

November 06, 2023

K.C.P. Sugar and Industries Corporation Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	161.35	[ICRA] BBB+ (Stable); assigned
Long Term – Unallocated	13.32	[ICRA] BBB+ (Stable); assigned
Fixed deposit programme	89.27	[ICRA] A2+; assigned
Total	263.94	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned factor in the extensive experience of the promoters of KCP Sugar and Industries Corporation Ltd (KCPSICL) in the sugar industry and the forward-integrated nature of the plant with 7,500-tonnes-crushed-per-day (TCD) cane crushing capacity, a 50-KLPD distillery and a ~15-MW cogeneration power plant. The company also has allied facilities for the production of carbon dioxide, mycorrhiza VAM, carbon dioxide and pharma-grade calcium lactate. Moreover, KCPSICL also houses an engineering unit and an urad dal processing unit. While the revenue contribution of the non-sugar/distillery divisions remains low, their increasing contribution to the operating income should lend more stability to the cash flows, going forward.

The company's operating profitability has remained weak over the last four years due to low recovery levels as well as low cane availability, with the operating profit margin (OPM) being in the range of -1.2% to 5.3%. However, a sizeable investment portfolio and income thereof has supported the debt servicing requirements. The coverage indicators are inadequate due to weak operating profits and cash accruals.

ICRA notes that the company had unencumbered cash of Rs 34.5 crore and an investment portfolio of Rs 179.1 crore (Rs 51.2 crore in mutual funds and Rs 127.9 crore in listed stocks) as on Mar 31, 2023, against debt of Rs 189.1 crore on the same date, including Rs 68.78 crore fixed deposits issued. Consequently, the capital structure remains strong with gearing adjusted for cash & investments being -0.08 as on Mar 31, 2023 (PY: 0.12), while unadjusted gearing stood at 0.60 times as on Mar 31, 2023 (PY: 0.71 times). The gearing improved in FY2023 as the company pre-closed GECL loans of Rs 28.94 crore in FY2023 by liquidating mutual fund investments.

KCPSICL sold its 4,000-TCD Lakshmipuram plant, which had been shut down in 2020 due to low cane availability, for Rs. ~43 crore. A large part of the sale amount has been realised over FY2023-H1 FY2024, with the balance amount expected to be realised over the subsequent quarters. In its place, the company started a black gram (urad dal) processing unit of 22,000 TPA. The unit is expected to ramp up gradually over the medium term. KCPSICL realised revenues of Rs ~8 crore from this new division in Q1 FY2024. In Andhra Pradesh, which accounts for only ~1% of the country's total sugar production, many sugar factories have cut down production or closed operations over the years due to lower cane availability as farmers have been shifting to other more remunerative crops. Further, the gross recoveries for the mills in the region are also lower. Hence, many sugar plants are operating at sub-optimal capacities as well as OPMs. The gross recoveries for KCPSICL were weak at 9.02% in FY2023 and 9.22% in FY2022.

ICRA further expects sustained favourable Government policies, such as the introduction of minimum selling price (MSP), interest subvention loans for ethanol capacity creation/expansion and export subsidy, to support the company's financial profile. The ratings also consider the inherent cyclical and agro-climatic risks in sugar operations along with the vulnerability to Government regulations.

The Stable outlook reflects ICRA's expectation that the company would be able to ensure adequate cane availability with expectations of stable demand and realisations for its sugar and allied products, in addition to generating non-operating income from its investment portfolio and scaling up of its engineering business.

Key rating drivers and their description

Credit strengths

Extensive track record of KCPSICL in the sugar industry in Andhra Pradesh, forward-integrated operations – KCPSICL benefits from the forward-integrated nature of its plant in the Krishna district in Andhra Pradesh, with 7,500-tonnes-crushed-per-day (TCD) cane crushing capacity, a 50-KLPD distillery and a ~15-MW co-generation power plant, apart from other allied facilities for the production of carbon dioxide, mycorrhiza VAM, carbon dioxide and pharma grade calcium lactate. The integrated operation provides alternative revenue sources and cushions its profitability against the cyclical nature in the sugar business, improving the stability of its operating profits. However, the operating profitability still remains weak.

The sugar plant has an established track record of over eight decades. The plant was initially operational under KCP Ltd, before being hived off under KCPIIL in 1995. The company's established relationships with farmers in nearby areas, along with various support initiatives and timely payments, ensure adequate supply for the Vuyyuru plant.

Sizeable investment portfolio and strong capital structure - The company had unencumbered cash of Rs. 34.5 crore and an investment portfolio of Rs. 179.1 crore (Rs. 51.2 crore in mutual funds and Rs. 127.9 crore in listed stocks) as on March 31, 2023, against a total debt of Rs. 189.1 crore on the same date, comprising Rs. 111.3-crore working capital debt and Rs. 68.78-crore fixed deposits. Consequently, the capital structure remains strong with the gearing adjusted for cash & investments being -0.08 times as on March 31, 2023 (PY: 0.12), while the unadjusted gearing stood at 0.60 times (PY: 0.71 times). Further, the working capital debt, which peaks around March at the time of close of the crushing season, gradually comes down in line with the sugar stock levels, before the new crushing season begins around October-November.

Credit challenges

Weak profitability and coverage metrics; investment income – The operating profitability has remained weak over the last four years due to low recovery levels as well as low cane availability, with the operating profit margin (OPM) being in the range of -1.2% to 5.3% over the last four years. However, a sizeable investment portfolio and income thereof has supported the debt servicing requirements, even as the coverage indicators have been inadequate. Further, the company enjoys financial flexibility from its sizeable investment portfolio that can be monetised/pledged for short-term liquidity mismatches.

Low recovery and cane availability; moderation in scale and profitability over the past few years - The company has shut the cane crushing operations since SY2020 at its second plant of 4,000-TCD at Lakshmipuram in AP, due to low cane availability in the region. Several other sugar mills in AP have also shut down production fully or partly over the past few years due to farmers' increasing preference for more remunerative crops. The plant and machinery were sold in FY2023, proceeds from which are being realised over FY2023-FY2024. In its place, the company started a black gram (urad dal) processing unit of 22,000 TPA at Lakshmipuram in February 2023. Further, the gross recovery remains low at ~9-9.5%, which leads to lower profitability for KCPSICL as well as lower remuneration for farmers.

Profitability reliant on Government policies – KCPSICL's profitability, along with other Andhra Pradesh-based sugar mills, continues to be vulnerable to the Government's policy on cane prices, exports, minimum support price (MSP) and remunerative ethanol prices. Moreover, cane production in the state remains vulnerable to the monsoon's performance. Thus, the company's performance can be impacted by a disproportionate increase in the net cane price. However, the recent measures taken by the Central Government have supported sugar prices and the liquidity of sugar mills. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. Though the FRP increased by Rs. 10/quintal for SY2024, firm realisations and healthy sugar sales volumes, as well as enhanced ethanol volumes should support profits. The average domestic sugar realisation is expected to remain firm in FY2024.

Profitability of sugar mills vulnerable to industry cyclical nature and agro-climatic risks – Being an agri-commodity, the sugarcane crop depends on climatic conditions and is vulnerable to pests and diseases, which may influence the yield per hectare and the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a

single crop may affect the yield and recovery rate. Nonetheless, KCPSICL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclical nature in sugar production results in volatility in sugar prices. However, the sharp contraction in sugar prices has been curtailed after the introduction of MSP by the Central Government.

Liquidity position: Strong

KCPSICL's liquidity is strong with an average cushion of around Rs. 50 crore in drawing power for the 12 months ended September 2023, and is expected to remain at similar healthy levels over the medium term. KCPSICL had unencumbered cash of Rs. 33 crore, debt mutual fund investments of Rs. ~40 crore and equity investments of Rs. ~178 crore against a debt of only Rs. ~25 crore, as on September 30, 2023. The debt is expected to go up as the crushing season starts and peak around the end of Q4 FY2024. The company has a significantly high net cash position throughout the year after adjusting for equity investments.

A sizeable investment portfolio aids liquidity, and the investment income thereof also supports the interest servicing ability. Going forward as well, while the cash flow from operations is expected to remain slightly inadequate for interest servicing, the company should be able to comfortably meet its debt servicing obligations with the aid of investment income and unencumbered cash.

Rating sensitivities

Positive factors – An upgrade will be backed by continued period of firm sugar prices, driven by favourable demand-supply dynamics and benefits from investments in forward integration, which will lower the volatility in cash flows from the sugar business and improve the operating profitability and debt coverage metrics on a sustained basis.

Negative factors – Pressure on the ratings could emerge if any significant decline in sugar prices or recovery rate, or increase in cane costs, weakens the company's profitability. Further, the company's inability to improve its debt coverage metrics could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	IRCA has considered the consolidated financials of KCPSICL

About the company

K.C.P Sugars and Industries Corporation Limited (KCPSICL) has an integrated sugar plant in the Krishna district of Andhra Pradesh (AP), having a crushing capacity of 7,500 tonnes per day (TCD), along with a distillery capacity of 50 KLPD (kilo litres per day) and incidental co-generation capacity of 15 megawatt (MW). Other allied businesses consist of production of organic manure, mycorrhiza vsm (1,400 TPA), and pharma grade calcium lactate (500 TPA). A 4,000-TCD sugar unit at Lakshmipuram, AP, was closed down in 2020 due to lower cane availability, and in its place the company started a black gram (urad dal) processing unit of 22,000 TPA in February 2023. KCPSICL also has an engineering unit at Thuvakudi, Trichy, Tamil Nadu.

KCPSICL is part of the KCP Group, which was founded by late Mr. V. Ramakrishna in 1941, who was an ICS. KCPSICL split from the flagship company of the Group, KCP Limited, and was incorporated as a separate entity in 1995 under late Mr. V.M. Rao (son of Mr. V. Ramakrishna and brother of late Mr V.L. Dutt – former Chairman, KCP Limited). Their sister, Smt. Rajeswary Ramakrishnan, is the chairman of Krishna Industrial Corporation Limited, which is into fertilisers and pesticides in AP. All the

three entities have been operating independently of each other. K.C.P.Sugar and Industries Corporation Ltd has two subsidiary units, viz., The EIMCO K.C.P. Ltd. and KCP Sugars Agricultural Research Farms Ltd.

Key financial indicators (audited)

KCP Sugar - Consolidated	FY2022	FY2023	Q1 FY2024
Operating income	323.5	289.3	95.8
PAT	3.6	57.2	30.7
OPBDIT/OI	7.1%	1.6%	11.5%
PAT/OI	1.1%	19.8%	32.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.7	NA
Total debt/OPBDIT (times)	8.2	39.3	NA
Interest coverage (times)	1.2	0.3	NA

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Nov 03, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 06, 2023	-	-	-
1 Fund Based Limits	Long term	161.35	-	[ICRA] BBB+ (Stable)	-	-	-
2 Long term – Unallocated	Long term	13.32	-	[ICRA] BBB+ (Stable)	-	-	-
3 Fixed deposit programme	Short term	89.27	-	[ICRA] A2+			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Long term – Unallocated	NA
Fixed deposit programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	161.35	[ICRA] BBB+ (Stable)
NA	Long term – Unallocated	NA	NA	NA	13.32	[ICRA] BBB+ (Stable)
NA	Fixed deposit programme	NA	NA	NA	89.27	[ICRA] A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
The EIMCI K.C.P. Limited	100.00%	Full Consolidation
KCP Sugars Agricultural Research Farms Limited	100.00%	Full Consolidation

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