



KCP LTD.

Sector: Cement

Initial Coverage Report

29.03.2018

Overview

KCP Ltd. (Krishna Commercial Products Limited) is mainly in the cement business. 57% of the revenues comes from cement. The company was incorporated in the year 1941. KCP Ltd. is a 75 year old company with interest in sectors like cement, sugar, power, engineering, hotel etc. It started of as a sugar company, then spread out to different sectors and in 1995 KCP Sugar was demerged.

About the Company

The company was founded in 1941 by Sri. V. Ramakrishna. Since then, the company has expanded rapidly into various segments like Heavy Engineering (1955), Cement (1958), Power (1998) and Hospitality (2016).

Milestones

I. 1941

The company started off as a 800 TCD sugar plant in Andhra Pradesh, India.

II. 1955

First Heavy Engineering plant was set up in Chennai. It consisted of an integrated manufacturing plant for providing equipment to core sector industries.

III. 1958

Set up 1st cement plant at Macherla, Andhra Pradesh.

IV. 1967

JV between KCP ltd. EIMCO Corporation, USA. Currently, 100% subsidiary of KCP Sugar & Industries ltd.

Snapshot	
Latest Date	28-Mar-18
Latest Price (Rs)	130.7
Previous Close (Rs)	132.2
52 Week High (Rs)	170.1
52 Week Low (Rs)	91.8
Face Value (Rs)	1
Industry PE	31.16
TTM PE (x)	22.95
Price/BV(x)	2.45
EV/TTM EBIDTA(x)	9.02
EV/TTM Sales(x)	1.64
Dividend Yield%	1.54
MCap/TTM Sales(x)	1.3
Latest Book Value (Rs)	52.89
Market Cap (Rs. In Crores)	1670.17
EV (Rs. In Crores)	2104.13
Latest no. of shares (In Crores)	12.89

V. 1995

KCP sugar manufacturing division demerger into a separate company, KCP Sugar & Industries Ltd.

JV with Fives Cail Group of France for design and manufacture of Sugar Plants.

VI. 1999

KCP Vietnam Industries Limited, a fully owned subsidiary of The KCP Limited setup to manufacture sugar at Thua Thien Hue Province at Central Vietnam. This 2500 TCD plant was shifted to Son Hoa District, Phuyen Province in 2001.

Hydel Power Division setup at Andhra Pradesh to generate 8 MW of power.

VII. 2000

KCP Technologies Limited setup.

VIII. 2001

2nd Heavy Engineering plant set up in Chennai for executing medium to large sized fabrication projects.

IX. 2006

Wind power plant set up in Tamil Nadu.

X. 2011

2nd Cement Plant at Muktyala, Andhra Pradesh.

XI. 2013

Started a Solar power plant of 1.15 MW at Muktyala Cement plant.

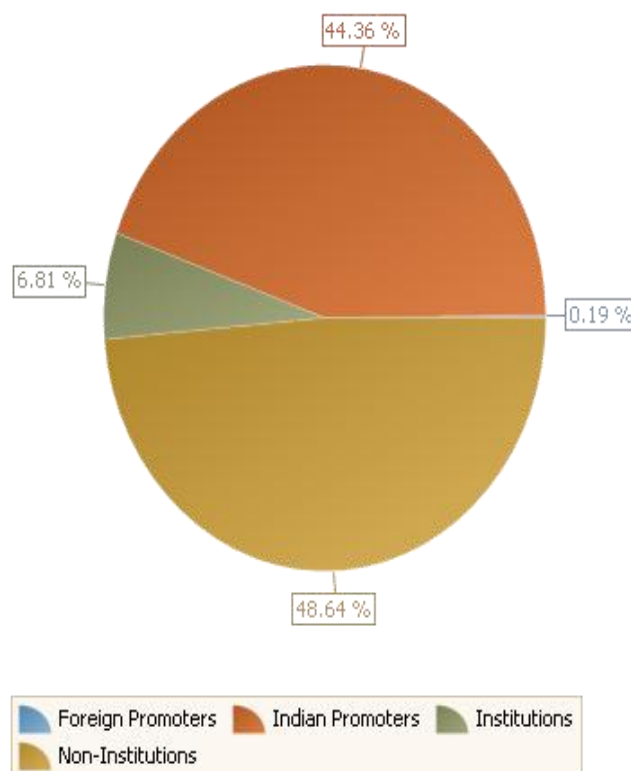
XII. 2014

Set up a Thermal Power plant of 18 MW at Muktyala Cement plant

XIII. 2016

Launch of Mercure Hotels Hyderabad KCP, Hyderabad.

Shareholding Pattern



Plant Locations

PLANT LOCATIONS

CEMENT PLANTS

Macherla - 522426
Guntur District, Andhra Pradesh
Muktyala - 521175
Krishna District, Andhra Pradesh

HYDEL POWER PLANT

B.No. AE-1, NSP Colony, **Nekarikallu** - 522 615,
Guntur District, AP

WASTE HEAT RECOVERY PLANT

Macherla, Guntur District, AP

THERMAL POWER PLANT

Muktyala, Krishna District, Andhra Pradesh

HEAVY ENGINEERING

Tiruvottiyur - 600 019
Chennai, Tamilnadu
Arakonam - 631 004
Mosur Road, Ekhunagar, Tamilnadu

SOLAR POWER PLANT

Muktyala, Krishna District, Andhra Pradesh

WIND MILLS

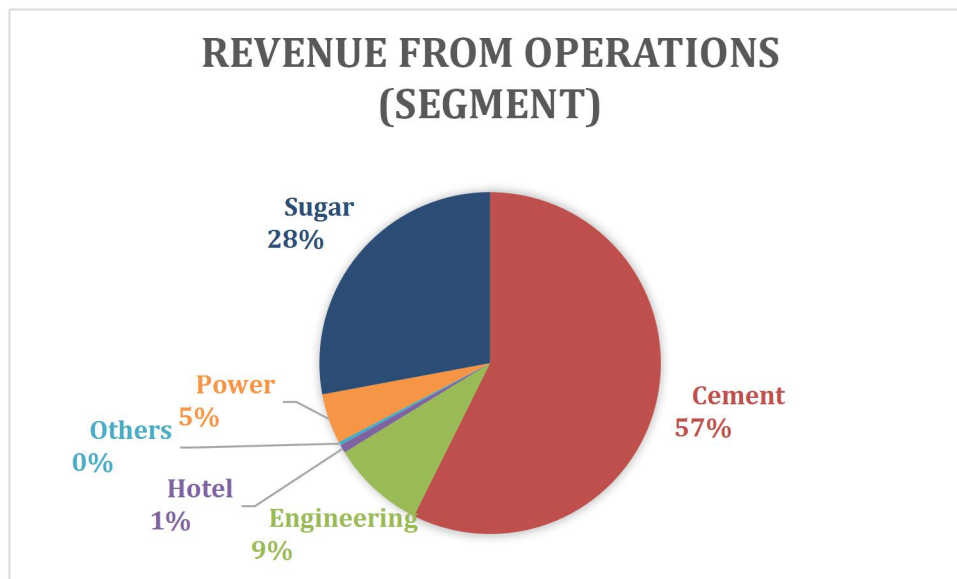
Uthumalai Village, Tirunelveli District, Tamilnadu

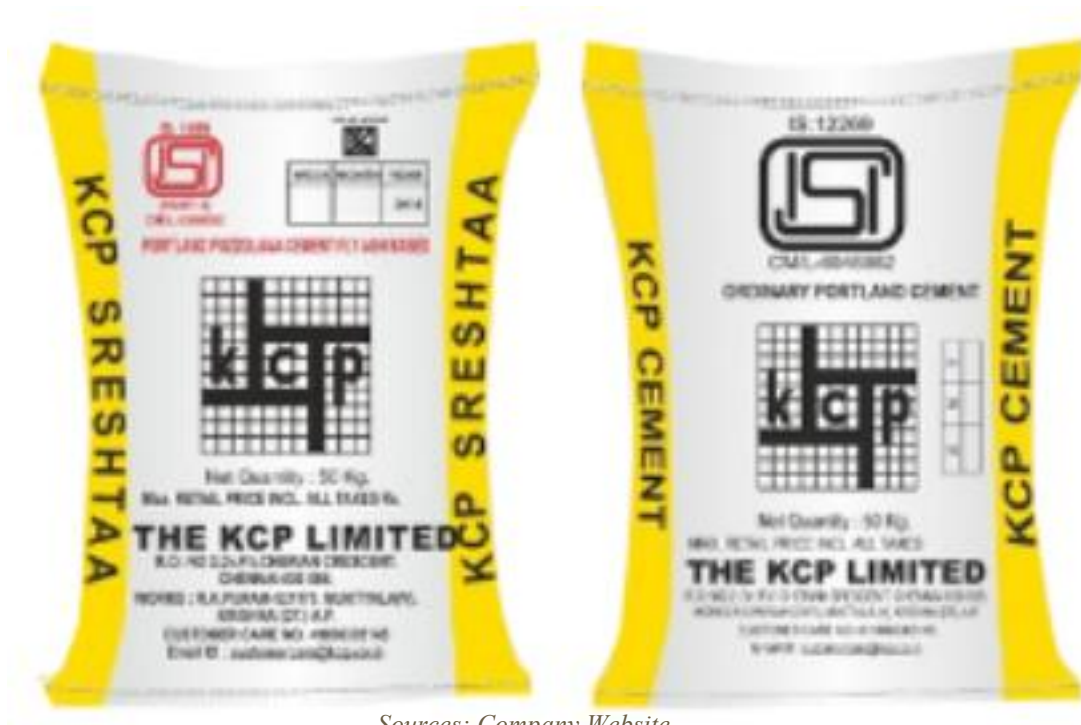
HOTEL

Mercure Hyderabad KCP,
6-3-551, Somajiguda, Hyderabad - 500 082, Telangana

Business

The company has main 4 businesses namely: Cement, Hospitality, Engineering and Sugar (Vietnam). The company is also in other businesses namely: Power, IT, Sugar & Power (JV : FC-KCP) and others.

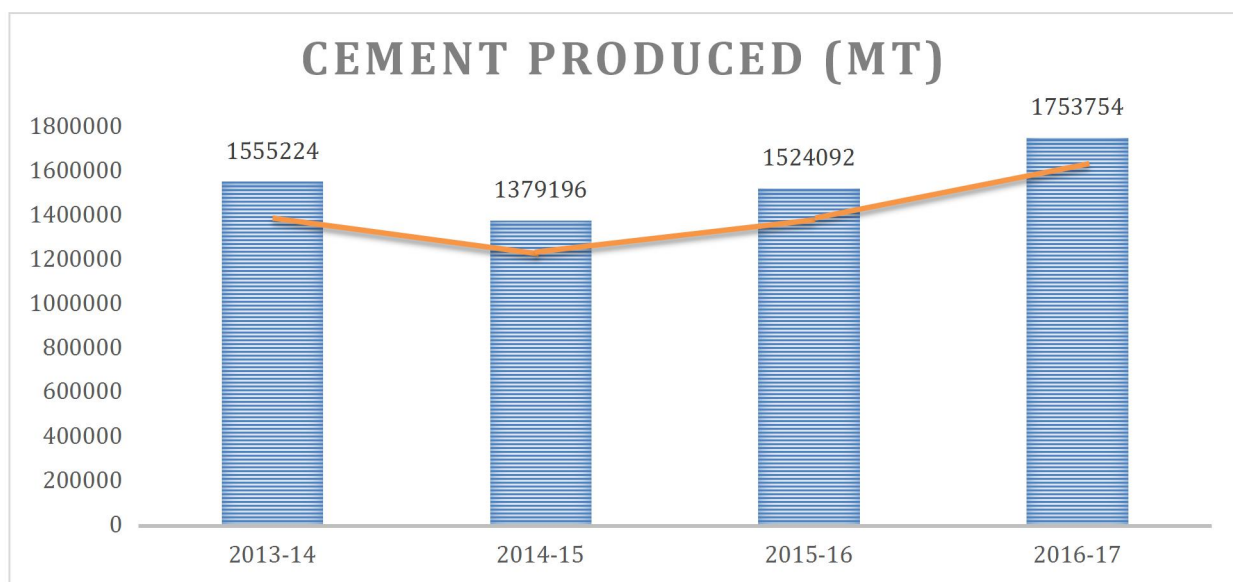


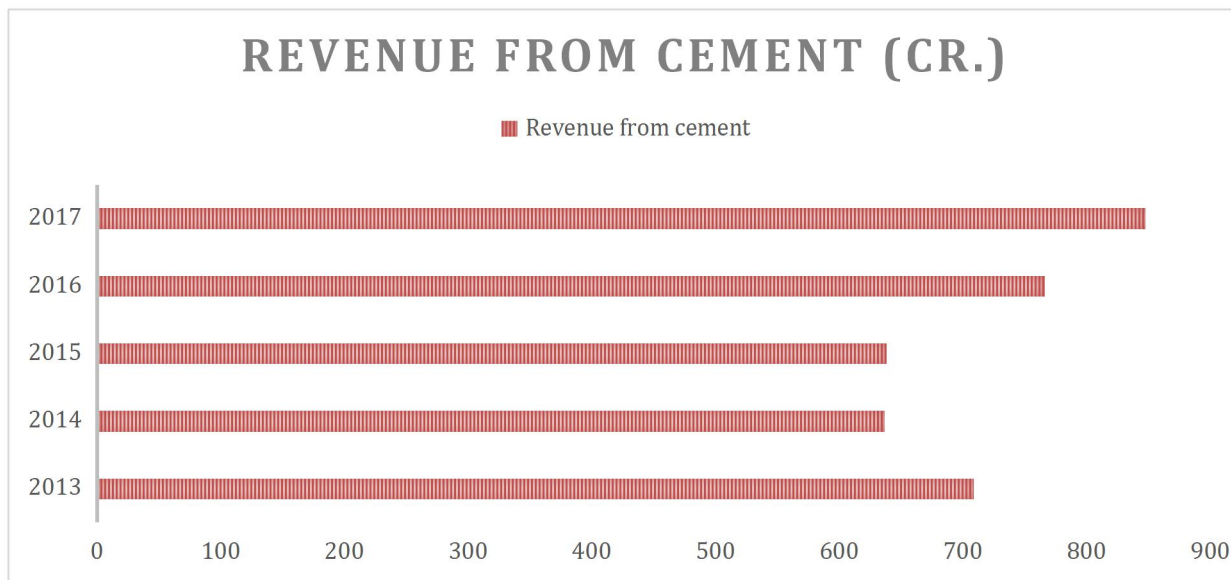


Sources: Company Website

CEMENT

The company has 2 plants and both of them are in Andhra Pradesh: Macherla and Muktyala. The company is planning an expansion from 2.6 MT to 4.3 MT. Expansion will be a brownfield expansion at Muktyala plant in Andhra Pradesh. Total cost of project is Rs. 500 Cr. and is expected to kick-off in October 2018. 80% cement sales is in AP and Telangana and out of 20%, major portion goes to Tamil Nadu.





- Products Offered: OPC and PPC Grade 53 cement.
- The cement is supplied to Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Maharashtra, Madhya Pradesh, Chhattisgarh and Orissa. KCP also exports to Sri Lanka, Bangladesh & Myanmar.
- KCP has 60+ years of record in providing high grade cement.
- KCP has given many landmark projects like Nagarjuna Sagar Dam, Sri Sailam Dam and Prakasam barrage, Godavari Railroad Bridge in Andhra Pradesh.
- The company saw a 15% rise in cement production than last year.
- KCP has done a capex of approximately Rs. 25 Cr. in cement division this year.
- Cement division mainly operates in South India where the capacity utilisation is around 55%. With plans to provide housing through government plans, the cement demand in Andhra Pradesh is set to witness moderate growth.
- Use of petcoke negligent.

Cement Division Highlights (2017)	(Amt in Cr.)
Cement Revenue	847.56
Cement Assets	586.57
Cement Liability	304.56
Cement Capital Expenditures	25.64



Sources: Company Website

HOSPITALITY

Mercure Hyderabad KCP: Since 2016.

A 4 Star Hotel managed by Accor Hotels Group and is located in Banjara Hills, Hyderabad. The Hotel is 20 kms I.e a 40 minute drive away from International Airport.

The hotel has **128 rooms** across 4 categories: Superior rooms:98, Deluxe:11, Suites:8, Meeting Spaces:5, Food & Beverage offerings: 3.

Clientele: The major clients of the company are travelers from Infotech and Pharma sectors. They constitute around 85-90%.

Occupancy Levels: 20% - 1st Quarter and 50% - 4th Quarter.

ARR (Average Room Rent) is approx Rs. 6000. RevPAR (Revenue Per Available Room) is expected to rise due to rise in room occupancy in the near future. Generally, a hotel company takes approx. 6-7 years to break even, so the company has still ways to go, but the company expects the RevPAR to rise by 12% CAGR till 2019-2020.

Hotel Division Highlights 2017	(Amt in Cr.)
Hotel Revenue	11.34
Hotel Assets	110.94
Hotel Liability	46.66
Hotel Capital Expenditures	1.1



Sources: Company Website

POWER

The initial plants were established for internal consumption. The company has 4 sectors for power generation: Hydel, Wind, Thermal (including Waste Heat Recovery System) and Solar.

Hydel Power: established in 1999 in Andhra Pradesh. Total Capacity is 8.25 MW and is operated from 5 different canal drops. The unique feature is that the power plant is located in main canal hence usage of by-pass canal is not needed. The company uses a “Semi-Kaplan Variant” a first of it’s kind in India. This reduces the cost of generating power. This less than any power generating plant of mini-hydel in Karnataka.

Current Scenario: The monsoon season was disappointing as the catchment areas where the plants are located did not receive much rainfall, so enough power was not produced.

Wind Power: established in 2006 in Tamil Nadu. Total capacity 3.75 MW. The company has Suzlon S-66 wind mills with Siemens generator. This plant was strategically established to reduce power requirements for Heavy Engineering business.

Current Scenario: More units were generated than last year due to better season so bottom line is better.

Thermal (Waste Heat Recovery): established in 2007 in Andhra Pradesh. Total Capacity is 2.50 MW. The waste heat is recovered from Pre-heater & cooler chimneys. Waste Heat generated from cement kiln in Macherla was harnessed to produce power and consumed internally.

Thermal: established in 2014 in Andhra Pradesh. Total capacity of 18 MW. The plant has KCP boilers and Siemens generator.

Current Scenario: The load factor* was 80.33% in 2016-17 as against 86.71% in 2015-16. Waste Heat Recovery Plant is meeting fuel power needs at Muktyala cement unit. KCP Ltd. has an agreement with state government to sell excess power to Andhra Pradesh Power Grid. Surplus power capacity is usually

**LOAD FACTOR: it is a measure of output compared to maximum output it could produce.*

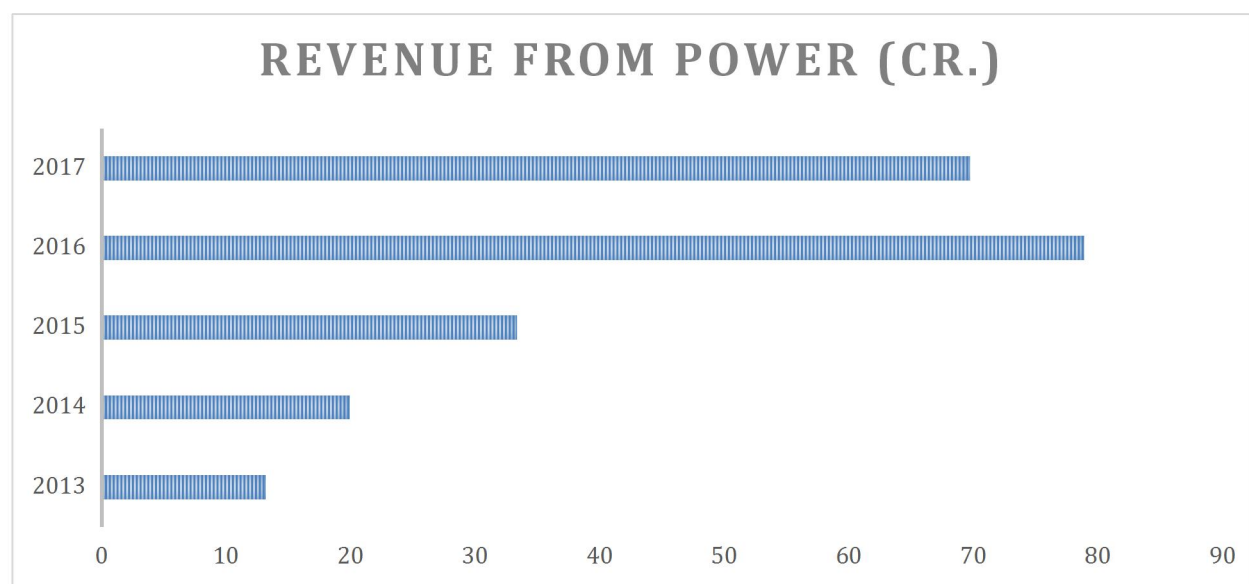
distributed to state government of Andhra Pradesh but since they had surplus power, KCP didn't sell any power to state this year. The reduction in generation was due to less demand from other power exchanges.

Solar: established in 2013 in Muktyala cement works in Andhra Pradesh. Total Capacity 1.15 MW.

Current Scenario: The production was almost same as last year.

Details	Hydel		Waste Heat Recovery		Windmill		Solar		Thermal Plant	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Gross Generation MWH	4441	319	12183	11161	8055	4505	1868	1891	104412	113138
Division Profit before Interest & Tax (Rs Lakhs)	(-) 97	199	413	267	271	121	33	29	268	629

Sources: Annual Report



Power Division Highlights 2017	(Amt in Cr.)
Power Revenue	69.74
Power Assets	158.67
Power Liability	60.5
Power Capital Expenditures	2.2



Sources: Company Website

HEAVY ENGINEERING

Heavy Engineering division started in 1995. It is a heavy manufacturing facility with a steel foundry, heavy fabrication. The unit is strategically located near the coastal port city of Chennai with close proximity to ports of Chennai (9 km), Kattupalli and Kamarajar for sea port.

Provides heavy equipment for: Cement, Sugar, Power, Mining (Minerals), Mineral Processing, Metals, Oil & Gas, Chemicals & Fertilizers, Industrial Gases, Space & Defence and General Engineering sectors.

Customer Base: Australia, Malaysia, Mauritius, Vietnam, Korea, Indonesia, China, Nepal, Bangladesh, Sri Lanka, UAE, Saudi Arabia, Oman, Qatar, Madagascar, Nigeria, Uganda, Ethiopia, Kenya, Rwanda, France, Germany, Austria, Russia, Brazil and USA.

From the company's point of view, setting up the heavy engineering business was of strategic importance because of its intense integration with other sectors. Ever since the sector was de-licensed, it enjoys a 100% FDI .

The initiatives taken by the government like 'Make in India' and 'Smart Cities' are yet to reflect in demand. Sector is experiencing limited demand and with large capacities already standing in place, KCP is facing margin pressures. Also, KCP's unit faced 2 consecutive natural disasters: floods in 2015 and cyclone 'Vardah' in 2016. The compounded effect has led to low profitability.

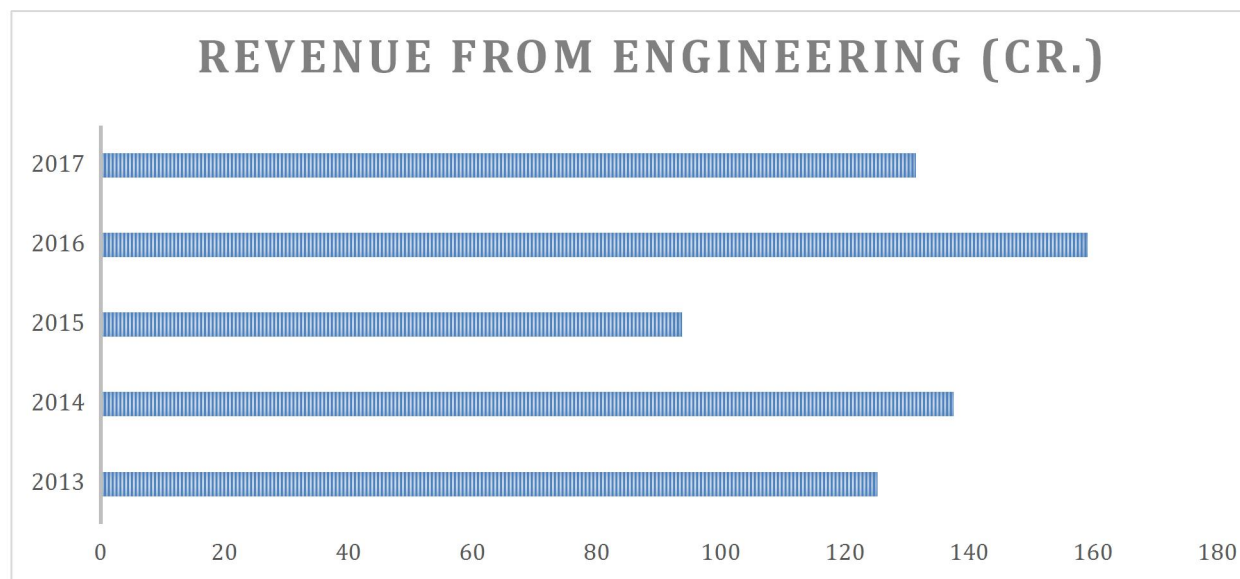
Specialty: Global recognized by OEM, EPC Companies & Technology Process licensors. Globally recognized Quality Assurance (QA) systems and standards. World Class ASME (American Society of Mechanical Engineer) approved Manufacturing facilities with automated comprehensive welding capabilities and Precision Machining.

Sources: Annual Report

Rs in Lakhs

FINANCIAL YEAR	2016-17	2015-16
Turnover :		
Domestic	6,838	6,704
Export	1,079	391
Segment Profit before Interest & Tax (Rs Lakhs)	-1,601	-1,028

REVENUE FROM ENGINEERING (CR.)



Engineering Division Highlights 2017	(Amt in Cr.)
Engineering Revenue	131.36
Engineering Assets	163.49
Engineering Liability	61.24
Engineering Capital Expenditures	1.87



Sources: *Company Website*

SUGAR (VIETNAM)

KCP was involved in the sugar industry of Vietnam since early 1990's. The company supplied core equipment to sugar factories and also executed turnkey projects.

The Government of Vietnam invited KCP to set up a factory in Vietnam as they were encouraged by the company's high quality equipment, performance, after sales service and experience in growing sugarcane. Thus, KCP Vietnam Industries Ltd. was formed, a subsidiary of KCP Ltd., where KCP Ltd. has a 66.67% ownership stake.

Initially, the company had been invited to set up a plant in Thua Thien Hue Province in Central Vietnam. The plant was commissioned in 1999 but due to inadequate supply of sugarcane, the capacity utilization of the plant fell below 20% during 1999-2000 year.

Due to low prospects of sugarcane in the area the company decided to shift to Son Hoa district where large supply of sugarcane are available. The Government of Vietnam approved of this request and even granted a loan for shifting the project, which was done by July 2001 and commercial production started from January 2002. The initial production capacity was 2,500 TCD* which was further expanded to 6,000 TCD which includes another plant which was also established in Dong Xuan District in Phuyen province.

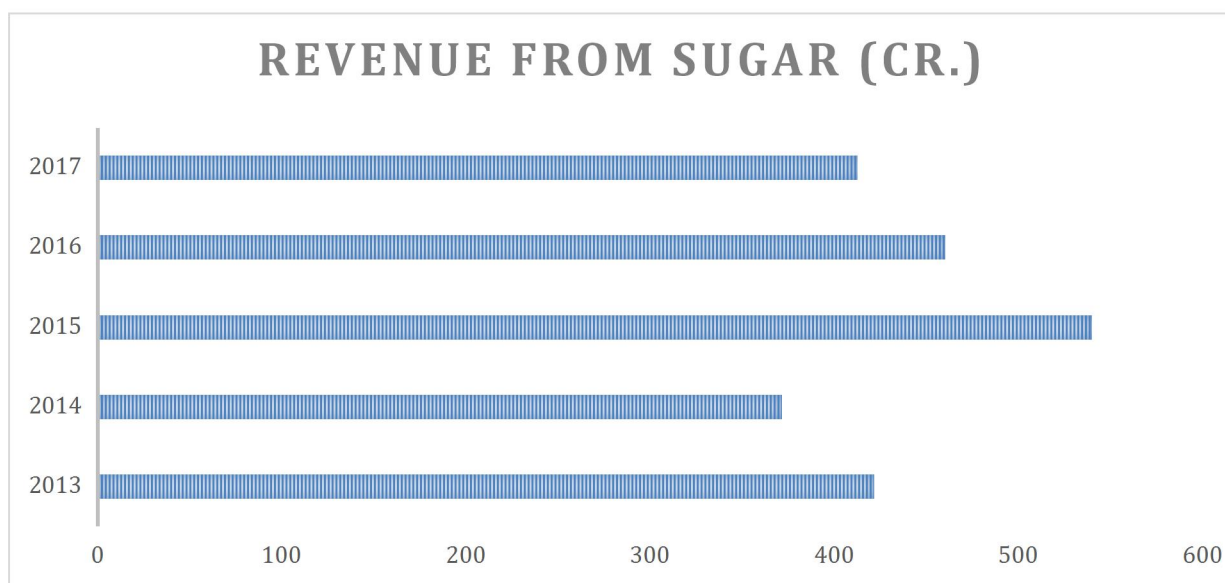
During the year, the sugarcane crushed and quality of sugarcane were lower due to heavy rainfall in Dec 2016 and January 2017 which affected the harvest. The sugar production was higher. Because of this, the company had to buy raw sugar for conversion in to high quality refined sugar to make for loss due to low quality sugarcane produced.

Power Co-Generation Plant: 30 MW power co-generation plant was set up to facilitate Son Hoa unit in March 2017. The company plans to expand the Son Hoa sugar unit to 10000 unit.

*TCD - Tonnes of Canes Crushed

KCP Vietnam Industries Limited: (KCP VIL)
Operational Performance:
Sources: Annual Report

Particulars	2016-17	2015-16
Crushing Capacity (TPD)	9,000	7,000
Cane Crushed (Mts.)	733,142	802,425
Sugar produced (Mts.)	95,024	92,177
Recovery Rate (%)	8.39%	9.24%
Average Sales Realization (Rs / MT)	47,046	42,611
Turnover (Rs Lacs)	41,272	46,010
Profit before Tax (Rs lacs)	6,393	7,230



Sugar Division Highlights 2017	(Amt in Cr.)
Sugar Revenue	412.72
Sugar Assets	602.43
Sugar Liability	206.96
Sugar Capital Expenditures	70.52



Sources: Company Website

SUGAR & Power EPC (JV: FC-KCP)

FIVES CAIL - KCP Limited (FC-KCP) is a joint venture between The KCP Limited, India & Fives Group of France to provide turnkey sugar plants, co-generation and incinerator of effluent from molasses based distilleries. They implement turnkey installations for customers in India and abroad. Fives Cail - KCP's markets include Asia (including South East Asia), Africa and South America.

Fives Cail KCP Limited:

Operational Performance:

Rs in Lakhs

FINANCIAL YEAR	2016-17	2015-16
Turnover	13,602	23,999
Profit before Tax	430	835

Sources: Annual Report

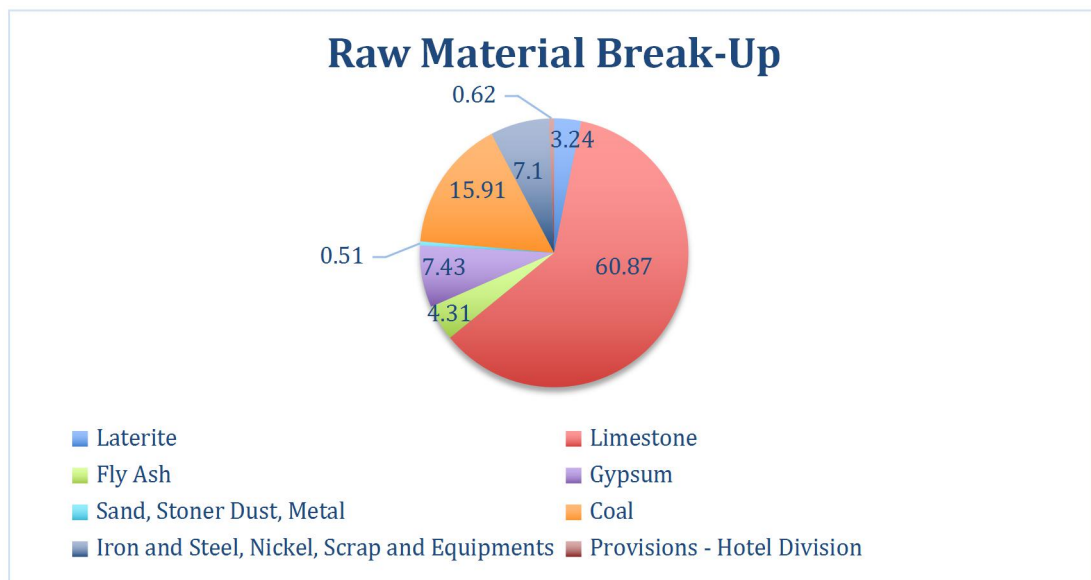
OTHERS

Ready Mix Concrete: This was initially taken on experimental basis by hiring equipment on temporary basis as demand for product was high. The company seems ready to venture into this sector by setting up it's own unit with subject to availability of land near the area of demand.

Bricks: Unit is located near Muktyala cement plant. The unit has not made much progress but the unit is all set to meet the demand for Amravati, upcoming capital of Andhra Pradesh.

Container Freight Station: The company is exploring into the logistics division to make improvement in connectivity for container movement between station and ports.

Raw Material Break-Up



Financial Information

Profit & Loss Consolidated (Rs. Cr.)					
Description	2017	2016	2015	2014	2013
Net Sales	1,282.21	1,296.00	1,187.67	1,060.58	1,136.29
Expenditure					
Increase/Decrease in Stock	-58.17	-1.6	43.34	-57.8	10.18
Raw Material Consumed	601.96	586.86	503.76	480.10	451.30
Power & Fuel Cost	150.15	120.41	144.58	165.94	209.8
Employee Cost	100.56	88.21	71.31	69.6	65.1
Other Manufacturing Expenses	96.01	95.15	104.23	112.44	106.61
General and Administration Expenses	20.6	16.76	20.19	15.34	15.4
Selling and Distribution Expenses	127.81	130.51	116.49	131.1	158.83
Miscellaneous Expenses	20.94	21.7	15.34	15.93	11.55
<i>Less: Expenses Capitalised</i>					
Total Expenditure	1,059.86	1,058.01	1,019.24	932.65	1,028.76
Operating Profit (Excl OI)	222.35	237.99	168.43	127.93	107.53
Other Income	10.86	4.75	14.54	20.99	80.97
Operating Profit	233.21	242.74	182.97	148.92	188.50
Interest	49.89	52.84	52.46	47.58	40.13
PBDT	183.32	189.90	130.51	101.35	148.38
Depreciation	64.69	48.29	48.21	47.13	44.42
Profit Before Taxation & Exceptional Items	118.64	141.61	82.30	54.22	103.96
Exceptional Income / Expenses	-5.77	-0.84	-1.24	-	-4.93
Profit Before Tax	112.87	140.77	81.06	54.22	99.03
Provision for Tax	19.04	23.31	13.05	4.29	13.98
Profit After Tax	93.83	117.46	68.01	49.92	85.04

Net Sales are continuously rising with a slight dip in 2017. Cement performed well compared to other sectors in 2017. Operating profit and Net Profit were a little sluggish in 2017 due to high input costs in some segments and capacity expansion plans already in play. Depreciation has drastically risen due to purchase of fixed assets to facilitate expansion plans.

Balance Sheet Consolidated Excerpt (Rs. Cr.)					
Description	2017	2016	2015	2014	2013
Equity & Liabilities					
Shareholder's Funds	681.84	615.16	531.85	505.14	503.63
Secured Loans	238.11	279.23	271.27	255.71	157.05
Unsecured Loans	48.67	55.16	47.01	56.81	35.45
Trade Payables (Long+short)	92.85	74.91	68.50	82.95	75.67
Other Current Liabilities	226.36	224.22	181.46	142.82	168.27
Short Term Borrowings	125.5	52	43.23	102.15	134.48
Total Liabilities	1,746.68	1,595.21	1,396.72	1,352.66	1,264.19
Assets					
Total Non-Current Assets	1,105.10	1,055.02	824.43	803.89	731.86
Inventories	279.96	219.90	230.56	266.89	200.44
Sundry Debtors	103.47	141.27	65.98	93.94	86.38
Cash and Bank	85.38	45	101.1	31.82	107.69
Other Current Assets	3.8	3.22	4.14	9.82	7.37
Short Term Loans and Advances	168.98	130.8	170.52	146.3	130.45
Total Assets	1,746.68	1,595.21	1,396.72	1,352.66	1,264.19

Du-Pont Analysis					
Particulars	2017	2016	2015	2014	2013
PATM (%)	6.64	8.33	5.32	4.3	6.78
Sales / Total Assets(x)	0.85	0.94	0.93	0.89	1.03
Assets to Equity (x)	2.58	2.61	2.67	2.65	2.51
ROE (%)	14.47	20.48	13.22	10.13	17.53

The company is increasing their fixed assets and their cash levels are slowly rising. Leverage and Total Asset Turnover is somewhat constant but PATM are affected .

Cash Flow Statement Consolidated (Rs. Cr.)					
Particulars	2017	2016	2015	2014	2013
Cash From Operating Activities	126.07	241.46	193.89	10.05	239.28
Cash Flow from Investing Activities	-76.07	-248.49	-45.78	-107.96	-99.72
Cash from Financing Activities	-9.62	-49.07	-78.83	22.05	-81.62

Cash Flow from Operations is higher than cash outflow in CFI and CFF, which is a good sign as the company is managing its operational expenses and income efficiently.

Key Ratios					
Particulars	2017	2016	2015	2014	2013
PATM (%)	6.64	8.33	5.32	4.3	6.78
ROA (%)	5.62	7.85	4.95	3.82	6.97
ROE (%)	14.47	20.48	13.22	10.13	17.53
ROCE (%)	14.18	18.64	13.66	10.88	15.87
Fixed Asset Turnover (x)	1.06	1.2	1.3	1.29	1.46
Receivable Days	31.59	26.83	22.84	28.33	32.48
Inventory Days	64.53	58.31	71.05	73.42	62.94
Payable Days	25.79	23.61	27.99	28.25	24.93
Cash Conversion Cycle (days)	70.33	61.53	65.9	73.5	70.49
Interest Cover	3.26	3.66	2.54	2.14	3.47
Total Debt/Equity (x)	0.76	0.78	0.85	0.93	0.78
P/E (x)	18.41	11.44	15.08	12.99	5.83
Dividend Payout Ratio (%)	35.43	13.81	19.24	3.91	20.45
Current Ratio (x)	1.41	1.48	1.82	1.65	1.33
EPS (Rs.)	5.64	7.24	3.9	2.56	4.89
Average ROE (last 5 years)	15.16%				
Average ROCE (for last 5 years)	14.65%				
Average P/E (for last 5 Years)	12.75x				

Triggers (positive and negative)

- 1) **Geographical Advantage:** The company is correctly placed to take advantage of slew projects lined up for the states of Andhra Pradesh and Telangana for the next 3-5 years, the first and foremost project being, set up of Amravati smart city as per '100 smart city plan'. Although the company is not solely relying on this project and will look into more untapped sectors.
- 2) **Cement Capacity Expansion:** The company has planned expansion for cement unit in Muktyala. The cost of the expansion project is Rs. 500 Crore, out of which, 1/4th will be funded internally. Rs. 135 Cr has already been utilized for this expansion out of which approx Rs. 90 Cr. is funded through debt. Peak debt levels for cement division are expected to reach Rs. 500-550 Cr. Approx. Rs. 200 Cr. more debt is expected to be incurred for this expansion which is expected to be completed by October 2018.
- 3) **Heavy Engineering Division Growth Prospect:** The order book for Engineering division has reached Rs. 100 Cr. Foreign companies are outsourcing their facilities in India due to 'make in India' program. Right now the division is going through losses due to natural calamities in 2015 and 2016 and their compounding effect on bottom line. Now that all this is behind them, the company is looking forward to better numbers in the coming years, unforeseen scenarios aside. The company expects to reach break-even at operating level at Rs. 85 Cr.
- 4) **Sugar Division:** The company is going through an expansion plan at Vietnam whereby the company plans to expand from 8000 TCD to 10000 TCD with the help of a 30 MW co-generation power plant. The company has already achieved 9000 TCD levels. KCP Ltd. receives dividend income from KCP Vietnam Industries Ltd. On global levels, whatever affects global sugar industry will affect Vietnam sugar industry.
- 5) **Power Division:** Performance of power plant are good but major source of loss is the thermal unit and not because of performance but because of input costs. Coal prices have nearly doubled so that is affecting margins. Hydel plants are also dependent on good rainfall in the state of Andhra Pradesh.
- 6) **Hotel Division:** QoQ results are improving in hotel division owing to better occupancy levels.

Segment wise revenue for last 5 years					
	2017	2016	2015	2014	2013
Revenue From Operations	1,477.57	1,470.47	1,307.02	1,166.95	1,272.51
Cement	847.56	765.9	637.91	636.5	708.46
Engineering	131.36	159	93.69	137.45	125.15
Hotel	11.34	-	-	-	-
Others	4.85	6.62	2.24	1.7	4.26
Power	69.74	78.85	33.33	19.92	13.17
Sugar	412.72	460.1	539.85	371.38	421.47

Management Information

Name	No. of shares as on Dec 2017	% of shares as on Dec 2017
ANITHA	4000	0
IRMGARD VELAGAPUDI	152490	0.12
KAVITHA D CHITTURI	1180000	0.92
KIRAN VELAGAPUDI	4220	0
P VIKRAM RAMAKRISHNAN	12655	0.01
R PRABHU	62880	0.05
RAJESWARY RAMAKRISHNAN	6500	0.01
RAJYALAKSHMAMMA S R V	630	0
S NALINI	11250	0.01
S RAJIV RANGASAMI	227520	0.18
SHIVANI DUTT CHITTURI	1300000	1.01
SIVARAMAKRISHNAN PRASAD	12650	0.01

THE JEYPORE SUGAR COMPANY LIMITED	278370	0.22
V L INDIRA DUTT	3364479	2.61
V RAMAKRISHNA SONS P LTD	38956326	30.22
V.R.K. GRANDSONS INVESTMENT PRIVATE LTD	5501532	4.27
VELAGAPUDI LAKSHMANA DUTT	6119069	4.75

References!

- Web-based software ace-analyser.
- Annual Report, company website, conference call.

Disclaimer!

I am not a SEBI registered Research Analyst. No recommendations are given for the company discussed in the report.

Authored by Slesha Choksi

For further information, Please contact me on:

slesharesearch@gmail.com