

## Higher yarn realisation continues to drive revenues...

**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

**Q3FY22 Results:** On account of strong yarn spreads coupled with strong order book for the garmenting division, KPR Mill reported yet another steady quarter.

- Revenue grew 36% YoY (30% QoQ) to ₹ 1260.4 crore. Textile segment (82% of revenue) grew 30% YoY while sugar division (15% of revenues) grew 81% YoY
- On a QoQ basis, gross margins declined 338 bps to 43.8% as KPR carried low cost cotton inventory in the previous quarter. Yarn spreads continue to remain sturdy as they have moved in tandem with a sharp rise in cotton
- EBITDA margins declined 480 bps QoQ to 24.2% owing to higher other expenses (in line with the management's target)
- KPR, in Q3FY22, commissioned its garmenting facility (42 million pieces) and has robust order book of ₹ 1000 crore (vs. ₹ 750 crore in last quarter)

**What should investors do?** Since our initiation report, the stock price has appreciated ~5.4x (from ₹ 120 in September 2020 to ₹ 650 in February 2022).

- 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 ₹ 820 i.e. 29x FY24E EPS

### Key triggers for future price performance:

- Two major capex projects worth ₹ 750 crore towards garmenting (₹ 250 crore) and ethanol facility (₹ 500 crore) expected to be ramped up in FY23E
- Capital deployment towards value accretive projects (targeted RoCE: garmenting:30%, ethanol: 22%) augurs well for KPR
- Robust opportunities in US market gives strong visibility for sustained growth in exports (currently Europe is the key market for garment exports)
- We model revenue and earnings CAGR of 19%, 24%, respectively, in FY21-24E with higher RoE of 24%

**Alternate Stock Idea:** Apart from KPR, we also like Gokaldas Exports (GEL)

- GEL is one of India's leading apparel exporter with an annual capacity of 30 million pieces, which focuses on manufacturing complex garmenting
- BUY with target price of ₹ 480



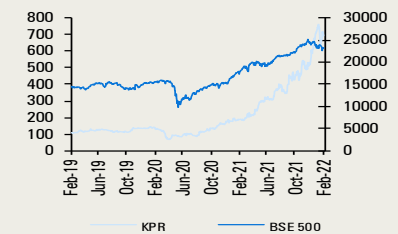
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	22,366.5
Total Debt (FY21) (₹ crore)	657.1
Cash (FY21) (₹ crore)	310.7
EV (₹ crore)	22,712.9
52 Week H / L	772 / 177
Equity Capital (₹ crore)	34.4
Face Value (₹)	1.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	74.7	74.7	74.7	74.7	74.7
FII	1.8	2.2	2.7	3.1	3.6
DII	15.9	15.3	14.6	13.4	13.0
Others	7.6	7.8	8.1	8.8	8.7

### Price Chart



### Recent Event & Key risks

The company has announced buyback of shares at a price of ₹ 805/share (22.3 lakh shares)

- Key Risk:** (i) Pandemic led restriction can lower sales (ii) Significant increase in cotton price can subdue margins

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### Key Financial Summary

Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net Sales	3,384.0	3,352.6	3,530.2	6.4%	4,572.1	5,295.3	5,989.7	19.3%
EBITDA	611.8	621.9	829.6	12.1%	1,120.2	1,260.3	1,461.5	20.8%
Adjusted PAT	334.9	376.7	515.3	19.7%	694.3	821.2	973.4	23.6%
P/E (x)	66.8	59.4	43.4		32.2	27.2	23.0	
EV/EBITDA (x)	37.8	37.0	27.4		20.5	17.9	15.3	
RoCE (%)	19.6	19.6	24.0		25.9	27.9	29.0	
RoE (%)	18.7	20.2	21.9		23.9	24.2	24.4	

## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results:

- Revenue for the quarter grew 36% YoY (4% QoQ) to ₹ 1260.4 crore. Robust yarn realisations have aided the topline growth. While volume for yarn and fabric division de-grew 4.8% YoY to 21500 tonnes, realisations inched 42% YoY (14% QoQ) to ₹ 310/kg. Subsequently, revenue from yarn and fabric division grew 35% YoY to ₹ 558 crore
- On the back of a 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 27.6 million pieces (up 22% YoY, flattish QoQ) with average realisations of ₹ 162/piece. Revenue from the garmenting division grew 13% YoY to ₹ 454 crore
- The company commissioned its new 42 million garment production capacity in Tamil Nadu and the current capacity post expansion is at 157 million garments per annum. KPR expects the ramp up of the new capacity by September 2022 while the full impact on revenue would be visible in FY24. On the utilisation of expanded capacity, the management indicated that it would first increase volumes supplied to existing customers and later on supply to its newer customers. Of the total incremental capacity, 60-70% is going to be utilised for the existing customer while balance will be 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 FY21-24E
- The new sugar and ethanol plant is expected to be commissioned in Q4FY22. 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 crossing ₹ 1200-1300 crore in the next two to three years (from current ₹ 496 crore in FY21) with EBITDA margins of ~20%+

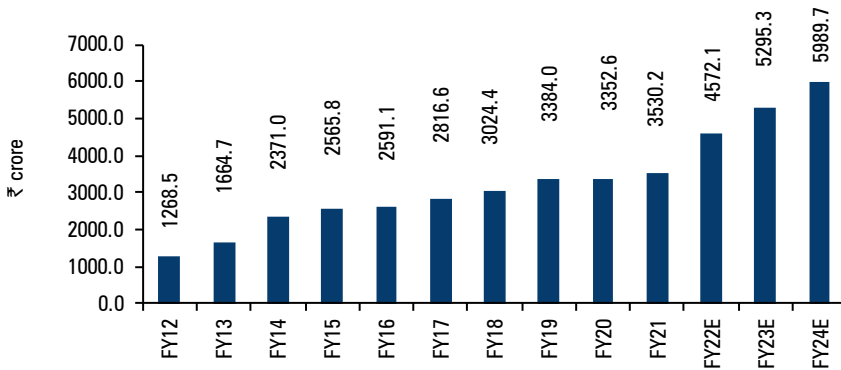
### Q3FY22 Earnings Conference Call highlights

- 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 product continues to stay robust. **The company expects to maintain margins at the current range of 20-22% in the yarn segment. Q2FY22 margins (~30%) were significantly higher owing to low cost cotton inventory available with the company.** On the cotton procurement policy, the management indicated that considering the current scenario of elevated cotton prices the company has decided to hold only two to three months of cotton inventory and would assess the policy depending on the cotton demand supply situation, going ahead (normally KPR keeps a cotton stock of around four to six months)
- The garmenting division continued to register record high EBITDA margins of ~29% on the back of healthy realisations and sustained demand. China+1 sourcing diversification strategy of global retailers has led to strong demand for Indian textile players. Global brands are ready to pay higher price to get assured supplies and are placing orders with companies, which had the capability to meet large orders
- On the cotton situation in the country, the management highlighted that cotton arrivals have been less this season compared to last year. It expects the season to extend by two to three months this year. It expects cotton prices to remain elevated in the near term
- The management believes free trade agreements with the UK and other European countries would be positive for Indian textile players and would benefit large players like KPR to garner higher market share in these markets

- 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 litres. Post expansion the sugar capacity is expected to increase to 165000 tonnes per annum and the ethanol capacity is expected to increase to 10 crore litres. KPR has started to operate the new sugar mill on a trial basis and is awaiting the commercial launch approval. The company is expecting trial ethanol production to start from March 2022. The commercial production could start from Q1FY23
- On the capital allocation front, KPR plans to mainly invest in the textile segment. It is also awaiting policy details on textile park. If the policy is conducive, the company may look at setting up a facility in a textile park
- The company currently has 55 active customers for the garment segment. The top five customers contribute ~ 40% of garment revenues
- The company is gradually expanding the reach of its retail brand 'Faaso'. Currently, the brand is being distributed to ~3000 outlets in India. Initially, the company is aiming to enhance the distribution reach to ~ 10000 outlets. KPR is not looking at opening its own stores for the brand currently

Financial story in charts....

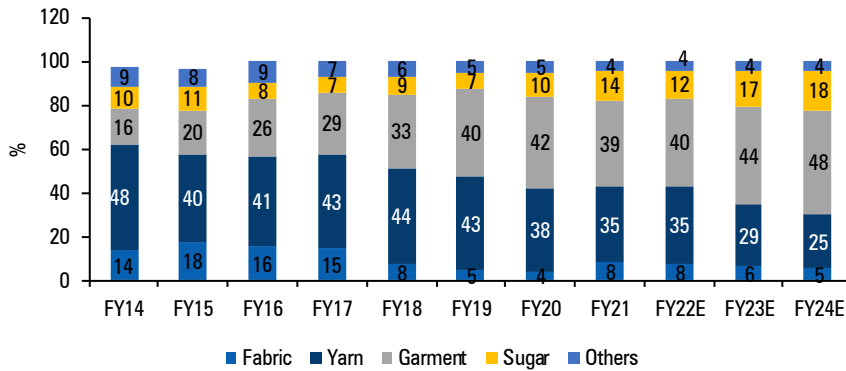
Exhibit 1: We model revenue CAGR of 19% in FY21-24E



Majority of growth to be driven by garmenting segment (27% CAGR) and sugar division (30% CAGR). Revenue from yarn & fabric division to remain flattish (6.0% CAGR) back of a gradual increase in captive consumption for garmenting segment.

Source: Company, ICICI Direct Research

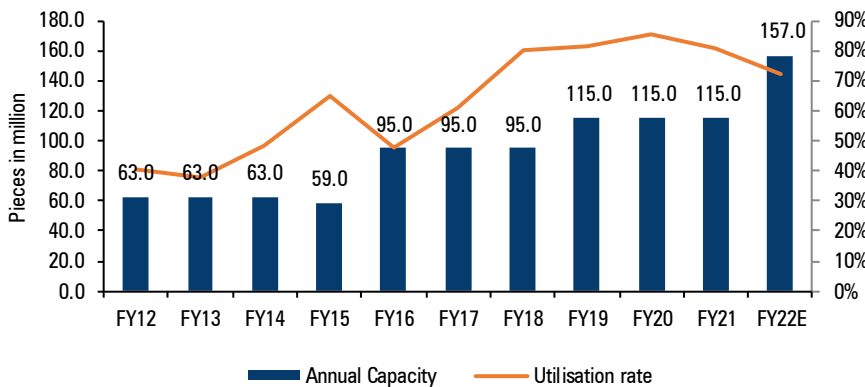
Exhibit 2: Segmental revenue share trend



On the back of capacity expansion, share of garmenting and sugar division to increase from 39%/14% in FY21 to 48%/18% in FY24E.

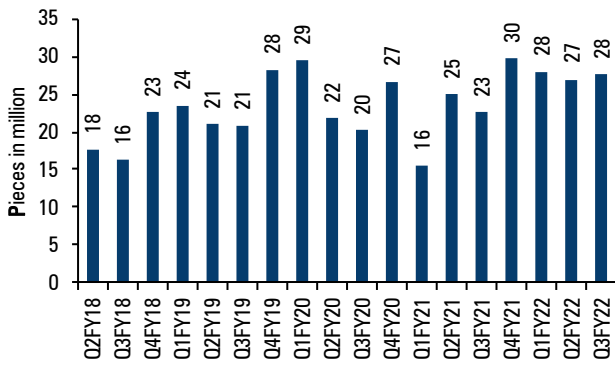
Source: Company, ICICI Direct Research

Exhibit 3: Post capacity expansion, KPR has become India's largest knitted garment manufacturer



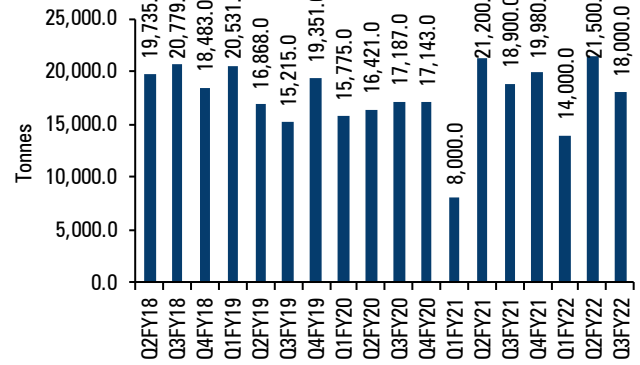
Source: Company, ICICI Direct Research

Exhibit 4: Garment volume trend



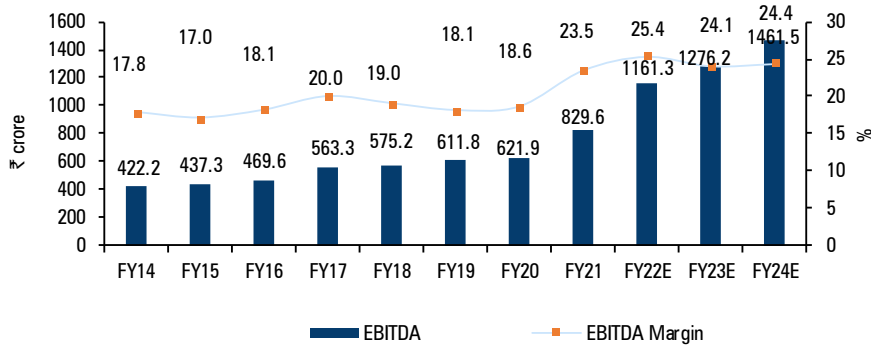
Source: Company, ICICI Direct Research

Exhibit 5: Yarn & fabric volume trend



Source: Company, ICICI Direct Research

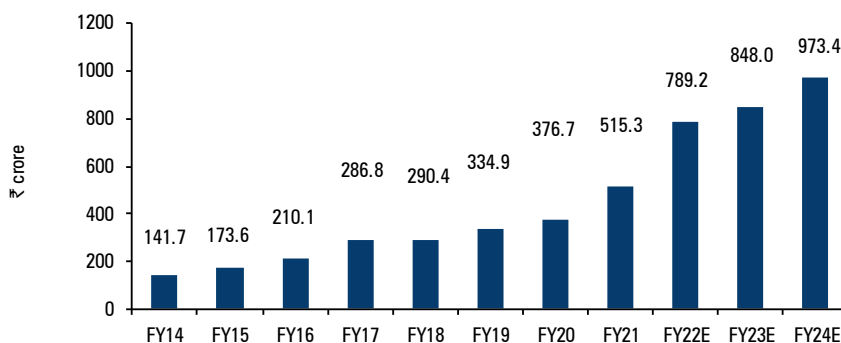
Exhibit 6: We build in EBITDA CAGR of 21% in FY21-24E



KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower raw material volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile

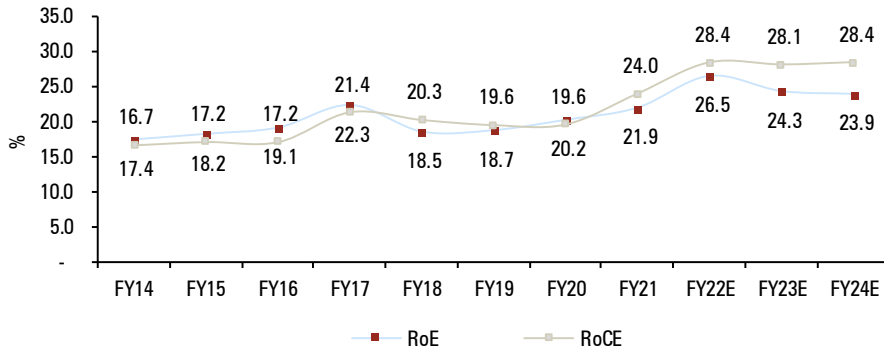
Source: Company, ICICI Direct Research

Exhibit 7: Expect PAT to grow at 24% CAGR in FY21-24E



Source: Company, ICICI Direct Research

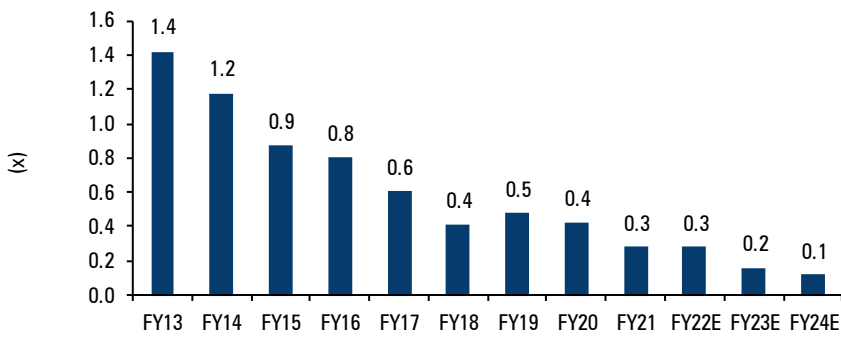
Exhibit 8: Return ratio trend



*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*

Source: Company, ICICI Direct Research

Exhibit 9: Debt/equity ratio trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	3,530.2	4,572.1	5,295.3	5,989.7
Growth (%)	5.3	29.5	15.8	13.1
Total Raw Material Cost	1,962.9	2,446.1	2,923.0	3,294.3
Gross Margins (%)	44.4	46.5	44.8	45.0
Employee Expenses	393.7	493.8	566.6	658.9
Other Expenses	344.0	470.9	529.5	575.0
Total Operating Expenditure	2,700.6	3,410.8	4,019.1	4,528.2
<b>EBITDA</b>	<b>829.6</b>	<b>1,161.3</b>	<b>1,276.2</b>	<b>1,461.5</b>
EBITDA Margin	23.5	25.4	24.1	24.4
Interest	32.8	41.0	33.5	28.5
Depreciation	146.7	161.9	191.4	213.8
Other Income	38.8	80.0	50.0	45.0
Exceptional Expense	-	-	-	-
PBT	688.9	1,038.4	1,101.3	1,264.2
Total Tax	173.6	249.2	253.3	290.8
<b>Profit After Tax</b>	<b>515.3</b>	<b>789.2</b>	<b>848.0</b>	<b>973.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	34.4	34.4	34.4	34.4
Reserve and Surplus	2,315.8	2,947.1	3,455.9	4,040.0
Total Shareholders funds	2,350.2	2,981.5	3,490.3	4,074.4
Total Debt	657.1	820.6	548.6	475.7
Non Current Liabilities	47.7	47.9	48.2	48.4
<b>Source of Funds</b>	<b>3,055.0</b>	<b>3,850.1</b>	<b>4,087.1</b>	<b>4,598.5</b>
Gross block	2,090.3	2,890.3	2,990.3	3,190.3
Less: Accum depreciation	836.4	998.3	1,189.6	1,403.4
Net Fixed Assets	1,253.9	1,892.1	1,800.7	1,786.9
Capital WIP	28.6	2.0	2.0	2.0
Intangible assets	1.7	1.7	1.7	1.7
Investments	234.9	141.6	155.6	171.0
Inventory	913.3	1,227.6	1,378.2	1,608.2
Cash	77.3	94.5	220.3	404.1
Debtors	321.0	501.1	551.3	656.4
Loans & Advances & Other CA	209.5	220.0	242.0	266.2
Total Current Assets	1,521.0	2,043.1	2,391.8	2,934.9
Creditors	122.2	187.9	217.6	246.2
Provisions & Other CL	87.9	92.3	96.9	101.8
Total Current Liabilities	210.1	280.2	314.6	347.9
Net Current Assets	1,310.9	1,762.8	2,077.2	2,587.0
LT L&A, Other Assets	225.0	50.0	50.0	50.0
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3,055.0</b>	<b>3,850.1</b>	<b>4,087.1</b>	<b>4,598.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	515.3	789.2	848.0	973.4
Add: Depreciation	146.7	161.9	191.4	213.8
Net Increase in Current Assets	-94.8	-504.9	-222.9	-359.3
Net Increase in Current Liabilities	20.7	70.1	34.3	33.4
<b>CF from operating activities</b>	<b>587.8</b>	<b>516.3</b>	<b>850.9</b>	<b>861.3</b>
(Inc)/dec in Investments	-225.8	93.4	-14.0	-15.4
(Inc)/dec in Fixed Assets	-270.9	-598.4	-100.0	-200.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-496.7</b>	<b>-505.0</b>	<b>-114.0</b>	<b>-215.4</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-130.5	163.5	-272.0	-73.0
Others	-37.5	-157.6	-339.0	-389.1
<b>CF from financing activities</b>	<b>-168.0</b>	<b>5.9</b>	<b>-611.0</b>	<b>-462.1</b>
Net Cash flow	-77.0	17.2	125.9	183.8
Opening Cash	154.2	77.3	94.5	220.3
<b>Closing Cash</b>	<b>77.3</b>	<b>94.5</b>	<b>220.3</b>	<b>404.1</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	15.0	22.9	24.6	28.3
Cash EPS	19.2	27.6	30.2	34.5
BV	68.3	86.6	101.4	118.4
DPS	0.9	4.6	9.9	11.3
Cash Per Share	2.2	2.7	6.4	11.7
<b>Operating Ratios (%)</b>				
EBITDA margins	23.5	25.4	24.1	24.4
PBT margins	19.5	22.7	20.8	21.1
Net Profit margins	14.6	17.3	16.0	16.3
Inventory days	94.4	98.0	95.0	98.0
Debtor days	33.2	40.0	38.0	40.0
Creditor days	12.6	15.0	15.0	15.0
<b>Return Ratios (%)</b>				
RoE	21.9	26.5	24.3	23.9
RoCE	24.0	28.4	28.1	28.4
RoIC	27.1	30.3	31.0	32.5
<b>Valuation Ratios (x)</b>				
P/E	43.4	28.3	26.4	23.0
EV / EBITDA	27.4	19.8	17.7	15.2
EV / Sales	6.4	5.0	4.3	3.7
Market Cap / Revenues	6.3	4.9	4.2	3.7
Price to Book Value	9.5	7.5	6.4	5.5
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.3	0.2	0.1
Debt/EBITDA	0.8	0.7	0.4	0.3
Current Ratio	6.9	7.0	6.9	7.3
Quick Ratio	2.5	2.6	2.5	2.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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