K.C.P. Sugar and Industries Corporation Limited

September 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	213.87	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	41.09 (enhanced from 6.50)	**CARE A1 (A One)**	**Reaffirmed**
Total	**254.96 (Rs. Two Hundred Fifty Four crore and Ninety Six lakh only)**		
Fixed Deposit programme	89.27 (Rs. Eighty Nine crore and Twenty Seven lakh only)	**CARE A (FD); Stable (Single A (Fixed Deposit); Outlook: Stable)**	**Reaffirmed**

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 eight decades in the sugar industry, integrated nature of its operations consisting of distillery & cogeneration offering diversified revenue stream, comfortable capital structure and adequate liquidity profile characterized by sizeable investments in liquid mutual funds.

The ratings, however, continue to factor in the susceptibility of the revenues and profitability to the demand-supply dynamics, cyclical and regulated nature of the industry along with the absence of sufficient diversification in terms of command area and plant location. The ratings, also takes note of the moderation in operational and financial performance of KCP during FY20 (refers to period from April 01 to March 31) driven by reduced cane availability. The ratings also take note of proposal to discontinue production in Lakshmipuram unit and divert cane to Vyuuru unit.

Key rating sensitivities

Positive factors

- ✓ Improvement in capital structure on sustained basis alongwith improved operational performance
- ✓ Increase in extent of diversification in revenue stream and geographical diversification of crushing operations

Negative factors

- × Any debt funded capex, without commensurate equity infusion, resulting in net term debt/equity >0.3x on sustained basis
- × Decline in cane crushed/cane availability on a sustained basis leading lower capacity utilization

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 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 incidental co-generation facility of 15 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-fertilizer and bio-compost production facility.

During FY21, the company closed down its other unit which was located in close proximity (~40Kms) to Unit I at Lakshmipuram (Unit II) 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. Unit II had a crushing capacity of 4000 TCD (~39% of overall capacity) and incidental co-generation capacity of 5 MW (25% of overall capacity). However, it is to be noted that the company had not crushed any

[1]*Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

sugarcane in its Unit II for FY20 owing to lower cane availability and in the past the unit has been contributing to ~20-25% of the overall sugarcane crushed. Though there may not be any crushing operations, cane development activities in Unit II region is expected to continue and crushing activities will be restricted to Unit I. Absence of crushing in Unit II is unlikely to have significant impact on the business risk profile. However, ability to procure cane from the regions under Unit II will be key monitorable as it is will impact overall cane availability for KCP and likely to impact operational and financial performance of the company.

Presence in high-yield area; cane availability impacted owing to farmers' preference for shorter duration crops
The command area of the company is situated in Krishna District, Andhra Pradesh which has high fertility, irrigated by Krishna river water through canals. However, during FY20, the company's operations were impacted due to reduced cane availability from its command area due to reasons which include (1) Preference for alternate crops offering higher profitability (typically vegetables, pulses of shorter growing period). (2) Being labor intensive, reduced labor availability in the region also impacted acreage.

Capital structure continues to remain comfortable; investment in equity and liquid mutual funds offer comfort
The capital structure of the company continues to be at comfortable levels driven by overall gearing of 1.04 times (PY 0.84 times), Debt equity ratio of 0.45 times (PY 0.26 times) and net overall gearing of 0.51 times (PY 0.30 times) as on March 31, 2020. As on March 31, 2020, the company has cash and investments (listed equity and liquid mutual funds) of Rs.136 crore. Adjusting for liquid mutual funds amounting to Rs.57 crore as on March 31, 2020, net debt/equity stood at 0.22 times as on March 31, 2020 as against 0.05 times as on March 31, 2019. It is to be noted that book value of equity investments stood at Rs.67 crore as on March 31, 2020, of which Rs.50 crore is lien marked towards certain borrowings.

Key Rating Weaknesses
Moderation in operational performance in FY20 largely due to lower cane availability
Owing to reduced cane availability, volume of cane crushed has witnessed drop in FY20 (-30%) and the Company didn't crush any cane at Unit II. The available cane was diverted to Unit I. During FY20, the company crushed 7.8 lakh Tonne of sugarcane as compared to 11.3 lakh Tonne in FY19. The recovery levels also moderated from 9.50% in FY19 to 9.22% in FY20. Lower crushing operations also had an impact on production of by-products like industrial alcohol, bagasse and power.

Revenues improve in FY20, however margins contract
Despite lower crushing, higher sugar sales volume (+21%) and sales realization (+9%) helped the company improve its revenues during FY20. During FY20, the company reported operating income of Rs.364 cr as against Rs.327 cr in FY19. However, PBILDT witnessed moderation in FY20 as against FY19 on account of (1) lower sales from by-products and (2) higher cost of opening inventory of sugar. It is to be noted that the cost of opening inventory in FY20 was Rs.32.27/kg as against Rs.26.36/kg in FY19 and the average sugar realization in FY20 was Rs.33.1/Kg as against Rs.31.1/kg in FY19. PBILDT margin contracted from 17.45% in FY19 to 6.07% in FY20. Net profit of the company also dropped with the company reporting after tax loss of Rs.11 cr for FY20 as against PAT of Rs.10 cr for FY19. It is to be noted the loss includes loss from fair valuation of investments (Rs.11.9 cr loss against Rs.8.2 cr loss in FY19).

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, cyclical, and seasonal which significantly impacts the operating performance of sugar companies. Sugar production in India for SS20 (Oct 2019 to Sep 2020) is expected to be lower after key sugar growing areas like Maharashtra and Karnataka witnessed erratic rainfall as well drought in some areas. India continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government. India's sugar inventory at the end of SS20 is expected to be at ~4-5 months of consumption, well in excess of the normal 2-3 months of reserve stocks.

Consumption for SS20 which was initially expected to be marginally better was impacted by the Covid-19 induced lockdown which impacted domestic sugar sales during the season. Sugar production for the ensuing SS21 is expected to rebound from SS20 levels, largely driven by recovery in key growing areas like Maharashtra and Karnataka where there are above-average reservoir levels. These two states along with Uttar Pradesh contribute to nearly 80% of sugar production.

Global prices after gradually reducing for a year until September 2019, started rising helped by drop in cane production in Thailand and India and also due to the fact that Brazilian mills were continuing their focus on ethanol manufacturing. However, with the onset of the Covid-19 pandemic in Mar-2020, the global prices started retreating and plunged back to September 2019 levels on fear of drop in consumption. The drop was further fuelled by the crash in global oil prices, which rendered ethanol manufacturing non-remunerative, forcing Brazilian mills to produce more sugar. Domestic prices, however remained insulated to an extent supported by the MSP and release mechanism enforced by the Government. The sugar realization movement of KCP have largely mimicked domestic wholesale prices.

Prospects

The financial performance of KCP witnessed moderation in FY20 due to combination of lower cane crushed resulting in lower income & profits from by-products and sale of high cost opening inventory. With a long-track record of operations of more than eight decades, integrated nature of its operations with presence in co-generation, distillery and chemical business, comfortable capital structure and adequate liquidity position, credit risk profile of KCP remains comfortable. In view of presence of profitable opportunity for farmers from the alternate crops, ability of the company to ensure cane availability through maintaining a good relationship with farmers, while containing cane cost and any down trend in the sugar industry would be the key rating sensitivity.

Liquidity: Adequate

In the absence of any major capex and plough back of profits over the years, the liquidity position of the company remains healthy. KCP has cash and investments of Rs.136 crore as on March 31, 2020. Investments in liquid mutual funds stood at Rs.58 crore as on June 30, 2020. For FY21, the company has bank term loan repayment obligations of Rs.16.0 cr and FDs maturing in one year amounting Rs.23.1 crore for which cash flows generated from operations and funds parked in liquid mutual funds are expected to be sufficient. The current ratio of the company is comfortable at 1.58 times as on March 31, 2020 with average working capital utilization of 69% for 12 months ended June 2020 offering headroom when additional working capital is required. The company had applied for COVID moratorium to all of its bankers. All of its bankers approved the moratorium except one bank.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Sugar Sector
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 Mycorrizha.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (A)
Total operating income	331	327	364
PBILDT	-36	57	22
PAT	8	10	-11
Overall gearing (times)	0.82	0.84	1.05
Interest coverage (times)	NM	3.06	1.03

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	-	-	-	173.62	CARE A; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	4.09	CARE A1
Term Loan-Long Term	-	-	July 2024	40.25	CARE A; Stable
Fund-based - ST-Working Capital Limits	-	-	-	37.00	CARE A1
Fixed Deposit	-	-	Upto 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	173.62	CARE A; Stable	-	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)	1)CARE A; Stable (04-Jul-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	4.09	CARE A1	-	1)CARE A1 (02-Jul-19)	1)CARE A1 (03-Jul-18)	1)CARE A1 (04-Jul-17)
3.	Fixed Deposit	LT	89.27	CARE A (FD); Stable	-	1)CARE A (FD); Stable (02-Jul-19)	1)CARE A (FD); Stable (03-Jul-18)	1)CARE A (FD); Stable (04-Jul-17)
4.	Term Loan-Long Term	LT	40.25	CARE A; Stable	-	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)	1)CARE A; Stable (04-Jul-17)
5.	Fund-based - ST-Working Capital Limits	ST	37.00	CARE A1	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

All bank credit facilities		Detailed explanation
A.	Financial covenants	The covenants to be tested annually, on March 31st.
i)	Current ratio > 1	-
ii)	TOL/ATNW<4	-
iii)	Interest coverage ratio (PBIT/Interest) > 2.11	-
B.	Non financial covenants	
i)	The borrower shall not advance or give any loans to group companies and promoters without prior approval of the bank	-
ii)	Alteration of the interest rate or the spread or interest reset date upon downward revision in the credit rating of borrower	-

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Term Loan-Long Term	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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