

# K.C.P. SUGAR AND INDUSTRIES CORPORATION LTD.

Regd. Office : "Ramakrishna Buildings", Post Box No. 727, No.239, (Old No.183), Anna Salai, Chennai - 600 006.  
Ph : 044 2855 5171 to 5176 Fax : 044 2854 6617 E-mail : hr@kcpsugar.com, finance@kcpsugar.com

CIN - L15421TN1995PLC033198

August 25, 2021

To

National Stock Exchange of India Ltd

Symbol: KCPSUGIND

Dear Sir / Madam,

**Sub:** Revision in Credit Ratings

This is with reference to the Clarification sought by NSE on 24/08/2021 by email, in respect of Revision in Credit Ratings of the Company.

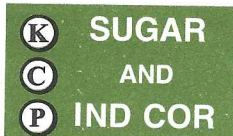
CARE Ratings Limited, initially, has issued the Rating Letter on 17/08/2021, seeking comments, if any of the Company. The Company had given its representation on 18/08/2021. After considering the said representation email, on **20/08/2021**, the CARE Ratings Limited confirmed the Credit Ratings as provided in the Rating Letter dated 17/08/2021 and the same has been duly intimated by the Company to the Stock Exchanges on 21/08/2021 (within 24 hours of final confirmation of the CARE Ratings Limited). The Rating Letter dated 17/08/2021 and Confirmation Letter dated 20/08/2021, is enclosed herewith.

CARE Ratings Limited has revised the Credit Ratings of the Company in the manner as follows:

Facilities	Revised Ratings	Earlier Ratings
Long Term Bank Facilities	CARE A-; Negative (Single A Minus; Outlook: Negative)	CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	CARE A2+ (A Two Plus)	CARE A1 (A One)
Fixed Programme Deposit	CARE A- (FD); Negative (Single A Minus (Fixed Deposit); Outlook: Negative)	CARE A (FD); Stable (Single A (Fixed Deposits); Outlook: Stable)

◇ Leading Manufacturers of Premium Grade Sugars, Rectified Spirit, Anhydrous Alcohol, Extraneutral Alcohol, Co2, Calcium Lactate, Bio-Fertilizers, Bio-Compost and Mycorrhiza Inoculum.

Factories at - Vuyyuru, Krishna Dist., A.P. - 521 165. Tel : 08676 232001/02 Fax : 08676 232640  
- Lakshmipuram, Krishna Dist., A.P. - 521 131. Tel : 08671 222046 Fax : 08671 222640



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CIN - L15421TN1995PLC033198

The CARE Ratings Limited has given the following rationale for revision (downgrade) in Credit Ratings:

- Moderation in operational and financial performance of the Company during past 2 years ended FY21 driven by sharp drop in cane availability leading to lower utilisation of capacities and higher cost of cane, mainly due to farmers' preference for alternate short duration crops, despite the Company being present in high-yield area.
- Susceptibility of the revenues and profitability to the demand-supply dynamics, cyclical and regulated nature of the Industry along with the absence of diversification in terms of command area and plant location due to higher levels of sugar inventory largely due to the controlled release mechanism followed by the Government and lower sugar price.

As per CARE Ratings Limited, established track record of the Company over eight decades in Sugar Industry and integrated nature of operations with comfortable capital structure and strong liquidity continues to remain as positive note / strength for the Company.

Please take on record.

Thanking You,

Yours Truly,

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

**S.Jeba Elavarasi**

Company Secretary and Manager – Legal

Encl: A/M

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◇ Leading Manufacturers of Premium Grade Sugars, Rectified Spirit, Anhydrous Alcohol, Extraneutral Alcohol, Co2, Calcium Lactate, Bio-Fertilizers, Bio-Compost and Mycorrhiza Inoculum.

Factories at	- Vuyyuru,	Krishna Dist., A.P. - 521 165.	Tel : 08676 232001/02	Fax : 08676 232640
	- Lakshmiapuram,	Krishna Dist., A.P. - 521 131.	Tel : 08671 222046	Fax : 08671 222640

No. CARE/CRO/RL/2021-22/1159

**Shri K Panneer Selvan**  
**General Manager**  
**K.C.P. Sugar and Industries Corporation Limited**  
Ramakrishna Buildings, Post Box No. 727,  
No.239, (Old No.183), Anna Salai,  
Chennai  
Tamil Nadu 600006

August 17, 2021

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your Company for FY21 (Abridged) and Q1FY22 (Provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	220.95 (Enhanced from 213.87)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	38.32 (Reduced from 41.09)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Total Facilities	259.27 (Rs. Two Hundred Fifty- Nine Crore and Twenty- Seven Lakhs Only)		

- Refer **Annexure 1** for details of rated facilities.
- The rationale for the rating is attached as **Annexure 2**. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your

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

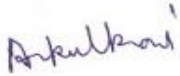
perusal as **Annexure 3**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by August 18, 2021 we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by “ISSUER NOT COOPERATING”. CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



**Akshay Purushottam Kulkarni**  
Analyst  
akshay.kulkarni@careratings.com



**Jaganathan A**  
Assistant Director  
jaganathan.a@careratings.com

Encl.: As above

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

## Annexure 1

### Details of Rated Facilities

#### 1. Long Term Facilities

##### 1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	Kotak Mahindra Bank Ltd.	17.83	Repayment in sixteen equal quarterly instalments with one-year moratorium from date of disbursement.	
2.	ICICI Bank Ltd.	14.50	Repayment in Forty eight equal instalments with one-year moratorium from date of disbursement. Loan was availed March 2021	Emergency Credit Line
3.	State Bank of India	11.00		
4.	Kotak Mahindra Bank Ltd.	4.00		
	<b>Total</b>	<b>47.33</b>		

##### 1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	ICICI Bank Ltd.	76.62	Cash Credit/Working Capital Demand Loan
2.	State Bank of India	70.00	Cash Credit
3.	Axis Bank Ltd.	27.00	Cash Credit/Working Capital Demand Loan
	<b>Total</b>	<b>173.62</b>	

**Total Long Term Facilities : Rs.220.95 crore**

#### 2. Short Term Facilities

##### 2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	CTBC Bank Co. Ltd.	30.00		Working Capital Demand Loan
2.	State Bank of India	4.23	Repayable in six monthly instalments after a moratorium of six months from date of disbursement	COVID19 Emergency Credit Line as Demand Loan

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
	<b>Total</b>	<b>34.23</b>		

## 2.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	2.59	Letter of Credit: Rs. 2.00 crore as sublimit of Bank Guarantee
2.	State Bank of India	1.50	100% two way interchangeability between Letter of Credit and Bank Guarantee
	<b>Total</b>	<b>4.09</b>	

**Total Short Term Facilities : Rs.38.32 crore**

**Total Facilities (1.A+1.B+2.A+2.B) : Rs.259.27 crore**

**Annexure 2**  
**Rating Rationale**  
**K.C.P. Sugar and Industries Corporation Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>2</sup>	Rating Action
Long Term Bank Facilities	220.95 (Enhanced from 213.87)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	38.32 (Reduced from 41.09)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
<b>Total</b>	<b>259.27</b> (Rs. Two hundred fifty nine crore and twenty seven lakh only)		
Fixed Deposit programme	89.27 (Rs. Eighty nine crore and twenty seven lakh only)	CARE A- (FD); Negative (Single A Minus (Fixed Deposit); Outlook: Negative)	Revised from CARE A (FD); Stable / (Single A (Fixed Deposits) ; Outlook: Stable)

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The revision in ratings assigned to the bank facilities of K.C.P. Sugar and Industries Corporation Limited (KCP) factors in the moderation in operational and financial performance of KCP during past two years ended FY21 (refers to the period April 01 to March 31) driven by sharp drop in cane availability leading to lower utilisation of capacities and higher cost of Cane. Further, the net debt level of the company has increased over the last two years .*

*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 diversification in terms of command area and plant location.*

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

## **Key rating sensitivities**

### **Positive factors**

- Increase in registered cane area and effective utilization of capacity leading to improvement in operational performance on a sustained basis
- Generating profit from operations on a sustained basis

### **Negative factors**

- Increase in leverage levels with net term debt/equity >0.3x on sustained basis
- Continued decline in cane crushed/cane availability on a sustained basis leading lower capacity utilization

### ***Outlook: Negative***

The outlook has been revised to 'Negative' due to subdued cane availability in the command area and higher cost of cane which is expected to result in moderation of financial and operational performance.

The outlook may be revised to 'Stable' if there is improvement in cane availability while containing cane cost.

## **Detailed description of the key rating drivers**

### **Established track record of KCP in sugar industry and integrated nature of operations**

KCP 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 (around 40 Km) to Unit I at Lakshmipuram (Unit II) as there has been a steady decline in availability of cane.

### **Capital structure continues to remain comfortable**

The overall gearing stood at 1.00x as on March 31, 2021 (PY: 1.05x) while term debt to equity ratio stood at 0.46x (PY:0.45x). During March 2021, the company has availed term loan (Guaranteed Emergency Credit Line) of Rs. 29.5 crore having repayment in Forty-eight equal instalments (interest rate of ~8%) with one-year moratorium in March 2021. This apart the company has fixed deposits of Rs.68 crore outstanding as on March 31, 2021. The cash and investments stood at Rs.163 crore

(including investments in Mutual funds and Equity investments). Adjusting for that, net overall gearing stood at 0.40x (PY: 0.51x) as on March 31, 2021.

It is to be noted that value of equity investments stood at Rs.101.4 crore as on March 31, 2021, of which Rs.69.6 crore is lien marked towards certain borrowings.

#### **Moderation in financial and operational performance largely due to lower cane availability**

Owing to reduced cane availability from its command area, volume of cane crushed has witnessed a significant drop in FY21 (-47 %). During FY21, the company crushed 4.1 lakh tonne of sugarcane as compared with 7.8 lakh tonne in FY20. Lower crushing operations also had an impact on production of by-products like industrial alcohol, bagasse and power. The revenue from the bi-products stood at Rs.57.7 crore (PY: Rs.76.0 crore). Due to the fall in sugar sales and bi-products, KCP reported total operating income of Rs.310 crore (PY: Rs.364 crore).

PBILDT margin witnessed moderation in FY21 to 2.32% as against 6.07% in FY21 on account of (1) higher cost of Production of sugar (due to increase in FRP and increase incentives to Farmers) and (2) lower sales from by-products. Also cost of opening inventory in FY21 was higher at Rs.32.27/kg as against Rs.31.41/kg in FY20.

Including fair value gain in equity investments of Rs.31 crore in FY21 (PY: loss of 12 crore), KCP reported PAT of Rs.19 crore (PY:- net loss of 11 crore)

#### **Presence in high-yield area; however 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, Sugarcane cultivation in the Krishna Delta region has been severely affected due to preference for alternate crops due to lower profitability through cultivation of cane in comparison to other crops (typically vegetables, pulses of shorter growing period). Being the fertile region of the Krishna Delta and presence of developed irrigation systems provides conducive environment for growth of alternate crops .

With declining cane area over the years, the company in Fy21 shut the Unit -II at Lakshimipuram . Cane available from this unit is being diverted and crushed in Unit I. 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. The company is planning to sell the movable fixed asset and existing infrastructure in Unit II is expected to be put into some form of use for value additional purposes

## **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 SS21 (October 2010 to September 2021) is expected to increase with major contribution coming in from Maharashtra and Karnataka because of increased sugarcane area and better yields. India continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

The domestic consumption in SS21 is likely to sustain at last year's level due to higher industrial demand driven by increased consumption of packaged foods and stable household demand.

While the international sugar prices have improved, domestic wholesale sugar prices continue to remain range-bound (Rs.33 per kg – Rs.34 per kg) for the past 3 years (SS 2017-18 to SS 2020-21 (mid-June 2021)) due to high inventories. It is to be noted that the prices are mainly backed by revision in Minimum Selling Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg in June 2018. Subsequently, the industry has been looking forward for a hike in sugar MSP for quite some time now.

### **Prospects**

The financial performance of KCP witnessed moderation in FY21 due to combination of lower cane crushed resulting in lower income & lower profits from due to higher cost of production of sugar and higher 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. However, in view of presence of profitable opportunity for farmers from the alternate crops, the ability of the company to ensure cane availability through maintaining a good relationship with farmers, while containing cane cost remains key rating sensitivity.

### **Liquidity: Strong**

In the absence of any major capex and plough back of profits over the years, the liquidity position of the company remains strong. The company has strong liquidity position with cash and investments of Rs.163 crore (Rs.59 crore in Mutual funds, Rs.102 crore in quoted equity, free cash of Rs.2 crore) as on March 31, 2021 and Rs.174 crore as on June 30, 2021. Scheduled repayment for FY22 of long-term debt is at Rs. 12 crore while remaining Rs.18 crore is towards FD maturity. The current ratio of the company is comfortable at 1.74 times as on March 31, 2021, with average working capital utilization of 69.67% for 12 months ended June 2021 offering headroom when

additional working capital is required. As on March 31, 2021 closing inventory stood at Rs. 243 crore as against net debt of Rs.107 crore.

**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

K.C.P Sugars and Industries Corporation Ltd. (KCP) is part of the KCP group. K.C.P. Limited (KCPL), the flagship company of the group, 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.

KCP presently owns and operates sugar mill at Vuyyuru (Andhra Pradesh) with an aggregate capacity of 7,500 TCD (Tonnes of Cane Crushed per Day), distillery capacity of 50 KLPD (Kilo Liters per Day) and incidental co-generation capacity of 15 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 1400 TPA Mycorrizha.

### Financial Performance

	(Rs. crore)		
<i>For the period ended / as at March 31,</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, Abridged)</i>
<b><u>Working Results</u></b>			
Total Operating Income	327	364	310
PBILDT	57	22	7
Interest	18	21	24
Depreciation	8	7	6
PBT	26	-15	(21)
PAT (after deferred tax)	10	-11	19
Gross Cash Accruals	38	2	(14)
<b><u>Financial Position</u></b>			
Equity Capital	11	11	11
Net worth	264	252	270
Total capital employed	492	520	536
<b><u>Key Ratios</u></b>			
<i>Growth</i>			

<i>For the period ended / as at March 31,</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, Abridged)</i>
Growth in Total income (%)	-1.29	11.45	(15.55)
Growth in PAT (after deferred tax) (%)	19.93	NM	NM
<i>Profitability</i>			
PBILDT/Total Op. income (%)	17.45	6.07	2.32
PAT (after deferred tax)/ Total income (%)	3.07	-ve	6.18
ROCE (%)	10.82	3.22	0.64
<i>Solvency</i>			
Debt Equity ratio (times)	0.26	0.45	0.46
Overall gearing ratio(times)	0.84	1.05	1.00
Interest coverage(times)	3.23	1.03	0.30
Term debt/Gross cash accruals (years)	1.81	55.50	(8.70)
Total debt/Gross cash accruals (years)	5.84	129.77	(19.13)
	3.87	11.99	37.64
<i>Liquidity</i>			
Current ratio (times)	1.40	1.58	1.74
Quick ratio (times)	0.28	0.41	0.56
<i>Turnover</i>			
Average collection period (days)	24	23	32
Average inventory (days)	400	374	351
Average creditors (days)	125	102	41
Operating cycle (days)	299	295	341

A: Audited, NM – Not meaningful

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

**Any other information:** NA

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

**Complexity level of various instruments rated for this company :** Annexure 5

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

#### **Annexure-1: Details of Instruments/Facilities**

<b>Name of the Instrument</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. crore)</b>	<b>Rating assigned along with Rating Outlook</b>
Fund-based - LT-Cash Credit	-	-	-	173.62	CARE A-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	4.09	CARE A2+
Term Loan-Long Term	-	-	March 2026	47.33	CARE A-; Negative
Fund-based - ST-Working Capital Limits	-	-	-	34.23	CARE A2+

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fixed Deposit	-	-	-	89.27	CARE A- (FD); Negative

#### 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	173.62	CARE A-; Negative	-	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	4.09	CARE A2+	-	1)CARE A1 (03-Sep-20)	1)CARE A1 (02-Jul-19)	1)CARE A1 (03-Jul-18)
3.	Fixed Deposit	LT	89.27	CARE A- (FD); Negative	-	1)CARE A (FD); Stable (23-Sep-20) 2)CARE A (FD); Stable (03-Sep-20)	1)CARE A (FD); Stable (02-Jul-19)	1)CARE A (FD); Stable (03-Jul-18)
4.	Term Loan-Long Term	LT	47.33	CARE A-; Negative	-	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)
5.	Fund-based - ST-Working Capital Limits	ST	34.23	CARE A2+	-	1)CARE A1 (03-Sep-20)	-	-

#### Annexure-3: Details of Rated Facilities

##### 1. Long Term Facilities

##### 1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	Kotak Mahindra Bank Ltd.	17.83	Repayment in sixteen equal quarterly instalments with one-year moratorium from date of disbursement.	
2.	ICICI Bank Ltd.	14.50	Repayment in Forty eight equal instalments with one-year moratorium from date of disbursement. Loan was availed March 2021	Emergency Credit Line
3.	State Bank of India	11.00		
4.	Kotak Mahindra Bank Ltd.	4.00		
	<b>Total</b>	<b>47.33</b>		

#### 1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	ICICI Bank Ltd.	76.62	Cash Credit/Working Capital Demand Loan
2.	State Bank of India	70.00	Cash Credit
3.	Axis Bank Ltd.	27.00	Cash Credit/Working Capital Demand Loan
	<b>Total</b>	<b>173.62</b>	

**Total Long Term Facilities : Rs.220.95 crore**

#### 2. Short Term Facilities

##### 2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	CTBC Bank Co. Ltd.	30.00		Working Capital Demand Loan
2.	State Bank of India	4.23	Repayable in six monthly instalments after a moratorium of six months from date of disbursement	COVID19 Emergency Credit Line as Demand Loan
	<b>Total</b>	<b>34.23</b>		

##### 2.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	2.59	Letter of Credit: Rs. 2.00 crore as sublimit of Bank Guarantee
2.	State Bank of India	1.50	100% two way interchangeability between Letter of Credit and Bank Guarantee

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
	<b>Total</b>	<b>4.09</b>	

**Total Short Term Facilities : Rs.38.32 crore**

**Total Facilities (1.A+1.B+2.A+2.B) : Rs.259.27 crore**

**Annexure-4: Detailed explanation of covenants of the rated instrument / facilities: NA**

**Annexure-5: 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](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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*Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrade*

**Annexure 3**  
**Press Release**  
**K.C.P. Sugar and Industries Corporation Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>3</sup>	Rating Action
Long Term Bank Facilities	220.95 (Enhanced from 213.87)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	38.32 (Reduced from 41.09)	CARE A2+ (A Two Plus)	Revised from CARE A1 (A One)
Total	259.27 (Rs. Two hundred fifty nine crore and twenty seven lakh only)		
Fixed Deposit programme	89.27 (Rs. Eighty nine crore and twenty seven lakh only)	CARE A- (FD); Negative (Single A Minus (Fixed Deposit); Outlook: Negative)	Revised from CARE A (FD); Stable / (Single A (Fixed Deposits) ; Outlook: Stable)

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The revision in ratings assigned to the bank facilities of K.C.P. Sugar and Industries Corporation Limited (KCP) factors in the moderation in operational and financial performance of KCP during past two years ended FY21 (refers to the period April 01 to March 31) driven by sharp drop in cane availability leading to lower utilisation of capacities and higher cost of Cane. Further, the net debt level of the company has increased over the last two years .*

*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 diversification in terms of command area and plant location.*

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

## **Key rating sensitivities**

### **Positive factors**

- Increase in registered cane area and effective utilization of capacity leading to improvement in operational performance on a sustained basis
- Generating profit from operations on a sustained basis

### **Negative factors**

- Increase in leverage levels with net term debt/equity >0.3x on sustained basis
- Continued decline in cane crushed/cane availability on a sustained basis leading lower capacity utilization

### ***Outlook: Negative***

The outlook has been revised to 'Negative' due to subdued cane availability in the command area and higher cost of cane which is expected to result in moderation of financial and operational performance.

The outlook may be revised to 'Stable' if there is improvement in cane availability while containing cane cost.

## **Detailed description of the key rating drivers**

### **Key Rating Strengths**

#### **Established track record of KCP in sugar industry and integrated nature of operations**

KCP 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 (around 40 Km) to Unit I at Lakshmipuram (Unit II) as there has been a steady decline in availability of cane.

### **Capital structure continues to remain comfortable**

The overall gearing stood at 1.00x as on March 31, 2021 (PY: 1.05x) while term debt to equity ratio stood at 0.46x (PY:0.45x). During March 2021, the company has availed term loan (Guaranteed Emergency Credit Line) of Rs. 29.5 crore having repayment in Forty-eight equal instalments (interest rate of ~8%) with one-year moratorium in March 2021. This apart the company has fixed deposits of Rs.68 crore outstanding as on March 31, 2021. The cash and investments stood at Rs.163 crore (including investments in Mutual funds and Equity investments). Adjusting for that, net overall gearing stood at 0.40x (PY: 0.51x) as on March 31, 2021.

It is to be noted that value of equity investments stood at Rs.101.4 crore as on March 31, 2021, of which Rs.69.6 crore is lien marked towards certain borrowings.

### **Key Rating Weaknesses**

#### **Moderation in financial and operational performance largely due to lower cane availability**

Owing to reduced cane availability from its command area, volume of cane crushed has witnessed a significant drop in FY21 (-47 %). During FY21, the company crushed 4.1 lakh tonne of sugarcane as compared with 7.8 lakh tonne in FY20. Lower crushing operations also had an impact on production of by-products like industrial alcohol, bagasse and power. The revenue from the bi-products stood at Rs.57.7 crore (PY: Rs.76.0 crore). Due to the fall in sugar sales and bi-products, KCP reported total operating income of Rs.310 crore (PY: Rs.364 crore).

PBILDT margin witnessed moderation in FY21 to 2.32% as against 6.07% in FY21 on account of (1) higher cost of Production of sugar (due to increase in FRP and increase incentives to Farmers) and (2) lower sales from by-products. Also cost of opening inventory in FY21 was higher at Rs.32.27/kg as against Rs.31.41/kg in FY20.

Including fair value gain in equity investments of Rs.31 crore in FY21 (PY: loss of 12 crore), KCP reported PAT of Rs.19 crore (PY:- net loss of 11 crore)

#### **Presence in high-yield area; however 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, Sugarcane cultivation in the Krishna Delta region has been severely affected due to preference for alternate crops due to lower profitability through cultivation of cane in comparison to other crops (typically vegetables, pulses of

shorter growing period). Being the fertile region of the Krishna Delta and presence of developed irrigation systems provides conducive environment for growth of alternate crops .

With declining cane area over the years, the company in Fy21 shut the Unit -II at Lakshimpuram . Cane available from this unit is being diverted and crushed in Unit I. 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. The company is planning to sell the movable fixed asset and existing infrastructure in Unit II is expected to be put into some form of use for value additional purposes

**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 SS21 (October 2010 to September 2021) is expected to increase with major contribution coming in from Maharashtra and Karnataka because of increased sugarcane area and better yields. India continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

The domestic consumption in SS21 is likely to sustain at last year's level due to higher industrial demand driven by increased consumption of packaged foods and stable household demand.

While the international sugar prices have improved, domestic wholesale sugar prices continue to remain range-bound (Rs.33 per kg – Rs.34 per kg) for the past 3 years (SS 2017-18 to SS 2020-21 (mid-June 2021)) due to high inventories. It is to be noted that the prices are mainly backed by revision in Minimum Selling Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg in June 2018. Subsequently, the industry has been looking forward for a hike in sugar MSP for quite some time now.

**Liquidity: Strong**

In the absence of any major capex and plough back of profits over the years, the liquidity position of the company remains strong. The company has strong liquidity position with cash and investments of Rs.163 crore (Rs.59 crore in Mutual funds, Rs.102 crore in quoted equity, free cash of Rs.2 crore) as on March 31, 2021 and Rs.174 crore as on June 30, 2021. Scheduled repayment for FY22 of long-term debt is at Rs. 12 crore while remaining Rs.18 crore is towards FD maturity. The current ratio of the company is comfortable at 1.74 times as on March 31, 2021, with average working capital

utilization of 69.67% for 12 months ended June 2021 offering headroom when additional working capital is required. As on March 31, 2021 closing inventory stood at Rs. 243 crore as against net debt of Rs.107 crore.

**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**

K.C.P Sugars and Industries Corporation Ltd. (KCP) is part of the KCP group. K.C.P. Limited (KCPL), the flagship company of the group, 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. KCP presently owns and operates sugar mill at Vuyyuru (Andhra Pradesh) with an aggregate capacity of 7,500 TCD (Tonnes of Cane Crushed per Day), distillery capacity of 50 KLPD (Kilo Liters per Day) and incidental co-generation capacity of 15 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 1400 TPA Mycorrhiza.

<b>Brief Financials (Rs. crore)</b>	<b>FY20 (A)</b>	<b>FY21 (Abridged)</b>
Total operating income	364	310
PBILDT	22	7
PAT	-11	19
Overall gearing (times)	1.05	1.00
Interest coverage (times)	1.03	0.30

A: Audited, NM – Not meaningful

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

**Any other information:** NA

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

**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-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	4.09	CARE A2+
Term Loan-Long Term	-	-	March 2026	47.33	CARE A-; Negative
Fund-based - ST-Working Capital Limits	-	-	-	34.23	CARE A2+
Fixed Deposit	-	-	-	89.27	CARE A- (FD); Negative

**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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	173.62	CARE A-; Negative	-	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	4.09	CARE A2+	-	1)CARE A1 (03-Sep-20)	1)CARE A1 (02-Jul-19)	1)CARE A1 (03-Jul-18)
3.	Fixed Deposit	LT	89.27	CARE A- (FD); Negative	-	1)CARE A (FD); Stable (23-Sep-20) 2)CARE A (FD); Stable (03-Sep-20)	1)CARE A (FD); Stable (02-Jul-19)	1)CARE A (FD); Stable (03-Jul-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
4.	Term Loan-Long Term	LT	47.33	CARE A-; Negative	-	1)CARE A; Stable (03-Sep-20)	1)CARE A; Stable (02-Jul-19)	1)CARE A; Stable (03-Jul-18)
5.	Fund-based - ST-Working Capital Limits	ST	34.23	CARE A2+	-	1)CARE A1 (03-Sep-20)	-	-

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

**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](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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August 20, 2021

**Confidential**

Dear Sir,

**Credit rating for bank facilities and Fixed Deposit Programme**

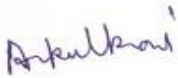
Please refer to our rating letter no. CARE/CRO/RL/2021-22/1159 dated August 17, 2021, rating rationale dated August 17, 2021 and your representation mail dated August 18, 2021 on the above subject.

2. We have considered your representation and noted that all the relevant points have already been discussed and captured during the rating exercise. In the absence of any additional/ fresh information, the rating of **CARE A-; Negative (Single A Minus; Outlook: Negative) for long term bank facilities, CARE A2+ (A Two Plus) for short term bank facilities and CARE A-(FD); Negative (Single A Minus (Fixed Deposits); Outlook: Negative)** which was conveyed to you vide rating letter dated August 17, 2021 for the Bank Facilities amounting to Rs. 259.27 crore and for Fixed Deposit programme amounting to Rs.89.27 crore stands unchanged.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



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