Stock Update

KPR Mill Ltd.

August 14, 2023

RETAILRESEARCH

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KPR Mill Ltd.

Industry	LTP	Recommendation	Fair Value	Time Horizon
Textiles	Rs. 667	Buy in Rs. 661-670 band and add more on dips in Rs. 576-585 band	Rs. 767	3-4 quarters

HDFC Scrip Code	KPRMILEQNR
BSE Code	532889
NSE Code	KPRMILL
Bloomberg	KPR:IN
CMP (August 11, 2023)	667
Equity Capital (RsCr)	34.2
Face Value (Rs)	1
Equity Share O/S (Cr)	34.2
Market Cap (RsCr)	22970
Book Value (Rs)	108
Avg. 52 Wk Volumes (in '000s)	317
52 Week High	685
52 Week Low	479

Share holding Pattern % (June, 2023)	
Promoters	74.78
Institutions	17.74
Non Institutions	7.48
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

KPR Mill Ltd. (KPR) is one of the India's vertically integrated textile player with presence across the entire value chain from production of yarn to manufacturing readymade garments. 30%+ of the yarn produced is consumed internally for fabric and the balance is mostly sold to a domestic client base of ~1200 customers. KPR's proximity to Tirupur (the export hub of knitted garments in India) gives the company a ready client base for its yarn segment. Fabric is 50% consumed internally to manufacture value-added products. The remaining is sold to apparel manufacturers such as Arvind, Raymond and other knitted apparel export manufacturers. KPR exports 100% of its garment products to around 60 leading international brands including Primark, Kmart, Marks & Spencer, ASDA Stores, Walmart, H&M etc. Of the total exports (~38% of FY23 sales), Europe is about 61%, North America is 20%, Australia is 14% and Asia is 5%.

KPR entered the sugar business in 2013 to ensure power availability for the textile business. The company installed 66 windmills with a total wind power capacity of 61.92MW, allowing it to meet around 60% of its power requirement. Simultaneously, it invested in a co-gen cum sugar plant which at present has a capacity of 90 MW and 20,000TCD. It ventured into ethanol blending by commissioning a capacity of 90 KLPD in Q4FY20 which has been ramped upto 360 KLPD. It has also recently forayed into the retail segment with FASO, a 100% organic innerwear, sportswear, and athleisure brand.

Government's renewed thrust on boosting India's garment exports should unlock huge growth potential, placing the nation on a level-playing field with peer countries – both in terms of export duties and efficiencies. We believe KPR is a long-term play on India's textiles exports theme. We are positive on the company, led by its well-integrated manufacturing facilities, focus on capital allocation to higher profitability businesses, strong & well-recognized human resource policies and robust balance sheet. Participation in the ethanol blending story adds another trigger to bolster long-term growth.

Valuation & Recommendation:

Over FY13-23 KPR has registered a revenue/PAT CAGR of 14%/23%. The growth has been primarily driven by garment segment that registered a CAGR of 26% over the same time frame. Owing to value added nature of the business, garment business has been a higher yielding and stable margin segment for the company compared to yarn/fabric. On the back of thrust provided by government's ethanol blending program, KPR's sugar and ethanol business has witnessed 3.5x jump in revenues over FY20-FY23. We believe, KPR's steady financials and volume ramp up in the garment business and ethanol/sugar segment would help continue robust growth with robust profitability and return ratios. Although the valuation of the stock is not cheap, the sound business model and proven track record of the management inspires confidence.

We think the fair value of the stock is Rs 767 (23x FY25E EPS). Investors can buy the in stock Rs 661-670 band (20x FY25E EPS) and add more on dips in Rs 576-585 band (17.5x FY25E EPS).

Financial Summary

Particulars (in Rs Cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY22	FY23	FY24E	FY25E
Operating Income	1611	1585	2%	1950	-17%	4,822	6,186	6,693	7,289
EBITDA	329	368	-11%	320	3%	1,219	1,274	1,526	1,713
APAT	203	227	-11%	210	-3%	842	814	989	1,138
Diluted EPS (Rs)	5.9	6.6	-10%	6.1	-3%	24.5	23.8	28.9	33.3
RoE-%						30.4	23.6	23.8	22.2
P/E (x)						27	28	23	20
EV/EBITDA						19	19	15	13

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue (in Rs Cr)													
Textile	423.2	852.3	804.9	903.2	782.9	1077.9	1045.0	1207.4	1276.3	1109.5	1152.4	1355.1	1208.5
% of total	*78%*	*90%*	*87%*	*81%*	*87%*	*89%*	*83%*	*83%*	*81%*	*91%*	*81%*	*70%*	*75%*
Sugar	113.5	76.1	108.9	197.6	111.4	114.0	197.3	222.6	284.2	82.6	252.7	560.1	365.9
% of total	*21%*	*8%*	*12%*	*18%*	*12%*	*9%*	*16%*	*15%*	*18%*	*7%*	*18%*	*29%*	*23%*
Other	4.0	13.5	15.9	16.2	9.5	18.3	16.9	19.9	24.4	27.9	26.4	34.5	36.3
% of total	*1%*	*1%*	*2%*	*1%*	*1%*	*2%*	*1%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*
Gross Total	**540.7**	**941.9**	**929.6**	**1117.0**	**903.7**	**1210.2**	**1259.1**	**1449.9**	**1584.8**	**1220.0**	**1431.4**	**1949.7**	**1610.7**
EBIT (in Rs Cr)													
Textile	66.2	155.9	194.3	197.4	187.1	307.2	230.7	253.2	290.7	280.5	152.9	178.0	188.5
EBIT margin	*16%*	*18%*	*24%*	*22%*	*24%*	*28%*	*22%*	*21%*	*23%*	*25%*	*13%*	*13%*	*16%*
Sugar	14.7	-6.0	20.5	35.6	6.1	11.8	33.0	45.8	27.6	-14.2	85.1	95.1	97.2
EBIT margin	*13%*	*-8%*	*19%*	*18%*	*5%*	*10%*	*17%*	*21%*	*10%*	*-17%*	*34%*	*17%*	*27%*
Other	0.6	1.2	1.1	1.2	0.7	1.3	0.6	0.8	1.2	1.5	1.3	1.1	1.2
EBIT margin	*16%*	*9%*	*7%*	*7%*	*7%*	*7%*	*4%*	*4%*	*5%*	*5%*	*5%*	*3%*	*3%*

(Source: Company, HDFC sec)

Q1FY24 Highlights:

KPR's revenue in Q1FY24 stood at Rs 1611 cr (2%/-17% YoY/QoQ). Revenue was primarily driven by the textile segment (75% of Q1FY24 sales), which contributed Rs 1209 cr (-5%/-11% YoY/QoQ). EBITDA was at Rs 329 cr (-11%/3% YoY/QoQ) and after two consecutive quarters of decline in margin, it expanded this quarter to 20.4% (-279 bps/ +400 bps YoY/QoQ). Net profit came in at Rs 203 cr (-11%/-3% YoY/QoQ). Net debt fell by Rs 452.4 cr in the quarter to Rs 656 cr with net D/E of 0.17x.

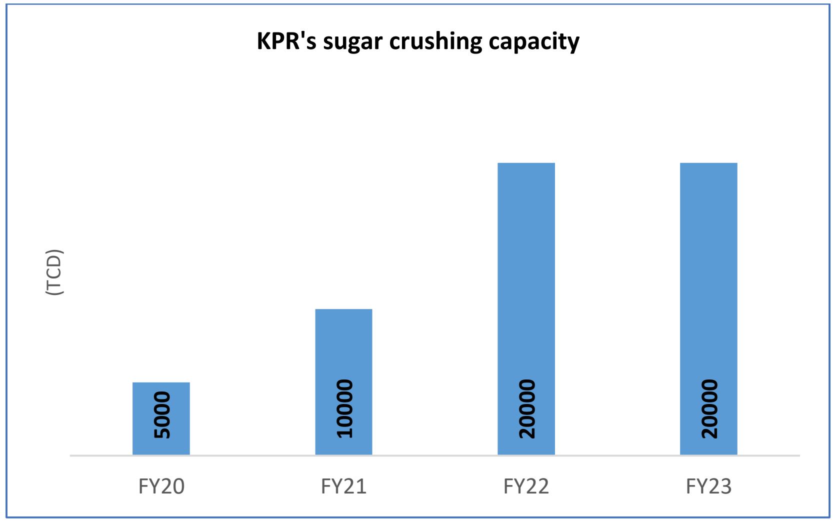
Garmenting volumes increased 3% YoY to 37.7mn pieces (up 2% QoQ) while the realization/MT) fell by 2% YoY/ 6% QoQ. Garmenting revenue increased marginally by 1% YoY to Rs 699 cr, while yarn/fabric revenue slipped 15% YoY to ~Rs 460 cr, despite 24% YoY volume growth, offset by ~32% YoY fall in realisation. Currently, the company holds 3 months of cotton inventory valued ~at Rs 63,000-64,000/candy. Current realization is Rs 185 per piece in garments & expect this to be in similar range for new orders and cotton spread is at 12% compared to 17-18%.

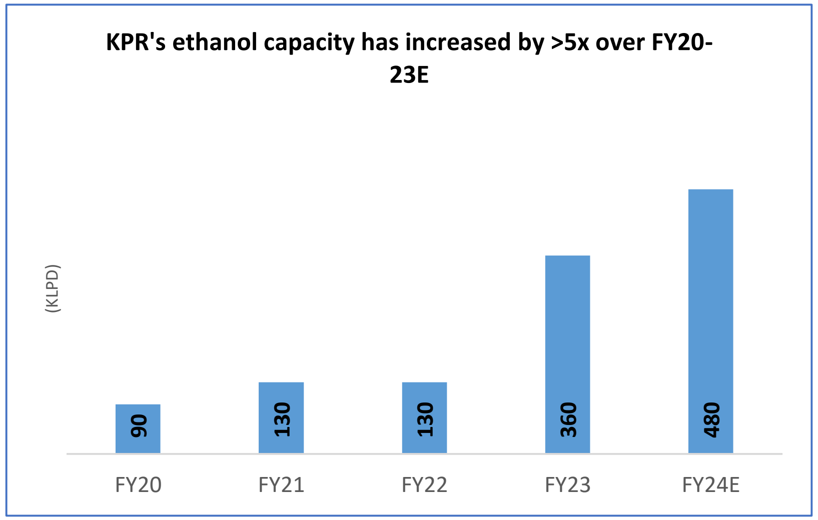
Continued impressive performance in sugar division: KPR entered the sugar business in 2013 to ensure power availability for the textile business. It invested in a co-gen cum sugar plant with a capacity of 30MW and 5,000 TCD at Bijapur, Karnataka. To participate in the government's ethanol blending programme, KPR entered into ethanol blending by commissioning a capacity of 90 KLPD in Q4FY20. Since FY20, KPR has increased its sugar capacity to 20,000 TCD and ethanol capacity to 360 KLPD. Likewise, the revenue from Sugar segment increased by 3.5x over FY20-23. Company has been generating >21% EBITDA margin which has improved the overall margin profile.

In Q1FY24, sugar & ethanol sales stood at Rs 366 cr, of which, ~Rs 153 cr was contributed by the sugar segment, ~Rs 180 cr by the ethanol segment, and the rest the co-gen segment. In the current season, gross recoveries stood at 11%. Ethanol sales volume jumped 169% YoY to 28.9mn litres at an average realisation of Rs 62/litre, up 3% YoY. Sugar sales volume fell by 29% YoY to 45.4K tonnes of sugar, with 5% YoY increase in average realisation to Rs 34/kg.

According to the management, EBITDA margin of 22-23% is sustainable due to higher returns from the ethanol and co-gen segments. The company plans to produce 50% ethanol from juice and rest from molasses in FY24.

The ongoing expansion of ethanol capacity by 120 KLPD at a capex of ~Rs 150 cr is likely to be completed by Q3FY24. The project is being funded through internal accruals and term loans and is expected to conclude before the commencement of the new SS2023-24, i.e. by October 2023.



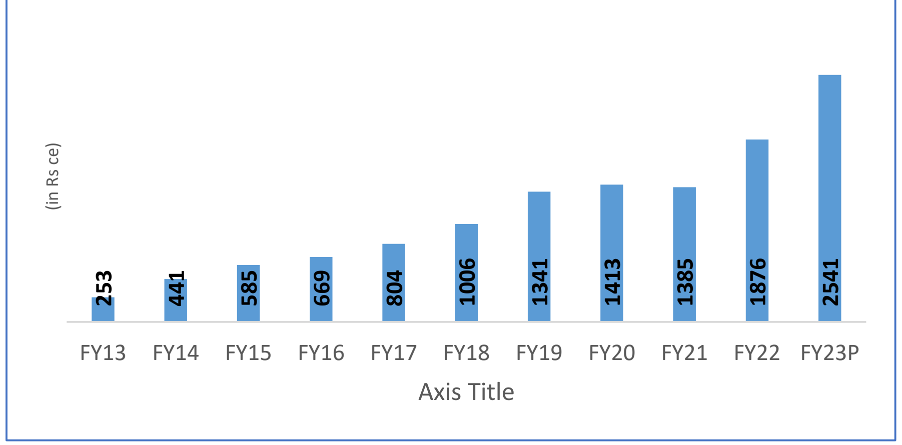


(Source: Company, HDFC sec)

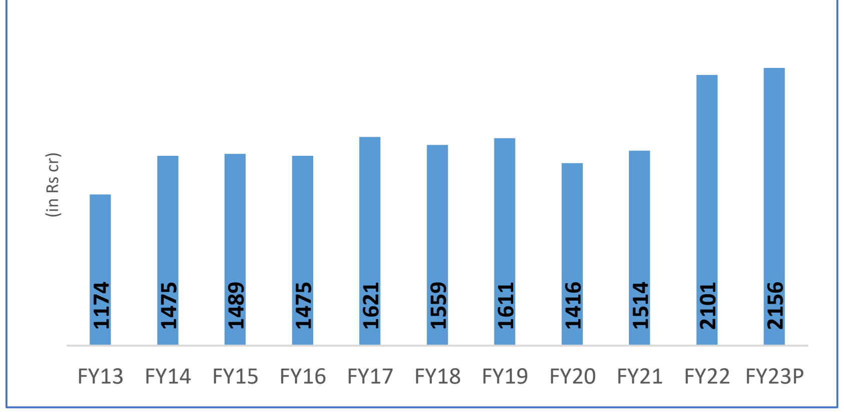
Plans to aggressively scale up retail business: KPR ventured into the branded retail segment in FY19 by launching premium quality men's innerwear & athleisure wear products under the brand name *FASO* (Fashion Adapted Sustainable and Organic) in southern India. While KPR had aggressive scale-up plans since its launch, the pandemic slowed down the process significantly. *FASO* products are currently available at ~3,000 outlets. KPR now plans to massively scale up store additions (with immediate target to reach ~10,000 outlets) on a pan-India basis. The company has appointed consultants and stepped-up ad spends for creating brand awareness. The company has set a target to Rs 100 cr revenue over next two years (currently clocking ~Rs 10 cr/quarter).

Order book in garment remains strong: Garment order book for next 4-5 months stands at Rs. 1,000 cr. The company expects situation in Europe to normalise in the coming months and expect garment demand to improve in the coming quarters. Garment volumes stood at 128 mn pieces in FY23, up from ~122 mn in FY22. Over the last two years, average garment realisation improved by ~40%, led by aggressive price hikes and a better product mix. We expect realisation to sustain led by a better product mix and historically high average cotton prices. In FY24, garments volume could grow by high single digit; capacity utilisation to reach almost 100% by end of FY24. KPR has a garment manufacturing capacity of 147mn pieces, and the management expects to add 10-20mn pieces with a brownfield expansion. Decision on garment capacity expansion will be made based on the any improvement in the demand environment in European regions.

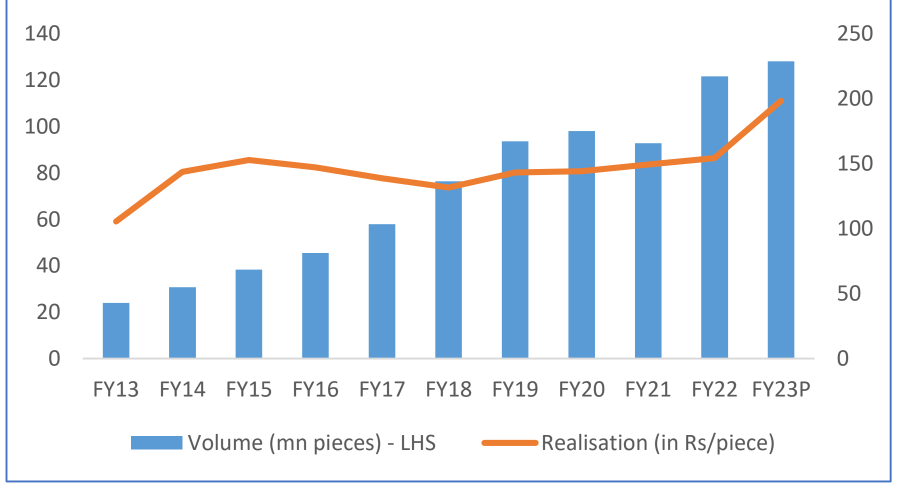
Garment revenues have grown at 26% CAGR over last 10 years



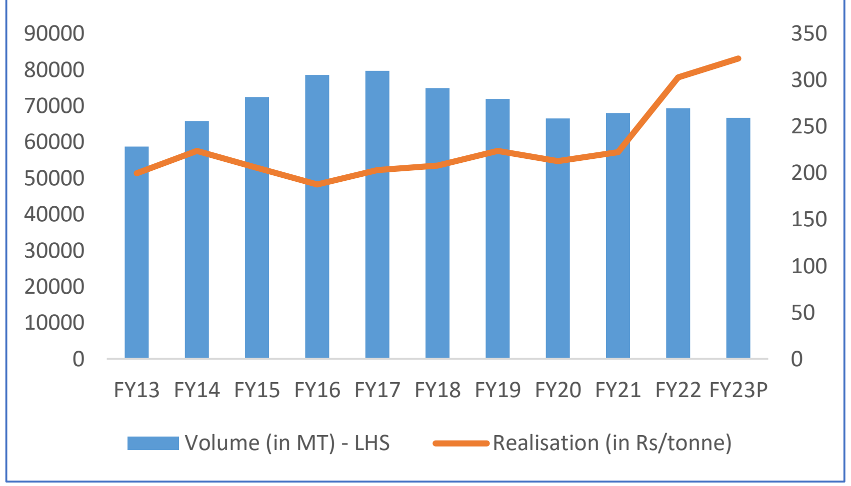
Yarn and Fabric business has grown at slower pacw with KPR's focus on textile business



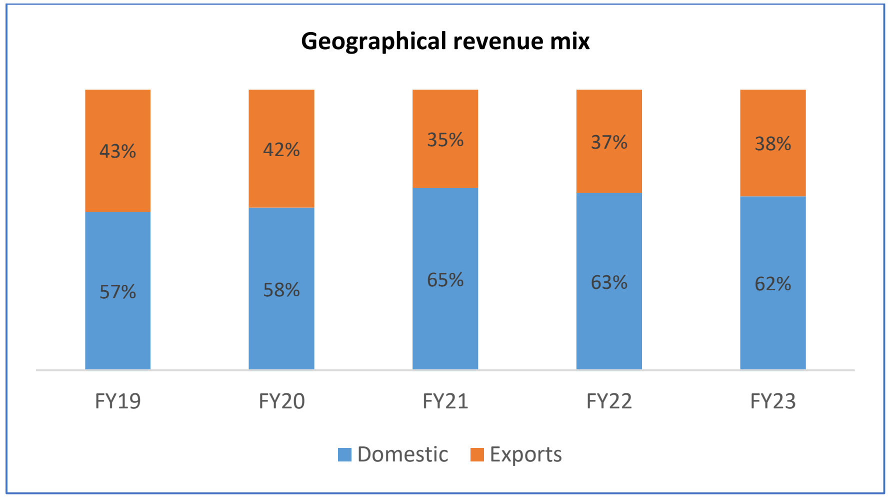
Garments - volume and realisation trends

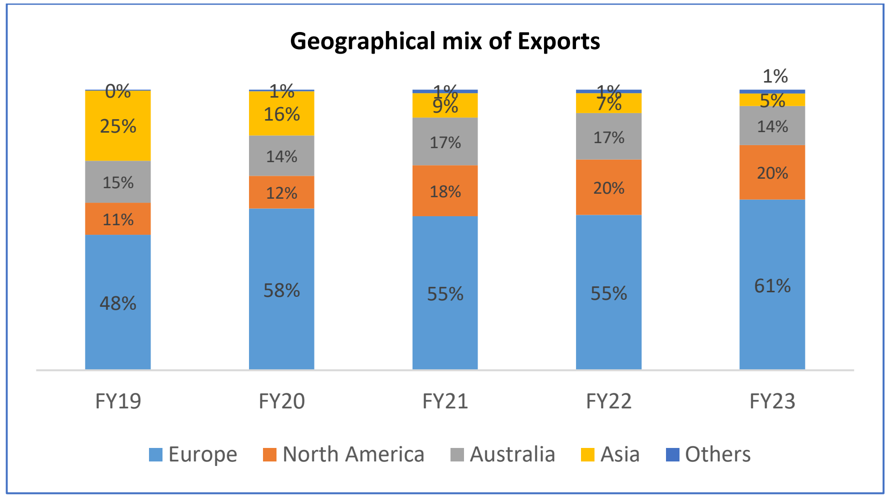


Yarn and Fabric - volume and realisation trends



(Source: Company, HDFC sec)





	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenue (in Rs cr)								
Textile	2174	2511	2667	3040	2921	2984	4113	4893
YoY Growth	*3.2%*	*15.5%*	*6.2%*	*14.0%*	*-3.9%*	*2.1%*	*37.9%*	*8.5%*
% of revenues	*87%*	*89%*	*88%*	*90%*	*87%*	*85%*	*85%*	*79%*
Sugar	209	191	265	253	341	496	645	1180
YoY Growth	*-25.1%*	*-8.9%*	*38.9%*	*-4.7%*	*35.0%*	*45.5%*	*30.0%*	*16.5%*
% of revenues	*8%*	*7%*	*9%*	*7%*	*10%*	*14%*	*13%*	*19%*
Other	117	115	93	92	90	48	64	113
YoY Growth	*13.7%*	*-1.5%*	*-19.5%*	*-1.2%*	*-1.3%*	*-47.1%*	*34.3%*	*12.0%*
% of revenues	*5%*	*4%*	*3%*	*3%*	*3%*	*1%*	*1%*	*2%*
Gross Total	**2500**	**2817**	**3024**	**3384**	**3353**	**3527**	**4822**	**6186**
EBIT (in Rs cr)								
Textile	306	345	355	466	419	614	978	902
EBIT margin	*14.1%*	*13.7%*	*13.3%*	*15.3%*	*14.4%*	*20.6%*	*23.8%*	*18.4%*
Sugar	6	5	26	10	60	65	97	194
EBIT margin	*3.1%*	*2.4%*	*9.8%*	*3.9%*	*17.6%*	*13.1%*	*15.0%*	*16.4%*

(Source: Company, HDFC sec)

Key Concerns

Raw material price fluctuation - Any sharp increase in raw material prices (cotton being the base raw material) will impact the company's operating performance.

Currency Risk - Any sharp movement in currency could affect the company's export revenue (38% of sales).

Change in government policies (domestic and international) – Any change of policies in the international markets like Free Trade Agreements could hamper the export demand. Similarly, on the domestic front, any change in the State Subsidy or environmental regulations or changes in import/export duties on cotton could hamper the company's operations/financials.

Slower than expected ramp up in the garment business – The company has added capacity in the garment side, any delay in pick-up of consumer demand from consuming countries including European nations, North America and Australia could impact the utilization levels thus affecting the revenue generation/margins.

Weak ethanol realization: The pricing of ethanol to be supplied to oil marketing companies under the Ethanol Blending Programme (EBP) is dependent on the mandated price and blending targets set by the government. Any change in governmental policies for procurement or pricing for sugarcane, ethanol or sugar may adversely affect the business, results of operations and financial condition.

About the company

KPR Mill Ltd. (KPR) started its journey into textiles in 1984. In 1989, the group ventured into garment exports. Today KPR Mills is one of the largest vertically integrated apparel manufacturing companies in India, with 15 manufacturing units, having capacity to produce 1,00,000 MT of cotton yarn, 4,000 MT of Viscose yarn, cotton knitted fabrics with capacity of 40,000 MT p.a. and garments with capacity of 157 million pieces p.a. from its facilities located in the Tirupur-Coimbatore region. With a capacity of 3,70,000 spindles KPR is one of the leading players supplying yarn. KPR has established a sugar mill (20,000 TCD capacity), 90 MW multi-fuel cogeneration power plant & ethanol unit (360 KLPD capacity). It owns 66 wind mills with a total green power generation capacity of 61.92 MW. It has also ventured into the retail sector under its own brand 'FASO', producing first-of-its-kind 100% organic cotton men's wear.

Peer Comparison

Company	M Cap (in Rs. Cr.)	Revenue (in Rs. Cr.)			EBITDA Margin (%)			PAT			RoE (%)			P/E (X)		
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
KPR Mills	22797	6186	6693	7289	20.6%	22.8%	23.5%	814	989	1138	23.6	23.8	22.2	28.0	23.1	20.1
Gokaldas Exports	3026	2222	2356	2862	12%	12%	13%	173	152	208	21%	15%	19%	17.4	19.9	14.8

(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**3527**	**4822**	**6186**	**6693**	**7289**
Growth (%)	***5.2***	***36.7***	***28.3***	***8.2***	***8.9***
Operating Expenses	2698	3604	4911	5167	5576
EBITDA	**830**	**1219**	**1274**	**1526**	**1713**
Growth (%)	***33.4***	***46.9***	***4.6***	***19.7***	***12.2***
EBITDA Margin (%)	***23.5***	***25.3***	***20.6***	***22.8***	***23.5***
Depreciation	147	141	174	198	212
Other Income	39	87	62	67	73
EBIT	**722**	**1165**	**1163**	**1395**	**1574**
Interest expenses	33	23	79	67	46
PBT	**689**	**1142**	**1084**	**1327**	**1527**
Tax	171	300	270	339	389
PAT	**518**	**842**	**814**	**989**	**1138**
Share of Asso./Minority Int.	0	0	0	0	0
Adj. PAT	**518**	**842**	**814**	**989**	**1138**
Growth (%)	***37.4***	***62.6***	***-3.3***	***21.5***	***15.1***
EPS	15.0	24.5	23.8	28.9	33.3

Balance Sheet

Particulars (in Rs Cr) - As at March	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	34	34	34	34	34
Reserves	2316	3152	3673	4576	5611
Shareholders' Funds	**2350**	**3187**	**3707**	**4610**	**5646**
Minority Interest	0	0	0	0	0
Total Debt	657	1185	1348	893	655
Net Deferred Taxes	43	44	97	97	97
Total Sources of Funds	**3051**	**4416**	**5152**	**5601**	**6398**
APPLICATION OF FUNDS					
Net Block & Goodwill	1256	1941	2307	2409	2397
CWIP	29	115	87	87	87
Investments	235	311	129	129	129
Other Non-Curr. Assets	225	337	225	248	270
Total Non-Current Assets	**1745**	**2704**	**2747**	**2872**	**2882**
Inventories	913	1289	1898	2035	2217
Debtors	321	480	625	660	719
Cash & Equivalents	77	128	113	274	842
Other Current Assets	209	268	214	238	260
Total Current Assets	**1521**	**2165**	**2851**	**3208**	**4038**
Creditors	109	273	336	367	399
Other Current Liab & Provisions	106	179	110	112	122
Total Current Liabilities	**214**	**452**	**446**	**479**	**521**
Net Current Assets	1307	1713	2405	2729	3516
Total Application of Funds	**3051**	**4417**	**5152**	**5601**	**6398**

Cash Flow Statement

Particulars (in Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	515	842	814	1,327	1,527
Non-operating & EO items	172	283	235	-23	-20
Interest Expenses	29	20	77	67	46
Depreciation	147	141	174	198	212
Working Capital Change	-47	-511	-745	-163	-220
Tax Paid	-156	-281	-256	-339	-389
OPERATING CASH FLOW (a)	**659**	**494**	**299**	**1,069**	**1,156**
Capex	-283	-887	-351	-300	-200
Free Cash Flow	376	-392	-52	769	956
Investments	-222	-61	196	0	0
Non-operating income	-43	6	50	0	0
INVESTING CASH FLOW (b)	**-548**	**-942**	**-105**	**-300**	**-200**
Debt Issuance / (Repaid)	-131	527	162	-455	-238
Interest Expenses	-33	-21	-74	-67	-46
FCFE	-53	59	282	246	671
Share Capital Issuance	0	0	0	0	0
Dividend	-31	-5	-73	-85	-103
Others	0	0	-221	0	0
FINANCING CASH FLOW (c)	**-194**	**501**	**-206**	**-608**	**-387**
NET CASH FLOW (a+b+c)	**-84**	**53**	**-13**	**161**	**569**

One-year Share Price Chart

Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	23.5	25.3	20.6	22.8	23.5
EBIT Margin	20.5	24.2	18.8	20.8	21.6
APAT Margin	14.7	17.5	13.2	14.8	15.6
RoE	24.6	30.4	23.6	23.8	22.2
RoCE	25.7	31.6	24.7	26.4	26.7
Solvency Ratio (x)					
Net Debt/EBITDA	0.7	0.9	1.0	0.4	-0.1
Net D/E	0.2	0.3	0.3	0.1	0.0
PER SHARE DATA (Rs)					
EPS	15.0	24.5	23.8	28.9	33.3
CEPS	19.3	28.6	28.9	34.7	39.5
BV	68.3	92.6	108.4	134.9	165.2
Dividend	4.5	0.2	2.0	2.5	3.0
Turnover Ratios (days)					
Debtor days	38	30	33	35	35
Inventory days	84	83	94	107	106
Creditors days	12	14	18	19	19
Valuation (X)					
P/E	44.4	27.3	28.0	23.1	20.1
P/BV	9.8	7.2	6.2	4.9	4.0
EV/EBITDA	28.1	19.5	18.9	15.4	13.2
EV / Revenues	6.6	4.9	3.9	3.5	3.1
Dividend Yield (%)	0.7	0.0	0.3	0.4	0.4
Dividend Payout	29.9	0.6	8.4	8.6	9.0

HARSH RAJENDRA SHETH

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(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.