

September 30, 2024

K.C.P. SUGAR AND INDUSTRIES CORPORATION LIMITED: Bank Facilities reaffirmed with revision in outlook to Positive; Fixed Deposits reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Others	161.35	146.20	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long Term – Non-Fund Based – Others	-	4.09	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long Term – Unallocated Limits	13.32	24.38	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Fixed Deposit Programme	89.27	89.27	[ICRA]A2+; reaffirmed
Total	263.94	263.94	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook on the long-term ratings of the company factors in the expectations of sustenance of the profitability amid revenue diversification benefits from the non-sugar business. The operating profitability improved in FY2024, coupled with a decline in the working capital debt, leading to improvement in debt metrics. Moreover, revenue diversification has improved over the years, and expected to improve even further with operationalization of black gram processing unit in FY2024. Revenue contribution from this division was Rs. 11.5 crore and Rs. 16.0 crore in FY2024 and Q1FY2025, respectively, and expected to ramp up to Rs. ~45-50 crore in FY2025, with further improvement thereafter, which is likely to aid diversification and margins as well. ICRA expects the operating profitability to sustain at current levels, with possibility of slight improvement gradually going forward. Further, sizeable investment portfolio resulted in healthy non-operating income as well over FY2023-Q1FY2025, leading to strong PAT margins. The company's 100% engineering subsidiary KCP-EIMCO also aids the consolidated profitability as it operates at better margins, and thus overall financial risk profile.

The reaffirmation of the ratings factor in extensive experience, of over eight decades, of the promoters of KCP Sugar and Industries Corporation Ltd (KSICL) in the sugar industry and forward integrated nature of the plant with 7,500 tons crushed per day (TCD) cane crushing capacity, 50 KLPD distillery and a ~15 MW cogeneration power plant, apart from other allied facilities for production of carbon dioxide, mycorrhiza VAM, carbon dioxide and pharma grade calcium lactate. KSICL also houses an engineering unit, and a 22,000 TPA urad dal/black gram processing unit. While the revenue contribution of non-sugar/distillery divisions remains low, their increasing contribution to the operating income will lend more stability to the cash flows going forward.

While the standalone operating profitability has remained weak over the last five years due to low recovery levels as well as low cane availability, with operating profit margin (OPM) being in the range of -1.2% to 5.3% over the last five years, sizeable investment portfolio and income thereof has supported debt servicing requirements, even as coverage indicators have been inadequate in some years. Capitalization and coverage indicators have witnessed improvement in FY2024. The company had unencumbered cash of Rs 21.4 crore and an investment portfolio of Rs 228.5 crore (Rs 41.7 crore in mutual funds and Rs 186.8 crore in listed stocks) as on Mar 31, 2024, against debt of Rs 152.2 crore on the same date, including Rs 61.08 crore fixed deposits issued. Consequently, the capital structure remains strong with gearing adjusted for cash & investments being -0.26 as on Mar 31, 2023 (PY: -0.08), while unadjusted gearing stood at 0.41 times as on Mar 31, 2024 (PY: 0.60 times). Interest coverage improved to 1.1 times in FY2024 vs -0.2 in FY2023.

In Andhra Pradesh, which accounts for only ~1% of the country's total sugar production, many sugar factories over the years have cut down production or shut down plants due to lower cane availability as farmers have been continually shifting to other

more remunerative crops. Further, gross recoveries are also lower. Hence, many sugar plants are operating at sub-optimal capacities as well as OPMs. Gross recoveries for KSICL were weak at 8.50% in FY2024 and 9.02% in FY2023.

ICRA further notes the sustained favorable Government policies such as introduction of the minimum selling price (MSP), interest subvention loans for ethanol capacity creation/ expansion, export subsidy to address the demand-supply situation in the domestic market, are expected to support the company's financial profile. The rating also considers the inherent cyclicity and agro-climatic risks in sugar operations, along with its vulnerability to Government regulations.

The stable outlook reflects ICRA's expectation that the company would be able to maintain its healthy cash generation with expectations of stable demand for its sugar and allied products, as well as realizations on the same.

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 cyclicity 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 KCPIL 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 – at a consolidated level, the company had unencumbered cash of Rs. 37.5 crore and an investment portfolio of Rs. ~260 crore (Rs. ~73 crore in mutual funds and Rs. 187.7 crore in listed stocks) as on March 31, 2023, against a total debt of Rs. 146.67 crore on the same date, comprising Rs. 87.24 crore working capital debt and Rs. 55.58 crore fixed deposits. Consequently, the capital structure remains strong with the company being net debt free over the past FY2022-FY2024, while the unadjusted gearing stood comfortable 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

Relatively weak profitability and coverage metrics - The operating profitability has remained weak over the last five 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% at a standalone level. Consolidated profitability is slightly better due to better profitability of KCP-EIMCO. However, a sizeable investment portfolio and income thereof has supported the debt servicing requirements, even as the coverage indicators have been inadequate in the past. Interest coverage stood at 1.1 times in FY2024 (standalone), while it was below 1 times over FY2020-FY2023. It is expected to witness gradual improvement over the past few years.

The standalone OPM increased to 4.0% in FY2024 from -1.2% in FY23 on account of higher revenues from sugar (better volumes as well as realisations partly offset by higher cane costs), distillery and black gram divisions, leading to better operating leverage. The OPM improved further to 8.2% in Q1FY2025 (4.8% in Q1FY2024) driven by higher black gram sales, even as sugar revenues were lower. To improve the overall the profitability margins, the company is diversifying itself into other non-sugar businesses.

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 of sugar operations 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-Q1FY2025. 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 from the 7,500 TCD plant remains low at ~8.5-9%, which leads to lower profitability for KCPSICL as well as lower remuneration for farmers. Cane crushed declined from 4.69 lakh MT in FY2023 to 4.36 lakh MT in FY2024, and gross recoveries remained subdued and declined from 9.02% in FY2023 to 8.50% in FY2024.

Profitability of sugar mills vulnerable to industry cyclicality 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 cyclicality 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.

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. 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. 25/quintal for SY2025, 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 and improve slightly further in FY2025.

Liquidity position: Strong

Average cushion of around Rs. 50 crore in drawing power for FY2024, and expected to remain at similar healthy levels over the medium term. KCPSICL had unencumbered cash of Rs 21.4 crore, debt mutual fund investments of Rs ~34.5 crore, and equity investments of Rs ~180 crore against debt (included fixed deposits issued) of Rs ~152.2 crore, as on March 31, 2024. The company has a significantly high net cash position throughout the year after adjusting for equity investments. Sizeable investment portfolio aids liquidity, and investment income thereof also supports interest servicing ability. Going forward, cash flow from operations is expected to remain adequate for interest servicing.

Rating sensitivities

Positive factors – Rating upgrade will be driven by sustenance of profit margins going forward coupled with sustained improvement in the debt coverage metrics.

Negative factors – Pressure on the rating 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 Sugar
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA 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 vam (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	FY2023	FY2024
Operating income	223.1	292.5
PAT	49.53	56.26
OPBDIT/OI	-1.2%	4.0%
PAT/OI	22.2%	19.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.5
Total debt/OPBDIT (times)	-69.0	13.1
Interest coverage (times)	-0.2	1.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based Limits	Long-Term	146.20	Sep 30, 2024	[ICRA]BBB+ (Positive)	Nov 06, 2023	[ICRA]BBB+ (Stable)	-	-	-	-
Non Fund Based Limits	Long-Term	4.09	Sep 30, 2024	[ICRA]BBB+ (Positive)	-	-	-	-	-	-
Unallocated Limits	Long-Term	24.38	Sep 30, 2024	[ICRA]BBB+ (Positive)	Nov 06, 2023	[ICRA]BBB+ (Stable)	-	-	-	-
Fixed deposit programme	Short-Term	89.27	Sep 30, 2024	[ICRA]A2+	Nov 06, 2023	[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Others	Simple
Long Term – Non-Fund Based – Others	Very Simple
Long Term – Unallocated Limits	Not Applicable
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	Long Term – Fund Based – Others	NA	NA	NA	146.20	[ICRA]BBB+ (Positive)
NA	Long Term – Non-Fund Based – Others	NA	NA	NA	4.09	[ICRA]BBB+ (Positive)
NA	Long Term – Unallocated Limits	NA	NA	NA	24.38	[ICRA]BBB+ (Positive)
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	LTHL Ownership	Consolidation Approach
The EIMCI K.C.P. Limited	100.00%	Full Consolidation
KCP Sugars Agricultural Research Farms Limited	100.00%	Full Consolidation

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 124 4545 322

Prashant.vasisht@icraindia.com

Ankit Jain

91 124 4545 865

ankit.jain@icraindia.com

Rohan Rustagi

91 124 4545 383

rohan.rustagi1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.