

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

July 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	162.38 (enhanced from 158.59)	<b>CARE A; Stable (Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	6.50	<b>CARE A1 (A One)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>168.88 (Rupees One Hundred Sixty Eight crore and Eighty Eight lakh only)</b>		
Fixed Deposit programme	83.64 (Rupees Eighty Three crore Sixty Four lakh only)	<b>CARE A (FD); Stable (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 and liquidity position of the company.*

*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, cyclicity and regulated nature of the sugar industry. The ratings also take into account moderation in the financial performance during FY18 (refers to the period April 1 to March 31) in trend with the 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

#### Key Rating Strengths

#### **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 situated at 30 km away from east of Vijayawada and Lakshmipuram unit is situated at 40 km away from Vuyyuru unit. Vuyyuru unit is an integrated sugar complex with cane crushing facility, distillery facility and incidental co-generation. 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, and incidental co-generation facility. 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 cyclicity in sugar prices.

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

**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 FY18 was 8.69 Lakh Tonne as against 7.41 lakh tonne in FY17. Cane crushed in FY17 was low due to unfavourable climatic condition which improved and resulted in higher crushing in FY18. The recovery improved slightly in both the regions during FY18 (Lakshimpuram – 9.06% in FY18 as against 8.12% in FY17, Vuyyuru – 9.68% in FY18 as against 9.49% in FY17).

**Moderation in performance during FY18 in trend with industry, however comfortable capital structure and liquidity position**

During FY18, the performance of the company moderated with PAT of Rs.8 crore on total operating income of Rs.367 crore as against PAT of Rs.55 crore on TOI of Rs.439 crore in FY17. During FY18, KCP witnessed y-o-y moderation in TOI and in profitability mainly on account of decline in sugar sales volume from 9.2 lakh quintal in FY17 to 6.8 lakh quintal in FY18, however the average sugar sales realization improved to Rs.36.55/kg in FY18 from Rs.35.81/kg in FY17 mainly due to high sugar prices prevailing during April 2017 to November 2017. 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, which has resulted in net loss during Q4FY18 and moderation in profitability in full year FY18. It is to be noted that profits of FY18 includes other comprehensive income of Rs.36 crore due to change in fair value of investments held by the company.

In the absence of any major capex the liquidity position of the company remains comfortable. KCP has free cash and liquid investments of Rs.180 crore as on March 31, 2018. The capital structure of the company remains comfortable with debt equity ratio of 0.29 times and overall gearing of 0.82 times as on March 31, 2018. Net overall gearing stood at 0.11 times as on March 31, 2018. The working capital utilization remained low at 69% for the twelve months ended May 2018.

**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. Lower sugar production had resulted in increase in average domestic sugar price in SS 16-17. Subsequently the prices started declining from November 2017 onwards, in anticipation of higher sugar production. The sugar production in the current sugar season (SS 17-18) is estimated to be higher as against the same period previous year. Higher estimated sugar production along with opening stock at the beginning of the SS 17-18 and similar estimated consumption levels as that of previous SS will result in higher closing stock for the current SS. This is expected to keep the prices under pressure. In order to reduce the burden on the mills and the farmers the central government has adopted various steps to improve the industry scenario.

**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. Around 40% of the stake is held by the promoters and remaining 60% by public. KCP presently owns and operates two sugar mills, one each at Vuyyuru (Andhra Pradesh) and Lakshmipuram (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 Mycorrizha.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	439	374
PBILDT	89	7
PAT	55	8
Overall gearing (times)	0.54	0.82
Interest coverage (times)	10.49	0.58

A: Audited

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

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

**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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**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	-	-	-	156.26	CARE A; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	6.50	CARE A1
Term Loan-Long Term	-	-	February 2019	6.12	CARE A; Stable
Fixed Deposit	-	-	2 years/3 years	83.64	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Letter of credit	-	-	-	-	-	-	1)CARE A1 (09-Jul-15)
2.	Fund-based - LT-Cash Credit	LT	156.26	CARE A; Stable	-	1)CARE A; Stable (04-Jul-17)	1)CARE A (06-Jul-16)	1)CARE A- (09-Jul-15)
3.	Non-fund-based - ST-Bank Guarantees	ST	6.50	CARE A1	-	1)CARE A1 (04-Jul-17)	1)CARE A1 (06-Jul-16)	1)CARE A1 (09-Jul-15)
4.	Fixed Deposit	LT	83.64	CARE A (FD); Stable	-	1)CARE A (FD); Stable (04-Jul-17)	1)CARE A (FD) (06-Jul-16)	1)CARE A- (FD) (09-Jul-15)
5.	Term Loan-Long Term	LT	6.12	CARE A; Stable	-	1)CARE A; Stable (04-Jul-17)	1)CARE A (06-Jul-16)	1)CARE A- (09-Jul-15)

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