

## Rating Rationale

May 12, 2021 | Mumbai

### The KCP Limited

*Ratings upgraded to 'CRISIL A/FA+/Stable/CRISIL A1' ; NCD Withdrawn*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.639.33 Crore (Reduced from Rs.879.19 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')</b>
<b>Short Term Rating</b>	<b>CRISIL A1 (Upgraded from 'CRISIL A2+')</b>

<b>Rs.125 Crore Fixed Deposits</b>	<b>F A+/Stable (Upgraded from 'FA/Stable')</b>
<b>Rs.70 Crore Non Convertible Debentures</b>	<b>CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable' and Rating Withdrawn)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities and fixed deposits of The KCP Ltd (KCP; part of the KCP group) to 'CRISIL A/FA+/Stable/CRISIL A1' from 'CRISIL A-/FA/Stable/CRISIL A2+'. Simultaneously, it has withdrawn its rating on the Rs 70 crore proposed non-convertible debentures and bank loan facilities aggregating Rs 239.86 based on no due certificate, receipt of confirmation from bank and at the client's request. The withdrawal is in line with the CRISIL Ratings policy on withdrawal of ratings.

The upgrade reflects CRISIL Ratings expectation that KCP group's financial and business risk profiles will improve driven by healthy performance of the cement business and the same would sustain over the medium term. KCP will benefit from sustained realisations, driven by pricing discipline in the industry and volume uptick because of higher infrastructure spending in the core markets of Andhra Pradesh and Telangana along with exploring newer markets of Tamil Nadu, Maharashtra, Madhya Pradesh and others. Additionally improvement in realisation in the sugar business carried out by the group's Vietnam subsidiary will also benefit the cash flow over the medium term.

Based on the nine month trend and estimation for the fourth quarter, the cement business volume growth is estimated at around 25% in fiscal 2021 compared with fall of around 5% in industry volume across South India. In fiscal 2021, the earnings before income, depreciation, tax and amortisation (EBIDTA) margin of the KCP group is estimated at 20%, a significant increase from 12.7% in the previous fiscal. Improvement in the EBITDA margin is backed by healthy performance of the cement business, as seen in EBITDA/tonne estimated at Rs 1,050-1,100 compared with around Rs 340 in the previous fiscal, largely aided by healthy realisation.

On account of healthy operating performance, the financial risk profile has strengthened further, indicated by improved leverage, as visible in estimated debt to EBITDA ratio of around 1.25 times in fiscal 2021 compared with 2.74 times in the previous fiscal. Debt protection metrics also improved, as seen in interest coverage ratio improving to around 7 times in fiscal 2021 from 3.26 times in fiscal 2020. Liquidity too has witnessed significant improvement, more pronounced in the standalone business (cash and cash equivalents estimated at Rs 140-150 crore as on March 31, 2021 compared with Rs 36 crore as on March 31, 2020). Maintenance of ample liquidity and sustained operating margin will be key monitorables.

The ratings continue to factor in the group's established track record in the cement segment in South India and the sugar sector in Vietnam and healthy financial risk profile indicated by low gearing. These strengths are partially offset by sub-par performance of the engineering and hotel divisions and susceptibility to business cycles and continuing demand-supply mismatch in the South Indian cement markets.

KCP received moratorium from its lenders in line with the relief measure announced by the Reserve Bank of India on payment of instalments against loans and interest; it availed the relief from March to August 2020.

#### Analytical Approach

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

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

## **Key Rating Drivers & Detailed Description**

### **Strengths:**

#### **Established track record in the cement and sugar businesses**

The KCP group has been in the cement business for over five decades. The cement division is estimated to witness volume growth of around 25% in fiscal 2021 compared with fall of around 5% in industry volume across South India. The company continues to have significant market footprint in the Andhra Pradesh and Telangana regions. Overall revenue from this division is estimated at Rs 1,200 crore in fiscal 2021 compared with Rs 844 crore in fiscal 2020. Cement realisation improved in fiscal 2021, resulting in the EBIT margin estimated to increase to around 20% from 3.1% in fiscal 2020. Healthy performance in the cement division is expected to sustain as demand revives in these geographies and realisation remains firm.

The group also has sugar crushing capacity of 11,000 tonne per day (tpd) in Vietnam housed under the subsidiary i.e. KCP Vietnam Industries Ltd. Revenue from this segment is 20-30% of the overall consolidated group. Performance of the sugar business was subdued in fiscal 2021 because of reduced harvest on account of continued drought conditions and low realisation due to decrease in global sugar prices. Performance of the sugar division is expected to improve in fiscal 2022 on account of better yield and expected recovery in global sugar prices.

#### **Healthy financial risk profile**

Financial risk profile is backed by steady cash accrual, healthy capital structure and comfortable debt protection metrics. Gearing is estimated to have been healthy at below 0.40 time as on March 31, 2021, with interest coverage ratio estimated at 7 times in fiscal 2021.

### **Weaknesses**

#### **Weak performance of the engineering and hotel businesses**

The engineering and capital goods industry is highly vulnerable to economic cycles on account of linkages to the capex plans of customers, which are affected by slowdown in industrial growth. Despite healthy order book, profitability of the engineering division is expected to remain subdued because of high competitive intensity.

The company also has operations under the hospitality segment. Even though the hotel is in its initial stage of operations, with commencement of operations only in April 2016, the company has been able to gradually ramp up its occupancy levels. However, the Covid-19 pandemic has severely impacted the hospitality industry and recovery in the sector is expected to take more time compared with other sectors.

Performance in both the aforementioned segments is likely to remain impacted in fiscal 2022, but overall impact on the financial risk profile is expected to be minimal, as contribution from these segments is low in terms of revenue and profitability.

#### **Susceptibility to business cycles and continuing demand-supply mismatch in South Indian cement markets**

Capacity addition in the cement industry tends to be sporadic because of the long gestation period for setting up a facility and numerous players adding capacity during the peak of a cycle. This has led to unfavourable price cycles for the sector. Moreover, profitability remains susceptible to volatility in input prices, including raw material, power, fuel and freight. Realisations and profitability are also affected by demand, supply, offtake and regional factors. KCP remains exposed to fluctuations in fuel prices in addition to the risk of volatility in cement prices given the oversupply situation in South India.

### **Liquidity: Strong**

Net cash accrual, projected at Rs 210 crore in fiscal 2022, will sufficiently cover debt obligation of around Rs 72 crore. Cash and cash equivalents for the KCP group are estimated at Rs 350 crore as on March 31, 2021. Utilisation of fund-based working capital limit averaged 27% over the 12 months through February 2021.

### **Outlook: Stable**

CRISIL Ratings believes KCP will continue to maintain its improved operating performance and healthy financial risk profile, backed by its strong market position in cement and sugar business.

## **Rating Sensitivity factors**

### **Upside factors**

- Improved operating performance resulting in consolidated EBITDA margin sustaining at 18-20%.
- Standalone business achieving net cash positive status (cash and equivalents higher than gross debt) on a sustained basis, driven by healthy accrual

### **Downside factors**

- Subdued operating performance resulting in gross debt to EBITDA weakening to below 3 times on a sustained basis
- Liquidity weakens due to higher-than-expected capital expenditure, material acquisition or distribution of cash by way of high dividend/buyback program

## About the Group

The KCP group was founded in 1941 by Mr V Ramakrishna, a first-generation entrepreneur who began operations by setting up a sugar unit. The cement division commenced operations in 1958 and has two units, one each at Guntur (capacity of 0.825 MTPA) and Muktyala (3.52 MTPA) in Andhra Pradesh. 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 Industries Ltd, which commenced operations in 1999, has a sugar crushing capacity of 11,000 tpd. The group also has a 128-room four-star hotel in Hyderabad named 'Mercure', which began operations in April 2016.

For the nine months ended December 2020, consolidated profit after tax (PAT) for the company was Rs 95 crore on operating income of Rs 1,182 crore compared with PAT of Rs 24 crore on operating income of Rs 1,072 crore for the corresponding period of the previous fiscal.

## Key Financial Indicators (Consolidated)

Particulars	Units	2020	2019
Revenue	Rs crore	1,410	1,656
PAT	Rs crore	58	110
PAT margin	%	4.1	6.6
Adjusted debt/adjusted networth	Times	0.54	0.61
Interest coverage	Times	3.26	6.09

**Any other information:** Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Term loan	NA	NA	June - 2023	20.96	NA	CRISIL A/Stable
NA	Term loan	NA	NA	March - 2026	22.78	NA	CRISIL A/Stable
NA	Term loan	NA	NA	March - 2022	8.42	NA	CRISIL A/Stable
NA	Term loan	NA	NA	Sept - 2025	209.25	NA	CRISIL A/Stable
NA	Term loan	NA	NA	March - 2025	2.57	NA	CRISIL A/Stable
NA	Cash credit	NA	NA	NA	97.35	NA	CRISIL A/Stable
NA	Letter of credit and bank guarantee	NA	NA	NA	133.00	NA	CRISIL A1
NA	Proposed cash credit	NA	NA	NA	50.00	NA	CRISIL A/Stable
NA	Proposed letter of credit and bank guarantee	NA	NA	NA	25.00	NA	CRISIL A1
NA	Short-term loan	NA	NA	NA	20.00	NA	CRISIL A1
NA	Proposed long-term bank loan facility	NA	NA	NA	50.00	NA	CRISIL A/Stable
NA	Fixed deposits	NA	NA	NA	125.00	Simple	FA+/Stable
NA	Cash credit	NA	NA	NA	28.65	NA	Withdrawn
NA	Term loan	NA	NA	NA	178.19	NA	Withdrawn
NA	Letter of credit & Bank Guarantee	NA	NA	NA	32.00	NA	Withdrawn
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1.02	NA	Withdrawn

## Instrument withdrawn

ISIN	Name of instrument	Date of allotment	Coupon date (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Non-convertible debenture#	NA	NA	NA	70.00	Simple	Withdrawn

#Yet to be issued

#### Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
KCP Vietnam Industries Ltd	Full consolidation	Common management and financial linkages
Fives Cail KCP Ltd	Equity method	Financial linkages

#### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	689.19	CRISIL A1 / CRISIL A/Stable		--	15-05-20	CRISIL A2+ / CRISIL A-/Stable	31-07-19	CRISIL A2+ / CRISIL A-/Positive	27-07-18	CRISIL A2+ / CRISIL A-/Positive	CRISIL A2+ / CRISIL A-/Stable
Non-Fund Based Facilities	ST	190.0	CRISIL A1		--	15-05-20	CRISIL A2+	31-07-19	CRISIL A2+	27-07-18	CRISIL A2+	CRISIL A2+
Fixed Deposits	LT	125.0	F A+/Stable		--	15-05-20	F A/Stable	31-07-19	F A/Positive	27-07-18	F A/Positive	F A/Stable
Non Convertible Debentures	LT	70.0	Withdrawn		--	15-05-20	CRISIL A-/Stable	31-07-19	CRISIL A-/Positive	27-07-18	CRISIL A-/Positive	CRISIL A-/Stable

All amounts are in Rs.Cr.

#### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	97.35	CRISIL A/Stable	Cash Credit	116	CRISIL A-/Stable
Cash Credit	28.65	Withdrawn	Fund-Based Facilities**	75	CRISIL A-/Stable
Letter of credit & Bank Guarantee	133	CRISIL A1	Letter of credit & Bank Guarantee	135	CRISIL A2+
Letter of credit & Bank Guarantee	32	Withdrawn	Proposed Cash Credit Limit	45	CRISIL A-/Stable
Proposed Cash Credit Limit	50	CRISIL A/Stable	Proposed Letter of Credit & Bank Guarantee	15	CRISIL A2+
Proposed Letter of Credit & Bank Guarantee	25	CRISIL A1	Proposed Long Term Bank Loan Facility	53.8	CRISIL A-/Stable
Proposed Long Term Bank Loan Facility	50	CRISIL A/Stable	Short Term Loan	20	CRISIL A2+
Proposed Long Term Bank Loan Facility	1.02	Withdrawn	Term Loan	419.39	CRISIL A-/Stable
Short Term Loan	20	CRISIL A1	-	-	-
Term Loan	263.98	CRISIL A/Stable	-	-	-

<b>Term Loan</b>	<b>178.19</b>	<b>Withdrawn</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>879.19</b>	<b>-</b>	<b>Total</b>	<b>879.19</b>	<b>-</b>

*\*\*Interchangeable with non-fund based facility.*

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">Rating Criteria for Cement Industry</a>
<a href="#">Rating Criteria for Engineering Sector</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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