KPR Mill (KPRMIL)

CMP: ₹ 450 | Target: ₹ 575 (28%) | Target Period: 12 months | BUY

October 30, 2021

Result Update

Low cost inventory boosts profitability…

About the stock: KPR Mill is among select vertically integrated textile players in India (from yarn to garments) that has displayed consistent revenue growth and positive operating margin trajectory with strong return ratios.

- It is one of India's largest knitted garment manufacturer with total capacity of 157 million pieces (post expansion)
- Consistently, over the years, it has maintained ~18%+ margins with average RoCE of ~20% and D/E ratio of 0.3x

Q2FY22 Results: On account of healthy yarn spreads coupled with strong order book for the garmenting division, KPR Mill reported yet another robust quarter.

- Revenue grew 27% YoY (30% QoQ) to ₹ 1211.3. Textile segment (89% of revenue) grew 27% YoY while sugar division (9% of revenues) grew 50% YoY. It has also accounted for ROSCTL benefit to the tune of ₹ 37 crore, of which ~ ₹ 25 crore pertains to the preceding two quarters
- Gross margins improved 720 bps YoY to 47.2% owing to low cost cotton inventory (costing ~ ₹ 144/kg), which led to superior yarn spreads
- EBITDA margins expanded 890 bps YoY to 29.0% (these margins are not sustainable in nature and the company aims to maintain 22-24% margins)
- The company has a current order book of ₹ 750 crore (garmenting division)

What should investors do? Since our initiation report, the stock price has appreciated ~3.8x (from ₹ 120 in September 2020 to ₹ 451 in October 2021).

- We like KPR as a structural long term story to play the apparel export space. We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value KPR at ₹ 575 i.e. 26x FY23E EPS

Key triggers for future price performance:

- KPR has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore) and ethanol facility (₹ 500 crore)
- Capital deployment towards value accretive projects (targeted RoCE: garmenting:30%, ethanol: 22%) augurs well for KPR
- Robust opportunities in US market give strong visibility for sustained growth in exports (currently Europe is the key market for garment exports)
- We model in revenue and earnings CAGR of 18% and 21%, respectively, in FY21-23E with higher RoCE of 26%

Alternate Stock Idea: Besides KPR, in our textile coverage we like Gokaldas Exports

- (GEL) is one of India's leading apparel exporter with annual capacity of 30 million pieces, which focuses on manufacturing complex garmenting
- BUY with a target price of ₹ 300

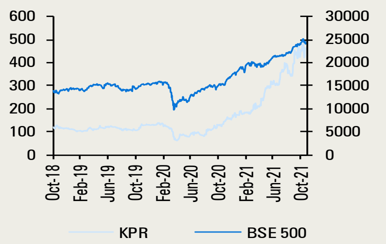
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	15,518.9
Total Debt (FY21) (₹ crore)	657.1
Cash (FY21) (₹ crore)	310.7
EV (₹ crore)	15,865.3
52 Week H / L	504 /141
Equity Capital (₹ crore)	34.4
Face Value (₹)	1.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	74.7	74.7	74.7	74.7	74.7
FII	1.4	1.8	2.2	2.7	3.1
DII	15.8	15.9	15.3	14.6	13.4
Others	8.0	7.6	7.8	8.1	8.8

Price Chart



Recent Event & Key risks

- Robust order book for garmenting division (₹ 750 crore)
- **Key Risk:** (i) Delay in expansion can lower sales (ii) Significant increase in cotton price can subdue margins

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

ICICI Securities – Retail Equity Research

Key Financial Summary

Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	3,384.0	3,352.6	3,530.2	6.4%	4,270.4	4,946.0	18.4%
EBITDA	611.8	621.9	829.6	12.1%	1,046.3	1,177.1	19.1%
Adjusted PAT	334.9	376.7	515.3	19.7%	638.1	757.2	21.2%
P/E (x)	46.3	41.2	30.1		24.3	20.5	
EV/EBITDA (x)	26.6	26.0	19.1		15.4	13.3	
RoCE (%)	19.6	19.6	24.0		24.2	26.3	
RoE (%)	18.7	20.2	21.9		22.3	22.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Robust quarterly performance

- Revenue for the quarter grew 27% YoY (30% QoQ) to ₹ 1211.3 crore. Robust yarn realisations have aided the topline growth. While volume for yarn and fabric division grew 1.4% YoY to 21500 tonnes, realisations inched 33% YoY to ₹ 273/kg. Subsequently, revenue from yarn and fabric division grew 35% YoY to ₹ 587 crore
- On the back of healthy order book and sustained demand for casualwear product exports (where KPR's expertise lies), garmenting division continued to operate at optimum utilisation levels. Volumes came in at 27 million pieces (up 8% YoY, flattish QoQ) with average realisations of ₹ 168/piece (up 5% YoY, also includes ROSCTL benefits of the preceding two quarters). Revenue from the garmenting division grew 13% YoY to ₹ 454 crore
- The upcoming garmenting facility (42 million pieces) is expected to be commissioned by Q2FY22. The same would be fully ramped up in eight to 12 months. Of the total incremental capacity, 60-70% is going to be utilised for the existing customer while balance is from new customers
- At an average realisation of ₹ 150/piece the new facility would generate incremental revenue worth ~₹ 600 crore (asset turn: ~ 2.5x). We anticipate garmenting division will register revenue CAGR of 26% in FY21-23E
- The new sugar and ethanol plant is expected to be commissioned in Q3FY22 and the company is targeting a revenue mix of 50:50 from ethanol and sugar division. With the new expanded capacity, the management is aiming at overall sugar revenues to cross ₹ 1000 crore in the next two to three years (from current ₹ 496 crore in FY21)

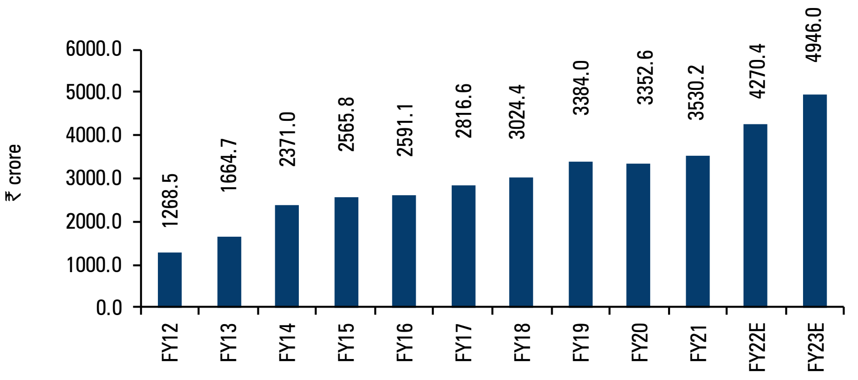
Q2FY22 Earnings Conference Call highlights

- The management indicated that the domestic yarn segment was witnessing strong demand. Though cotton prices had moved up sharply, yarn prices also moved in tandem. The management believes it would be able to pass on the input cost hike and maintain its margins as demand for cotton products continue to stay robust. **The company expects to maintain margins in the range of 22-23% in the yarn segment. Q2FY22 margins (~30%) were significantly higher owing to low cost cotton inventory available with the company.** The company further indicated it has cotton inventory for one more month. KPR would start buying new cotton soon and is evaluating the market scenario and would stock up cotton in the new cotton season. Normally the company keeps a cotton stock of around four to six months and buys cotton at the start of the season as the quality of the early arrival cotton is quite good
- The garment and sugar expansion projects are progressing well. Both the garment and sugar project are expected to start in Q3FY22. The garment project is expected to take nine to 12 months to ramp up while the sugar and ethanol project is likely to ramp up by December, 2021
- The new garment capacity of 42 million pieces would require around 5000 workers, of which 1000 have already been hired. The management indicated that it takes 45 days for training the workers and getting them ready to join the production facility
- On the sugar and ethanol capacity front, the company has a current sugar capacity of 90000 tonnes per annum while the ethanol capacity is 4 crore litre. Post expansion, sugar capacity is expected to increase to 165000 tonnes per annum while ethanol capacity is expected to increase to 10 crore litre
- The yarn captive consumption is ~ 30% currently. Post expansion of garment capacity by 40 million pieces, captive consumption is expected to increase to 40-45%

- The company is further exploring opportunities to expand its garment capacity post stabilisation of the current garment expansion project. The management indicated that it was witnessing strong customer interest owing to many large global retailers diversifying their sourcing and reducing dependence on China. Overall order booking from India has increased due to the China+1 strategy of global retailers
- The company's retail brand Faaso, over the last 18 months, has been progressing at a slow pace due to the pandemic. With opening up of trade, the company is now planning to expand the brand's presence on a pan-India basis. KPR has appointed consultants and also launched new advertisement campaign to enhance the visibility of the brand
- On the impact on margins due to increased logistics costs, the management indicated it does not foresee any negative impact on margins as majority of its orders are on free on board (FOB) basis and the customer bears the logistic costs

Financial story in charts….

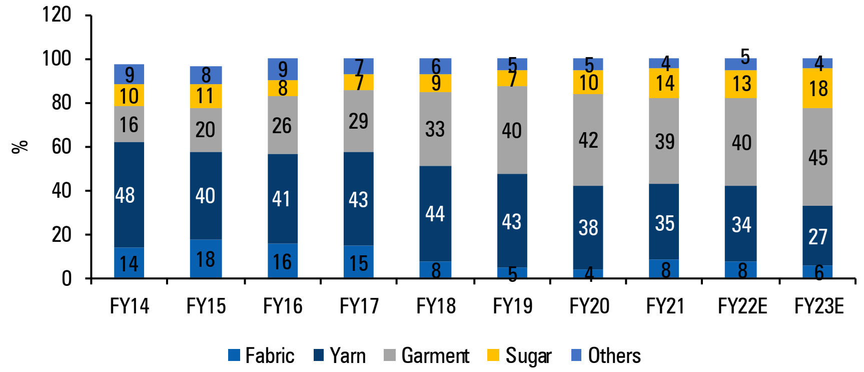
Exhibit 1: We model revenue CAGR of 18% in FY21-23E



Source: Company, ICICI Direct Research

Majority of the growth to be driven by garmenting segment (26% CAGR) and sugar division (35% CAGR). Revenue from yarn & fabric division to remain flattish (3.7% CAGR) on the back of a gradual increase in captive consumption for garmenting segment

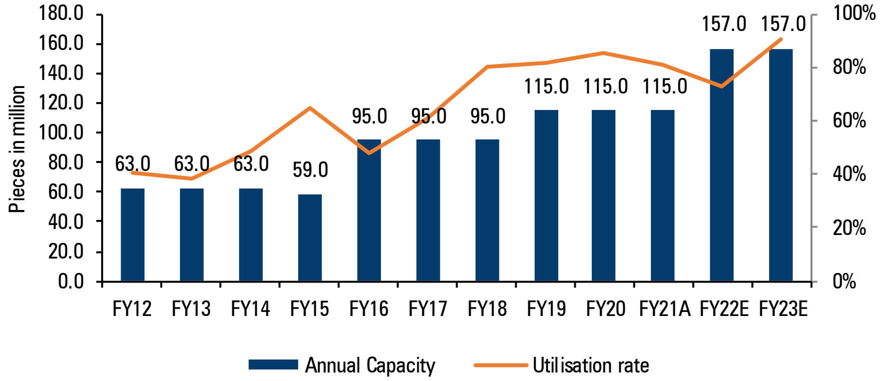
Exhibit 2: Segmental revenue share trend



Source: Company, ICICI Direct Research

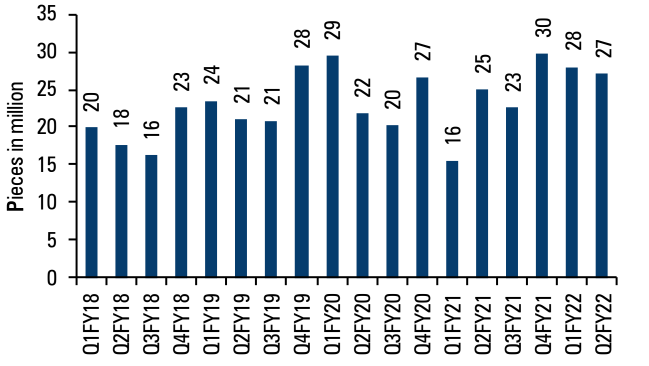
On the back of capacity expansion, share of garmenting and sugar division to increase from 39% and 14% in FY21 and to 45% and 18% in FY23E, respectively

Exhibit 3: Post capacity expansion, KPR to be India's largest knitted garment manufacturer



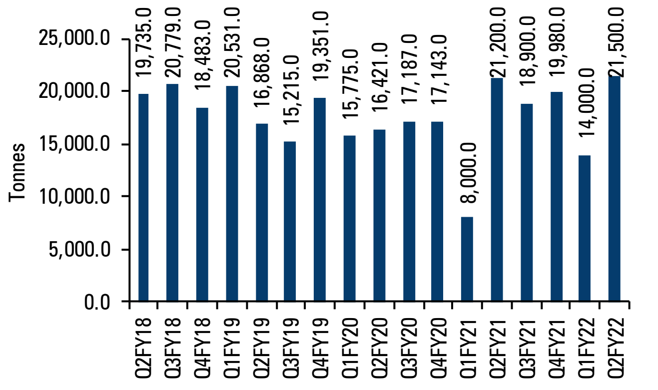
Source: Company, ICICI Direct Research

Exhibit 4: Garment volume trend



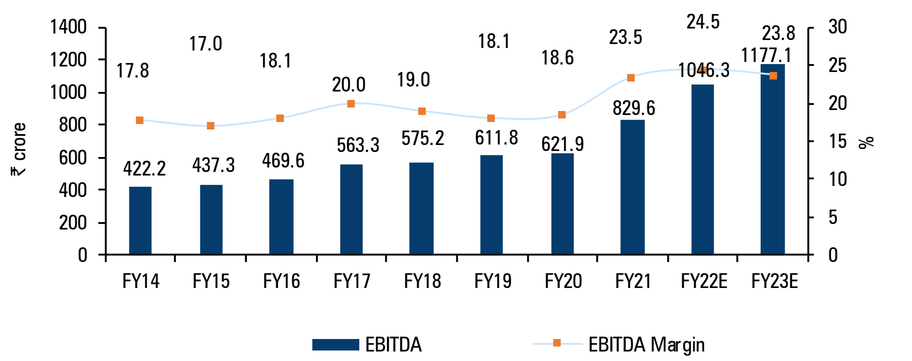
Source: Company, ICICI Direct Research

Exhibit 5: Yarn & Fabric volume trend



Source: Company, ICICI Direct Research

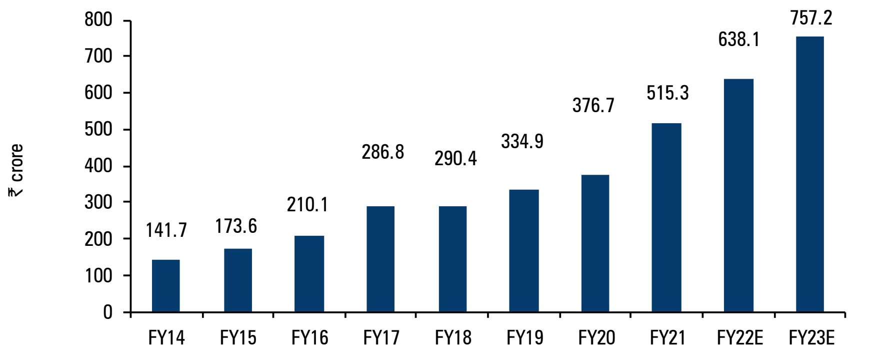
Exhibit 6: We build in EBITDA CAGR of 19% in FY21-23E



KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in the range of 22-23%

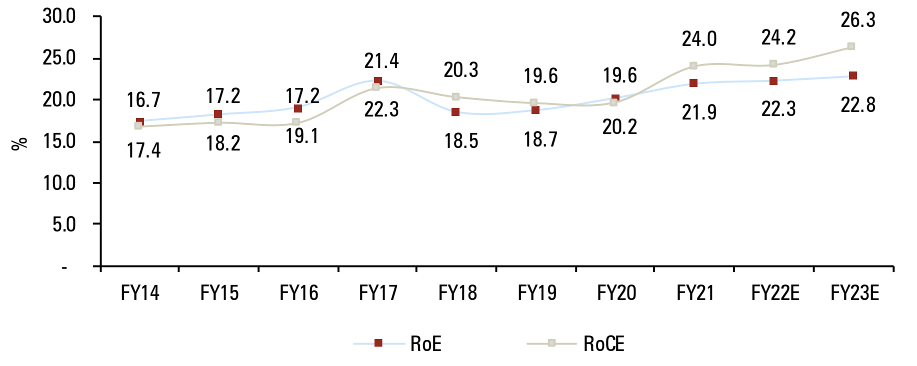
Source: Company, ICICI Direct Research

Exhibit 7: Expect PAT to grow at 21% CAGR in FY21-23E



Source: Company, ICICI Direct Research

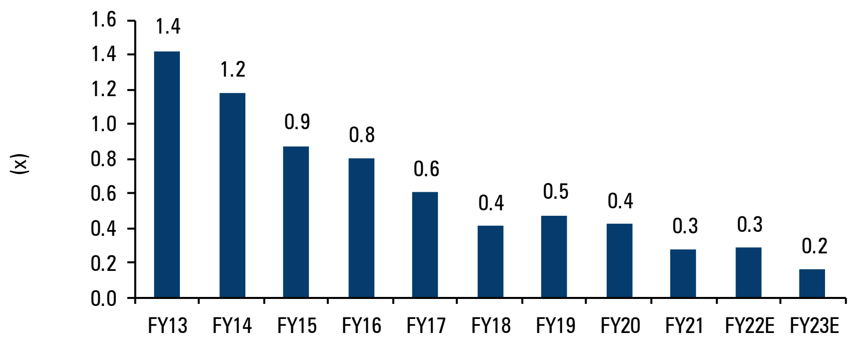
Exhibit 8: Return Ratio trend



Source: Company, ICICI Direct Research

KPR's strategy of focusing on high asset turnover garmenting segment for future growth provides scope for improvement in return ratios over the medium to longer term

Exhibit 9: Debt/Equity ratio trend



Source: Company, ICICI Direct Research

With no major capex plans expected in FY23E, we expect KPR to generate FCF worth ~₹ 680 crore and in turn result in higher dividend pay-out ratio and reduction in debt

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	3,352.6	3,530.2	4,270.4	4,946.0
Growth (%)	10.9	5.3	21.0	15.8
Total Raw Material Cost	1,987.2	1,962.9	2,284.7	2,740.1
Gross Margins (%)	40.7	44.4	46.5	44.6
Employee Expenses	394.4	393.7	499.6	534.2
Other Expenses	349.1	344.0	439.9	494.6
Total Operating Expenditure	2,730.7	2,700.6	3,224.2	3,768.8
EBITDA	621.9	829.6	1,046.3	1,177.1
EBITDA Margin	18.6	23.5	24.5	23.8
Interest	49.7	32.8	50.1	33.5
Depreciation	137.1	146.7	196.5	200.4
Other Income	36.5	38.8	40.0	40.0
Exceptional Expense	-	-	-	-
PBT	471.7	688.9	839.7	983.3
Total Tax	95.0	173.6	201.5	226.2
Profit After Tax	376.7	515.3	638.1	757.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	376.7	515.3	638.1	757.2
Add: Depreciation	137.1	146.7	196.5	200.4
Net Increase in Current Assets	341.7	-94.8	-390.8	-209.6
Net Increase in Current Liabilities	-88.1	20.7	57.7	32.4
CF from operating activities	**767.3**	**587.8**	**501.6**	**780.2**
(Inc)/dec in Investments	-7.0	-225.8	93.4	-14.0
(Inc)/dec in Fixed Assets	-315.7	-270.9	-598.4	-100.0
Others	9.8	0.0	0.0	0.0
CF from investing activities	**-312.9**	**-496.7**	**-505.0**	**-114.0**
Inc / (Dec) in Equity Capital	-1.9	0.0	0.0	0.0
Inc / (Dec) in Loan	-68.7	-130.5	163.5	-272.0
Others	-304.4	-37.5	-127.4	-302.6
CF from financing activities	**-375.0**	**-168.0**	**36.1**	**-574.6**
Net Cash flow	79.4	-77.0	32.7	91.6
Opening Cash	74.8	154.2	77.3	110.0
Closing Cash	**154.2**	**77.3**	**110.0**	**201.5**

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	34.4	34.4	34.4	34.4
Reserve and Surplus	1,831.5	2,315.8	2,826.3	3,280.6
Total Shareholders funds	1,865.9	2,350.2	2,860.7	3,315.0
Total Debt	787.6	657.1	820.6	548.6
Non Current Liabilities	54.2	47.7	47.9	48.2
Source of Funds	**2,707.7**	**3,055.0**	**3,729.2**	**3,911.8**
Gross block	2,014.3	2,090.3	2,890.3	2,990.3
Less: Accum depreciation	694.8	836.4	1,033.0	1,233.3
Net Fixed Assets	1,319.6	1,253.9	1,857.4	1,757.0
Capital WIP	6.4	28.6	2.0	2.0
Intangible assets	1.8	1.7	1.7	1.7
Investments	9.1	234.9	141.6	155.6
Inventory	715.7	913.3	1,146.6	1,287.3
Cash	154.2	77.3	110.0	201.5
Debtors	443.5	321.0	468.0	514.9
Loans & Advances & Other CA	189.7	209.5	220.0	242.0
Total Current Assets	1,503.2	1,521.0	1,944.5	2,245.7
Creditors	132.0	122.2	175.5	203.3
Provisions & Other CL	57.5	87.9	92.3	96.9
Total Current Liabilities	189.4	210.1	267.8	300.2
Net Current Assets	1,313.7	1,310.9	1,676.7	1,945.5
LT L& A, Other Assets	57.2	225.0	50.0	50.0
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**2,707.7**	**3,055.0**	**3,729.2**	**3,911.8**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	10.9	15.0	18.5	22.0
Cash EPS	14.9	19.2	24.3	27.8
BV	54.2	68.3	83.1	96.3
DPS	1.1	0.9	3.7	8.8
Cash Per Share	4.5	2.2	3.2	5.9
Operating Ratios (%)				
EBITDA margins	18.6	23.5	24.5	23.8
PBT margins	14.1	19.5	19.7	19.9
Net Profit margins	11.2	14.6	14.9	15.3
Inventory days	77.9	94.4	98.0	95.0
Debtor days	48.3	33.2	40.0	38.0
Creditor days	14.4	12.6	15.0	15.0
Return Ratios (%)				
RoE	20.2	21.9	22.3	22.8
RoCE	19.6	24.0	24.2	26.3
RoIC	21.0	27.1	25.9	29.0
Valuation Ratios (x)				
P/E	41.2	30.1	24.3	20.5
EV / EBITDA	26.0	19.1	15.4	13.3
EV / Sales	4.8	4.5	3.8	3.2
Market Cap / Revenues	4.6	4.4	3.6	3.1
Price to Book Value	8.3	6.6	5.4	4.7
Solvency Ratios				
Debt / Equity	0.4	0.3	0.3	0.2
Debt/EBITDA	1.3	0.8	0.8	0.5
Current Ratio	7.1	6.9	6.8	6.8
Quick Ratio	3.3	2.5	2.6	2.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.