesses

#### 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 industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies.

Sugar production in India declined in each of the sugar seasons (October –September) 15-16 and Sugar Season (SS) 16-17 due to lower availability of sugarcane. Lower sugar production had resulted in increase in average domestic sugar price in SS 16-17. Sugar prices remained high during April 2017 to November 2017. Subsequently the prices started declining from December 2017 onwards, primarily on account of higher sugar production in SS17-18. The sugar production in the SS 17-18 increased substantially over the previous season. Higher sugar production along with opening stock at the beginning of the SS 17-18 and similar consumption levels as that of previous SS resulted in higher closing stock for SS17-18. The prices improved during Q2FY19 onwards with various steps taken by the government to support the industry.

#### Adequate liquidity

In the absence of any major capex and plough back of profits over the years, the liquidity position of the company remains adequate. KCP has free cash and liquid investments of Rs.134 crore (Rs.55 cr in Mutual funds and Rs.79 cr in quoted equity) as on March 31, 2019. For FY20, the company does not have bank term loan repayment obligations. The working capital utilization remained moderate at 61% for the twelve months ended May 2019.

#### Analytical approach: Standalone

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

#### About the Company

KCP Limited (KCPL) 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. At present, Ms I.V.M. Rao is Managing Director of KCP. KCP presently owns and operates two sugar mills, one each at Vuyyuru (Andhra Pradesh) and Lakshmpuram (Andhra Pradesh) with an aggregate capacity of 11,500 TCD (Tonnes of Cane Crushed per Day), primary and secondary distillery capacity of 50 KLPD (Kilo Liters per Day) and incidental co-generation capacity of 20 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 700 TPA Mycorrhiza.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	331	327
PBILDT	-36	57
PAT	8	10
Overall gearing (times)	0.82	0.84
Interest coverage (times)	NM	3.06

A: Audited, NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

**Any other information:** Not Applicable

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

**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	-	-	-	231.25	CARE A; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	6.50	CARE A1
Term Loan-Long Term	-	-	March 2021	27.00	CARE A; Stable
Fixed Deposit	-	-	Upto 2-3 years	89.27	CARE A (FD); Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	231.25	CARE A; Stable	-	1)CARE A; Stable (03-Jul-18)	1)CARE A; Stable (04-Jul-17)	1)CARE A (06-Jul-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	6.50	CARE A1	-	1)CARE A1 (03-Jul-18)	1)CARE A1 (04-Jul-17)	1)CARE A1 (06-Jul-16)
3.	Fixed Deposit	LT	89.27	CARE A (FD); Stable	-	1)CARE A (FD); Stable (03-Jul-18)	1)CARE A (FD); Stable (04-Jul-17)	1)CARE A (FD) (06-Jul-16)
4.	Term Loan-Long Term	LT	27.00	CARE A; Stable	-	1)CARE A; Stable (03-Jul-18)	1)CARE A; Stable (04-Jul-17)	1)CARE A (06-Jul-16)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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