1941- 2016

Ref: KCP / SHARE / RB/ 16-17 / 67161

July 6, 2016

National Stock Exchange of India Limited (NSE)
Scrip : KCP
Bandra Kurla Complex,
Bandra (E)
Mumbai-400 051

Bombay Stock Exchange Ltd (BSE)
Scrip - 590066
Floor No.25, P J Towers
Dalal Street,
Mumbai 400 001

Dear Sir / Madam,

Sub: Intimation about revision in ratings.

We are pleased to inform you that CRISIL has revised the ratings of the Company (The KCP Limited) bank loan facilities and other debt facilities as detailed below.

Long Term Rating	**CRISIL A-/Stable (Upgraded from "CRISIL BBB+/Positive)**
Short Term Rating	**CRISIL A2+ (Upgraded from "CRISIL A2')**
Rs. 700 Million Non-Convertible Debentures	**CRISIL A-/Stable(Upgraded from "CRISIL BBB+/Positive')**
Rs.1.25 Billion Fixed Deposits (Enhanced from Rs.900 Million)	**FA Stable (Upgraded from FA-/ Positive')**

A copy of the Rating Rationale is annexed.

This is for your information and records.

Thanking you,

Yours faithfully,
For THE KCP LIMITED

Y. VIJAYAKUMAR
COMPANY SECRETARY &
COMPLIANCE OFFICER.

Ratings

CRISIL
An S&P Global Company

Rating Rationale

July 05, 2016 | Mumbai

The KCP Limited

Ratings upgraded to 'CRISIL A-/FA/Stable/CRISIL A2+'

Total Bank Loan Facilities Rated	Rs.8791.9 Million (Enhanced from Rs.6461.9 Million)
Long Term Rating	CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')
Short Term Rating	CRISIL A2+ (Upgraded from 'CRISIL A2')

(Refer to Annexure 1 for Facility-wise details)

Rs.700 Million Non Convertible Debentures	CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')
Rs.1.25 Billion Fixed Deposits (Enhanced from Rs.900 Million)	FA/Stable (Upgraded from 'FA-/Positive')

CRISIL has upgraded its ratings on the bank facilities, non-convertible debentures, and fixed deposits of The KCP Ltd (part of the KCP group) to '**CRISIL A-/FA/Stable/CRISIL A2+**' from 'CRISIL BBB+/FA-/Positive/CRISIL A2'.

The upgrade reflects CRISIL's belief that the KCP group's business risk profile will improve over the medium term, driven by better profitability in the cement and sugar businesses, and reducing losses in the engineering division. The cement business witnessed steady volume growth of around 10% in fiscal 2016 compared to marginal fall in industry volume across South India. It is expected to benefit from sustained realisations driven by pricing discipline, and volume uptick due to higher infrastructure spending in core markets of Andhra Pradesh and Telangana. Also, stable demand in the sugar business carried out by the group's Vietnam subsidiary, coupled with enhanced capacity from fiscal 2017 onwards, will benefit cash flow over the medium term.

The KCP group is undertaking a brownfield expansion programme of Rs 3.87 billion to increase cement capacity by 1.66 million tonne per annum (tpa). The project is expected to be commissioned in the last quarter of fiscal 2018. The project entails debt addition of Rs 2.90 billion and will expose the group to risks related to implementation and stabilisation. Moratorium of three years on the fresh debt (repayments to begin from fiscal 2020, by which time a large portion of the current term debt would be repaid) will help stabilise operations and manage liquidity. Implementation of the project without any time or cost overrun, and ramp-up of volume post stabilisation will be key monitorables. While large capital expenditure exposes the group to project-related risks, improvement in business risk profile and management's track record of successfully executing large projects will mitigate impact on credit risk profile. Also, notwithstanding the debt addition, the group's financial risk profile is expected to remain adequate for the rating category. Gearing is expected to peak to around 0.7 times as on March 31, 2018 (0.65 times as on March 31, 2016), and recover thereafter. The group's interest cover and net cash accruals to debt ratios are expected to remain at over 4 times and 0.25 respectively over the medium term.

The ratings reflect the KCP group's established track record in the cement segment in South India and the sugar sector in Vietnam, and moderate financial risk profile because of healthy gearing and debt protection metrics. These strengths are partially offset by sub-par performance of the engineering division, susceptibility to business cycles and continuing demand-supply mismatch in the South Indian cement markets, and project related risks across businesses.

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of The KCP Ltd, KCP Vietnam Industries Ltd (KCP Vietnam), and a joint venture, Fives Cail KCP Ltd. This is because the three entities, collectively referred to as the KCP group, have a common management and financial linkages.

Outlook: Stable

CRISIL believes the KCP group's business risk profile will continue to benefit from its established market position in cement and sugar businesses. The outlook may be revised to 'Positive' in case of significant improvement in operating performance, while maintaining financial risk profile. The outlook may be revised to 'Negative' if cash accrual declines because of slow pick-up in demand for cement or fall in realisations, or if higher losses in the engineering or hotel businesses weaken credit metrics and liquidity. Any cost or time overruns in ongoing capacity expansion in cement and sugar businesses, necessitating higher-than-envisaged dependence on debt, could also lead to a 'Negative' outlook.

About the Group

The KCP group was founded in 1941 by Mr. V Ramakrishna, a first-generation entrepreneur who set up a sugar-manufacturing unit. Cement division commenced operations in 1958 and currently has two units, one each in Guntur, Andhra Pradesh (capacity of 0.66 million tpa), and Muktyala, Andhra Pradesh (1.86 million tpa). The heavy engineering division, set up in 1955 at Tiruvottiyur in Chennai, undertakes casting, fabrication, and machining of heavy equipment for core industries (sugar, cement, steel, and power). KCP Vietnam, which commenced operations in 1999, has a capacity of 6000 tonnes crushed per day (tcd) expected to increase to about 10,000 tcd. The group recently set up a 128-room four-star hotel in Hyderabad, which began operations in April 2016.

The KCP group reported a profit after tax (PAT) of Rs 1.17 billion on net sales of Rs 12.96 billion for fiscal 2016, against a PAT of Rs 674.4 million on net sales of Rs 11.87 billion for fiscal 2015.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Million)	Rating	Facility	Amount (Rs.Million)	Rating
Cash Credit	1010	CRISIL A-/Stable	Cash Credit	1010	CRISIL BBB+/Positive
Letter of credit & Bank Guarantee	945	CRISIL A2+	Letter of credit & Bank Guarantee	945	CRISIL A2
Proposed Long Term Bank Loan Facility	3205.2	CRISIL A-/Stable	Proposed Term Loan	350	CRISIL BBB+/Positive
Proposed Term Loan	350	CRISIL A-/Stable	Short Term Loan	200	CRISIL A2
Short Term Loan	200	CRISIL A2+	Term Loan	3956.9	CRISIL BBB+/Positive
Term Loan	3081.7	CRISIL A-/Stable	--	0	--
Total	8791.9	--	Total	6461.9	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Manufacturing Companies
Rating Criteria for Cement Industry
Rating Criteria for Engineering Sector
Criteria for rating Short-Term Debt (including Commercial Paper)

For further information contact:

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