

Ref:KSICL/STK.EX/ 2018-19

01.07.2019

**THE VICE PRESIDENT
 CAPITALMARKET(OPERATIONS)
 THE NATIONAL STOCK EXCHANGE OF
 INDIA LIMITED**
 Exchange Plaza, 5th Floor
 Plot No.C/1, G Block
 Bandra-Kurla Complex, Bandra (E)
Mumbai 400 051.

**MANAGER
 CORPORATE RELATIONSHIP
 DEPT OF CORP SERVICES
 BOMBAY STOCK EXCHANGE LTD**
 Floor 25, PJ Towers
 Dalal Street
Mumbai 400 001

COURIER

KCPSUGIND -EQ

**Scrip ID: KCPSUGIND
 Scrip Code: 533192**

Dear Sir,

Sub: Disclosure of revision / reaffirmation of credit rating in pursuance of Regulation 30 of SEBI (LODR) Regulations, 2015

In compliance with Regulation 30 of SEBI (LODR) Regulations, 2015 read with para A of part A of schedule III to the said Regulations, we wish to inform you that Credit Analysis & Research Ltd have revised / reaffirmed the rating in respect of bank facilities and fixed deposits vide their letters dt.28.06.2019 as detailed below:

Sl. No	Category	Amount – Rs./Cr.	Rating	Remarks
1	Long term bank facilities	258.25	CARE A; Stable (Single A; Outlook; Stable)	Reaffirmed
2	Short term Bank facilities	6.50	CARE A1 (A one)	Reaffirmed
3	Fixed Deposit Programme	89.27	CARE A (FD); Stable Single A (Fixed Deposit) Outlook:Stable	Reaffirmed

We request you to kindly take this on your records

Thanking you,

Yours faithfully,

For **K.C.P. SUGAR AND INDUSTRIES CORPORATION LIMITED.**

S. Chidambaram

**S CHIDAMBARAM
 GM (ACCOUNTS) AND COMPANY SECRETARY**

◇ 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 Fax: 08676 232640
 - Lakshmiapuram, Krishna Dist., A.P. - 521 131. Tel : 08671 222046 Fax: 08671 222640

Received
S. D. S. S. S.
6.30 pm
28/06/2019

CARE/CRO/RR/2019-20/1025

Mr R Ganesan,
CFO,
K.C.P Sugar and Industries Corporation Limited
'Ramakrishna Buildings',
239, Anna Salai, Chennai- 600 006

June 28, 2019

Dear Sir,

Credit rating for Bank Facilities

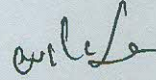
Please refer to our letters dated June 28, 2019 on the above subject.

2. The rationale for the rating is attached as an **Annexure-I**.
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 July 01, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


Vidhyashankar C
Senior Manager

Encl.: As above

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

Annexure - I

Rating Rationale

K.C.P. Sugar and Industries Corporation Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	258.25 (enhanced from 162.38)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	6.50	CARE A1 (A One)	Reaffirmed
Total	264.75 (Rupees Two Hundred Sixty Four crore and Seventy Five lakh only)		
Fixed Deposit programme	89.27 (Rupees Eighty Nine crore 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 six decades in the sugar industry, integrated nature of operations consisting of distillery & cogeneration resulting in diversified revenue stream, comfortable capital structure, adequate liquidity position of the company and improved profitability in FY19 (refers to the period April 1 to March 31).

The ratings, however, continue to factor in the susceptibility of the revenues and profitability to the demand-supply dynamics, absence of sufficient diversification in terms of command area and plant location, cyclical nature and regulated nature of the sugar industry.

Going forward, the ability of the company to ensure cane availability through maintaining good relationship with farmers, improve its profitability and any prolonged down trend in the sugar industry would be the key rating sensitivity.

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 six decades in the sugar industry. KCP is presently having two sugar mills, one each at Vuyyuru and Lakshmiapuram. Both the

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

units are situated at Krishna District of Andhra Pradesh. Vuyyuru unit is situated at 30 km away from east of Vijayawada and Lakshmipuram unit is situated at 40 km away from Vuyyuru unit. Vuyyuru unit is an integrated sugar complex with cane crushing facility with crushing capacity of 7,500 TCD, distillery facility with capacity of 50 KLPD, incidental co-generation facility of 15 MW. It also has a chemical division with facility to manufacture pharma grade calcium lactate, carbon dioxide (by-product of distillery division) and bio-tech division with facility to manufacture bio-fertilizer and bio-compost production facility.

Lakshmipuram unit has a cane crushing facility with capacity of 4000 TCD, and incidental co-generation facility of 5 MW. It does not have a distillery unit; however, it has storage facility for molasses. Depending on the demand and market prices, either it is sold in the market or transferred to Vuyyuru unit. The integrated nature of operations at company level provides flexibility to KCP to change its product mix according to the market demand and insulates it to a certain extent from the cyclicity in sugar prices.

Presence in high-yield area

The command areas of both the units are situated in Krishna District, Andhra Pradesh. The command area is present in a region which has highly fertile land and irrigated by Krishna river water through canals. In addition to above, various cane development activities including supply of bio-fertilizers, periodical introduction of new cane varieties and financial incentives to farmers based on yields helps the company to achieve better cane yield. The total cane crushed during FY19 was 11.26 Lakh Tonne as against 8.69 Lakh Tonne in FY18. Cane crushed improved in FY19 due to higher registered cane area and favourable climatic conditions. The recovery improved slightly at 9.50% in FY19 as against 9.42% in FY18. KCP has developed good relationship with farmers over the years ensuring cane supply for crushing.

Improvement in performance during FY19 with comfortable capital structure

During FY19, the performance of the company improved with PAT of Rs.10 cr and GCA of Rs.38 cr on total operating income of Rs.327 cr as against net loss of Rs.7 cr on TOI of Rs.331 cr in FY18. During FY18, the sugar prices were in an increasing trend from Apr'17 to Nov'17 however the sugar prices started declining in Q4FY18. On account of fall in sugar prices during Q4FY18 and MTM of the same, the company incurred inventory loss of around Rs. 80 cr, which has resulted in moderation in

profitability in full year-FY18. During FY19, with sale of low cost opening inventory at higher prices, the company registered improvement in profitability during the period. The average sugar realization in FY19 was Rs.31.07/Kg (PY36.55/Kg) with total sugar sales volume of 6.78 lakh (PY:6.83 lakh quintals) quintals in FY19. The sugar price for KCP touched Rs.32.9/kg in May 2019.

This apart with increase in cane crushing in FY19 at 11.3 lakh MT (PY 8.7 lakh MT), the revenue from by-products also improved during the period. Sales from bagasse grew by 74% and from Ethanol/Alcohol increased by 42% in FY19 as against the previous year. KCP has generated Rs.52 cr from sale of ethanol during FY19. The company sells ethanol mainly to all three major oil marketing companies in the country. The company has a long term power purchase agreement (PPA) with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) for a period of 20 years from 2005-06. The company also directly sells surplus Bagasse in the market. During FY19 the company earned Rs.26 Cr from sale of bagasse. With increasing in cane crushing in FY19 and similar sugar sales volume during the period as against the previous year mainly on account of regulated release mechanism, the year end inventory levels and trade payables of KCP have increased.

The capital structure of the company remains comfortable with debt equity ratio of 0.26 times (PY 0.30 times) and overall gearing of 0.84 times (PY 0.82 times) as on March 31, 2019. Of the total debt as on March 31, 2019 (Rs.221 cr), working capital limits constitute 69%, and FD constitutes 31%. Of the total FD, nearly 90% is rolled over/renewed at maturity for a tenor of 2-3 years.

Adequate liquidity

In the absence of any major capex and plough back of profits over the years, the liquidity position of the company remains adequate. KCP has free cash and liquid investments of Rs.134 crore (Rs.55 cr in Mutual funds and Rs.79 cr in quoted equity) as on March 31, 2019. For FY20, the company does not have bank term loan repayment obligations. The working capital utilization remained moderate at 61% for the twelve months ended May 2019.

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 industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. Sugar production in India declined in each of the sugar seasons (October –September) 15-16 and Sugar Season (SS) 16-17 due

to lower availability of sugarcane. Lower sugar production had resulted in increase in average domestic sugar price in SS 16-17. Sugar prices remained high during April 2017 to November 2017. Subsequently the prices started declining from December 2017 onwards, primarily on account of higher sugar production in SS17-18. The sugar production in the SS 17-18 increased by nearly 56% over the previous season. Higher sugar production along with opening stock at the beginning of the SS 17-18 and similar consumption levels as that of previous SS resulted in higher closing stock for SS17-18. The prices improved during Q2FY19 onwards with various steps taken by the government to support the industry.

In order to reduce the burden on the mills and the farmers the central government announced various steps like production incentive of Rs.5.5/quintal to bring down the cane dues, which was subsequently increased to Rs.13.88/Quintal. Also increasing import duty, withdrawing export duty on exports of sugar, imposing export quota on mills, introducing release mechanism, encouraging ethanol production for blending program by providing financial assistance, implementation MSP on sugar are few steps taken by the government to stabilize the sugar prices and aid the industry.

Prospects

The financial performance of KCP improved in FY19 with sale of low cost inventory at higher price and increase in cane crushing resulting in higher income from by products. With a long-track record of operations of more than 60 years, 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.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

About the Company

KCP Limited (KCPL) was promoted by late Mr V. Ramakrishna in 1941. Over the years, KCPL diversified into various industries including cement, engineering, apart from sugar. In 1995, KCP was formed under the leadership of late Mr V. M. Rao to take over sugar mills and workshop of KCPL. At present, Ms I.V.M. Rao is Managing Director of KCP. KCP presently owns and operates two sugar mills, one each at Vuyyuru (Andhra Pradesh) and Lakshmipuram (Andhra Pradesh) with an aggregate capacity of 11,500 TCD (Tonnes of Cane Crushed per Day), primary and secondary distillery capacity of 50 KLPD (Kilo Liters per Day) and incidental co-generation capacity of 20 megawatt (MW). In addition to the above, it also has facility to manufacture 500 Tonnes Per Annum (TPA) pharma grade calcium lactate, 60 TPA carbon dioxide, 1,200 TPA Bio-fertilizer and 700 TPA Mycorrhizha.

Financial Performance:

(Rs. crore)

For the period ended / as at March 31,	2017 (12m, A)	2018 (12m, A)	2019 (12m, A)
Working Results			
Total Operating income	413	331	327
PBILDT	63	-36	57
Interest	11	14	19
Depreciation	9	9	8
PBT	70	-7	26
PAT (after deferred tax)	55	8	10
Gross Cash Accruals	46	-33	38
Financial Position			
Equity Capital	11	11	11
Networth	258	254	264
Total capital employed	326	399	464
Key Ratios			
<i>Growth</i>			
Growth in Total income (%)	6.34	12.90	2.15
Growth in PAT (after deferred tax) (%)	6.62	NM	NM
<i>Profitability</i>			
PBILDT/Total Op. income (%)	15.26	-ve	17.44
PAT (after deferred tax)/ Total income (%)	13.28	2.53	3.12
ROCE (%)	21.78	1.61	9.10
<i>Solvency</i>			
Debt Equity ratio (times)	0.26	0.30	0.26
Overall gearing ratio(times)	0.54	0.82	0.84
Interest coverage(times)	7.44	NM	3.06
Term debt/Gross cash accruals (years)			
Total debt/Gross cash accruals (years)	1.44	NM	1.80
<i>Liquidity</i>			
Current ratio (times)	1.88	1.63	1.40
Quick ratio (times)	0.67	0.65	0.28
<i>Turnover</i>			
Average collection period (days)	28	25	24
Average inventory (days)	252	213	400
Average creditors (days)	88	55	125
Operating cycle (days)	193	183	299

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**

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.

Analyst Contact:

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	231.25	CARE A; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	6.50	CARE A1
Term Loan-Long Term	-	-	March 2021	27.00	CARE A; Stable
Fixed Deposit	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	231.25	CARE A; Stable	-	1)CARE A; Stable (03-Jul-18)	1)CARE A; Stable (04-Jul-17)	1)CARE A (06-Jul-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	6.50	CARE A1	-	1)CARE A1 (03-Jul-18)	1)CARE A1 (04-Jul-17)	1)CARE A1 (06-Jul-16)
3.	Fixed Deposit	LT	89.27	CARE A (FD); Stable	-	1)CARE A (FD); Stable (03-Jul-18)	1)CARE A (FD); Stable (04-Jul-17)	1)CARE A (FD) (06-Jul-16)
4.	Term Loan-Long Term	LT	27.00	CARE A; Stable	-	1)CARE A; Stable (03-Jul-18)	1)CARE A; Stable (04-Jul-17)	1)CARE A (06-Jul-16)

Annexure-3: Details of Rated Facilities

1. Long-term facilities

1.A Term loans

(Rs. cr)

S.No	Name of the Bank	Rated Amount
1.	HDFC Bank Ltd	27.00
	Total	27.00

1. B. Fund-based limits

(Rs. cr)

S.No	Name of the Bank	Facility	Rated amount
1.	Axis Bank Ltd	CC/WCDL	34.63
2.	ICICI Bank Ltd	CC/WCDL	76.62
3.	State Bank of India	CC	70.00
4.	Proposed	Fund based working capital	50.00
	Total		231.25

CC: Cash Credit; WCDL: Working Capital Demand Loan

Total Long-term facilities (1.A+1.B) = Rs.258.25 crore

2. Short-term facilities

2. A. Non-fund-based limits

(Rs. cr)

S.No	Name of the Bank	Facility	Rated amount	Remarks
1.	Axis Bank	BG	5.00	
2.	SBI	BG/LC	1.50	*100% interchangeability between LC and BG
	Total		6.50	

BG: Bank Guarantee, LC: Letter of Credit

Total Short-term facilities (2.A) = Rs.6.50 crore