

April 04, 2016
Mumbai

The KCP Limited

Ratings outlook revised to 'Positive'; ratings reaffirmed

Total Bank Loan Facilities Rated	Rs.6461.9 Million
Long Term Rating	CRISIL BBB+/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

(Refer to Annexure 1 for Facility-wise details)

Fixed Deposits	FA-/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Rs.700 Million Non Convertible Debentures	CRISIL BBB+/Positive (Outlook revised from 'Stable' and rating reaffirmed)

CRISIL has revised its rating outlook on the long-term bank facilities, non-convertible debentures, and fixed deposits of The KCP Limited (part of the KCP group) to **'Positive'** from 'Stable', while reaffirming the ratings at **'CRISIL BBB+/FA-'**. The rating on the company's short-term bank facilities has been reaffirmed at 'CRISIL A2'.

The outlook revision reflects CRISIL's belief that the KCP group's business risk profile may improve over the near term driven by sustained improvement in cash accruals on account of volume uptick and healthy realizations in the cement segment, and ramping up of enhanced capacity in the sugar segment. In the nine months ended December 2015, revenue from the cement business grew by 23.7 per cent; the earnings before interest and taxes (EBIT) margins improved to over 15 per cent from around 7 per cent in the corresponding period of the previous year. This business is expected to benefit from higher infrastructure spending in its core market (Andhra Pradesh [AP]) owing to the new capital formation. The sugar business is expected to register steady accruals driven by stable demand. Also, the group has completed a substantial portion of expansion in this business, benefits of which are expected to accrue from 2016-17 (refers to financial year, April 1 to March 31) onwards. Higher cash accruals driven by improved operating performance will also benefit the group's financial risk profile, notwithstanding the additional debt being contracted for capital expenditure (capex) in its sugar business.

The ratings continue to reflect the group's established track record in the cement sector in South India and the sugar sector in Vietnam. The ratings also factor in the group's gradually improving financial risk profile, marked by healthy gearing and adequate debt protection metrics. These rating strengths are partially offset by the sub-par performance of the group's engineering division, the group's susceptibility to business cycles and the continuing demand-supply mismatch in the South Indian cement markets, and project related risks in the company's sugar and hotel businesses.

The KCP group has been operating in the cement business for over 5 decades, and though a mid-sized player (capacity of 2.52 million tonnes per annum [mtpa]), has an established market position and healthy brand recall in AP. The group's cement is sold under the KCP brand mainly in AP, Telangana, and Tamil Nadu. The group also operates a 6000-tcd sugar factory in the Phuyen province in Vietnam. Notwithstanding the volatility in sugar prices, this unit has registered a steady operating performance, supported by healthy offtake from institutional clients and favourable demand-supply conditions for sugar in Vietnam. The group has recently completed expanding the capacity to 8,000 tcd, and proposes to increase the capacity to 10,000 tcd by 2017-18 and set up a co-generation plant over the medium term.

Financial risk profile is expected to improve gradually over the medium term, supported by improving profitability. The gearing improved to 0.72 times as on March 31, 2015 (0.82 times as on March 31, 2014), and is expected to further improve to around 0.6 times over the near term supported by higher accruals and postponement of the group's debt funded plan of setting up a container freight station. Debt protection metrics marked by interest coverage and net cash accruals to debt are also estimated to improve to over 4 times and 0.28 for 2015-16, compared to 3.43 times and 0.21 for 2014-15.

The group's engineering division (7.4 per cent of revenue in 2014-15) manufactures equipment for the cement, sugar, and power sectors. The division's performance has been impacted owing to subdued end-user demand, and is expected to recover only gradually. Its facilities have also been impacted by the recent floods witnessed in Chennai in December 2015. While the resultant quantum of losses is not expected to be material as per management's initial estimates, higher-than-expected loss

will be a key monitorable.

Cement sector in South India continues to witness over-capacity and tepid demand conditions. Further increase in the cost of inputs, such as energy and freight, or continued pressure on operating rates could curb the envisaged improvement in the cement division's operating profits.

The KCP group is exposed to project related risks in its hotels and sugar business. The group's four-star hotel in Hyderabad is expected to be operational from March/April 2016 onwards (in comparison to earlier estimate of July 2015). The group is in the process of expanding the capacity in its sugar business from 6,000 tcd to 10,000 tcd by 2017-18. The expansion, which entails an overall investment of USD 50 million, involves substantial debt contraction. Stabilization and ramp-up of utilization levels in these businesses post successful implementation will be critical.

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

Outlook: Positive

CRISIL believes that the KCP's business risk profile will continue to benefit from its strong market position in cement and sugar businesses. The ratings may be upgraded in case of sustained operating performance in these businesses, leading to further improvement in the group's credit metrics. Conversely, the outlook may be revised to 'Stable' if the KCP group's cash accruals decline because of slow pick-up in cement demand or fall in realizations, or higher losses in the engineering or hotel businesses, also weakening credit metrics and liquidity. Large debt-funded capex or a stretch in the group's working capital cycle could also render a negative bias to the rating.

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. The group's cement division commenced operations in 1958 and it currently operates two cement units: at Guntur (AP; capacity of 0.66 mtpa) and Muktyala in Krishna district (AP; 1.86 mtpa). The group's heavy engineering division was set up in 1955 at Tiruvottiyur in Chennai. The division undertakes casting, fabrication, and machining of heavy equipment for core industries, such as sugar, cement, steel, and power. KCP Vietnam, which commenced operations in 1999, has a capacity of 6000 tcd, which is expected to increase to about 10,000 tcd. The group is also constructing a 128-room four-star hotel in Hyderabad, which is likely to commence operations by March/April 2016.

The KCP group reported a profit after tax (PAT) of Rs.673.7 million on net sales of Rs. 11.82 billion for 2014-15, as against PAT of Rs.499.2 million on net sales of Rs.10.4 billion for 2013-14. KCP, on a standalone basis, reported a PAT of Rs.446 million on net sales of Rs.5.6 billion for the nine months ended December 31, 2015, vis-a-vis a PAT of Rs.24 million on net sales of Rs.4.4 billion for the corresponding period of 2014-15.

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 BBB+/Positive	Cash Credit	1010	CRISIL BBB+/Stable
Letter of credit & Bank Guarantee	945	CRISIL A2	Letter of credit & Bank Guarantee	945	CRISIL A2
Proposed Term Loan	350	CRISIL BBB+/Positive	Proposed Term Loan	350	CRISIL BBB+/Stable
Short Term Loan	200	CRISIL A2	Short Term Loan	200	CRISIL A2
Term Loan	3956.9	CRISIL BBB+/Positive	Term Loan	3956.9	CRISIL BBB+/Stable
Total	6461.9	--	Total	6461.9	--

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