

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

July 04, 2017

**Ratings**

Facilities		Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Facilities	Bank	158.59 (enhanced from 124.57)	<b>CARE A; Stable</b> <b>(Single A; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Facilities	Bank	6.50 (enhanced from 5.00)	<b>CARE A1</b> <b>(A One)</b>	<b>Reaffirmed</b>
<b>Total</b>		<b>165.09</b> <b>(Rupees One hundred Sixty Five crore and Nine lakh only)</b>		
Fixed programme	Deposit	76.83 (Rupees Seventy Six crore Eighty Three 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 and integrated nature of operations consisting of distillery & cogeneration resulting in diversified revenue stream.

The ratings also take into account improvement in financial performance during FY17 (refers to the period April 1 to March 31), characterised by improvement in profitability, debt coverage indicators and comfortable liquidity position.

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.

Going forward, the ability of the company to ensure cane availability through maintaining good relationship with farmers while containing cane cost is 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 an integrated sugar complex with cane crushing facility, distillery facility, incidental cogeneration facility. 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 cane crushing facility and incidental co-generation facility.

**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 helps the company to achieve better cane yield. The total cane crushed during FY17 declined to 7.41 lakh tonne as against 11.27 lakh tonne in FY16 due to unfavourable climatic condition and option of alternate short duration crops available to farmers. The recovery moderated slightly in both the regions during FY17 (Lakshmipuram – 8.12% in FY17 as against 8.90% in FY16, Vuyyuru – 9.49% in FY17 as against 9.54% in FY16).

**Improved financial performance in FY17**

The average sugar realisation was low at Rs.29.74/kg in FY15. The average realisation further declined during FY16 touching a low of Rs.21.49/kg in July 2015. However, sugar prices started witnessing improving trend since September 2015 onwards. The increasing sugar price trend continued in FY17 where the average realization touched a peak of Rs.38.14/kg in February 2017. The average sales realization of KCP in FY17 was Rs.35.81/Kg witnessing y-o-y increase of 36%. KCP has reported PAT of Rs.32 crore and GCA of Rs.46 crore on total operating income of Rs.414 crore in FY17 as against PAT of Rs.9 crore and GCA of Rs.21 crore on total operating income of Rs.377 crore in FY16.

**Comfortable capital structure and liquidity position**

The financial position of KCP continues to remain comfortable in absence of any debt funded expansion. The capital structure of the company continues to be comfortable with Overall gearing at 0.60 times as on March 31, 2017. The total debt to GCA was 3.11 times and interest coverage was 7.52 times in FY17. The working capital utilisation remained low at 18% for the twelve months ended April 2017. This apart, KCP has liquid investments with book value of Rs.124 crore as on March 31, 2017.

### Key Rating Weaknesses

#### Susceptibility of the revenues and profitability to the demand-supply dynamics 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 prices have remained under pressure both domestically and globally due to excess production during the last few seasons ended SS 14-15. However, prices started improving since H2FY16 onwards. The Domestic sugar production is estimated to be lower compared to the production same period previous year thereby expected resultant lower closing stock in the country. The expected decline in production and sugar stocks has resulted in an improvement in domestic sugar realizations. However, the susceptibility of the revenues and profitability to the demand-supply dynamics remains.

**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 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 Mycorrhizha.

**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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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	-	-	-	142.00	CARE A; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	6.50	CARE A1
Term Loan-Long-term	-	-	February 2019	16.59	CARE A; Stable
Fixed Deposit	-	-	-	76.83	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-Letter of credit	-	-	-	-	-	1)CARE A1 (09-Jul-15)	1)CARE A1 (09-Jul-14)
2.	Fund-based - LT-Cash Credit	LT	142.00	CARE A; Stable	-	1)CARE A (06-Jul-16)	1)CARE A- (09-Jul-15)	1)CARE A (09-Jul-14)
3.	Non-fund-based - ST-Bank Guarantees	ST	6.50	CARE A1	-	1)CARE A1 (06-Jul-16)	1)CARE A1 (09-Jul-15)	1)CARE A1 (09-Jul-14)
4.	Fixed Deposit	LT	76.83	CARE A (FD); Stable	-	1)CARE A (FD) (06-Jul-16)	1)CARE A- (FD) (09-Jul-15)	1)CARE A (FD) (09-Jul-14)
5.	Term Loan-Long-term	LT	16.59	CARE A; Stable	-	1)CARE A (06-Jul-16)	1)CARE A- (09-Jul-15)	-

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