

## Embarking on next phase of growth...

Amid a challenging scenario, KPR exhibited a smart recovery with 20%+ growth in textile division. Revenue from textile division grew 21.3% YoY to ₹ 852.3 crore while sales from sugar division de-grew 11% YoY to ₹ 76.1 crore. Overall revenue grew 17% YoY (74% QoQ) to ₹ 941.9 crore. On the segmental front, garmenting division bounced back sharply with revenue growth of 23% YoY to ₹ 403 crore. The growth was on the back of 15% volume growth to 25.0 million (mn) pieces, 7% rise in average realisation to ₹ 160/piece. Also, yarn & fabric division saw strong demand (29% volume growth in Q2FY21). KPR expects it to sustain over H2FY21. Gross margins fell 355 bps YoY to 37.6%. However, due to positive operating leverage, EBITDA margins fell 110 bps YoY to 20.1%. On the back of a steady operational performance, PBT grew 12% YoY to ₹ 153.2 crore. Operating cashflows in H1FY21 were at ₹ 545 crore vs. ₹ 474 crore in H1FY20. Capex incurred was substantially lower in H1FY21 (₹ 46.6 crore vs. ₹ 187.1 crore YoY), leading to debt reduction by ₹ 385 crore to ₹ 356 crore (D/E: 0.2x). Inherent strength of business model, long standing relationship with marquee clients has enabled KPR to tide over the situation better than small peers.

### New capacity addition to boost growth

Currently, the garmenting division is operating at optimum utilisation levels. To cater to growing market demand and tapping new potential markets such as US (KPR currently has strong presence in EU), the company has embarked on a greenfield expansion of its garmenting facility with annual capacity of 42 mn pieces. With the capacity addition, KPR will be India's largest knitted garment manufacturer in India with total capacity of 157 mn pieces. Capex for the same is estimated at ₹ 250 crore with ~75% funding through debt (covered under TUFS). Furthermore, the new capacity will be coming up under a new subsidiary company that will be eligible for lower tax rate of ~15%. At an average realisation of ₹ 150/piece the new facility would generate incremental revenue worth ~₹ 630 crore (asset turnover: ~2.5x). Commercial production is expected to start from H2FY22 with full ramp up by FY23E. KPR, with a vertically integrated model from yarn to garmenting, seems well set to benefit from a shift in demand.

### Valuation & Outlook

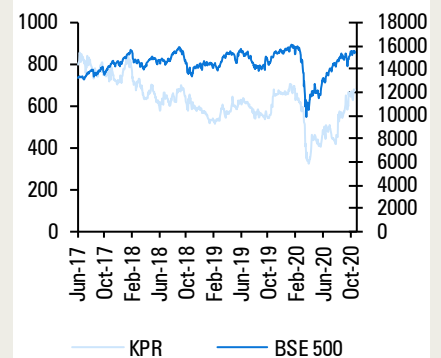
With the new garmenting capacity coming on stream from H2FY22E onwards, we build in capacity utilisation rate of ~25% and subsequent ramp up to 70% by FY23E. We expect the garmenting division to be the next growth engine and register revenue CAGR of 15%, with share of garments in overall revenues inching up from 42% in FY20 to 51% in FY23E. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in the range of 22-23% while high asset turnover would translate into RoCE improvement by 370 bps to 23% in FY20-23E. Pre-operating expenses may lead to moderation of margins in FY22E but with gradual scaling up of the plant, we pencil in EBITDA margin expansion of 270 bps to 21.3% in FY20-23E. We like KPR as a structural long term story to play the apparel export space. We maintain **BUY** rating on the stock with a revised target price of ₹ 850 (10x FY23E EPS, previous TP: ₹ 735).



#### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,023.9
Total Debt (FY20) (₹ crore)	787.6
Cash (FY20) (₹ crore)	154.2
EV (₹ crore)	5,657.3
52 Week H / L	783 / 316
Equity Capital (₹ crore)	34.4
Face Value (₹)	5.0

#### Price Chart



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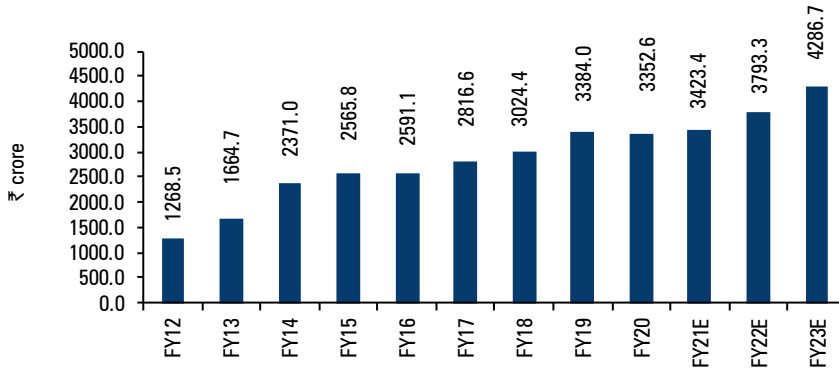
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#### Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3,384.0	3,352.6	3,423.4	3,793.3	4,286.7	8.5%
EBITDA	611.8	621.9	674.4	698.0	913.1	13.7%
Adjusted PAT	334.9	376.7	388.6	398.5	573.2	15.0%
P/E (x)	15.0	13.3	12.9	12.6	8.8	
EV/EBITDA (x)	9.5	9.1	8.4	7.8	5.7	
RoCE (%)	19.6	19.6	19.4	18.3	23.4	
RoE (%)	18.7	20.2	17.5	15.7	20.3	

Financial story in charts....

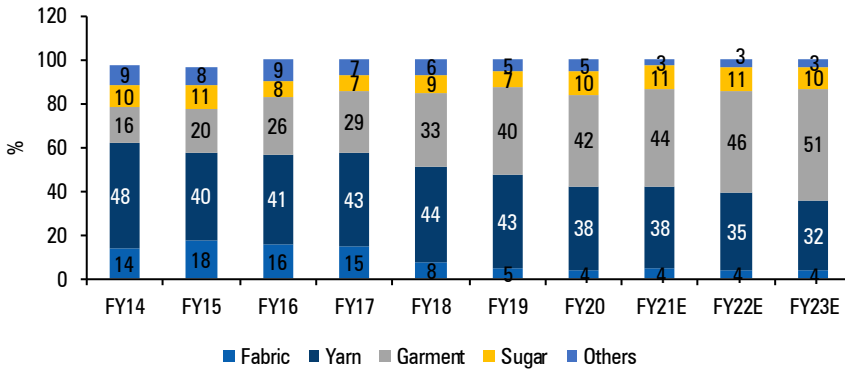
Exhibit 1: We model revenue CAGR of 8.5% in FY20-23E



Majority of growth driven by garmenting segment (16% CAGR with share of garmenting to increase by 900 bps to 51% by FY23E). We bake in steady revenue CAGR of 3% in yarn & fabric segment on the back of a gradual increase in captive consumption for garmenting segment

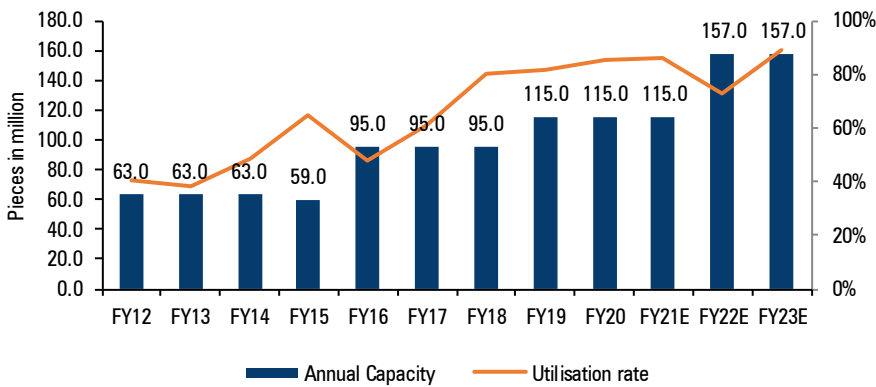
Source: Company, ICICI Direct Research

Exhibit 2: Segmental revenue share trend



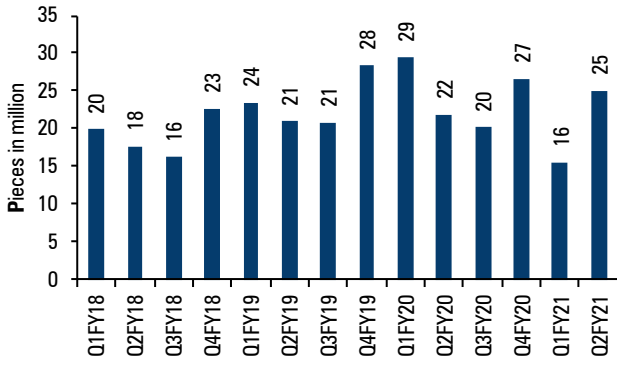
Source: Company, ICICI Direct Research

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



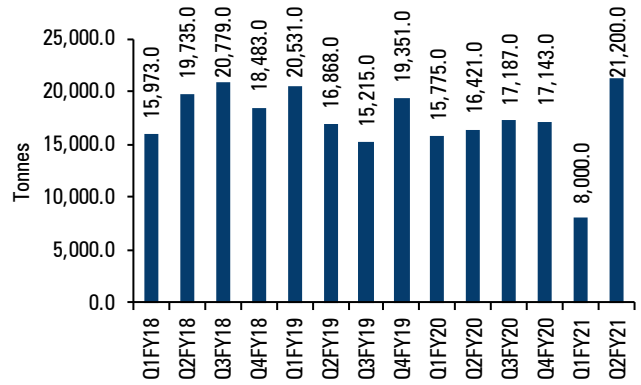
Source: Company, ICICI Direct Research

Exhibit 4: Garment volumes recover 14% in Q2FY21



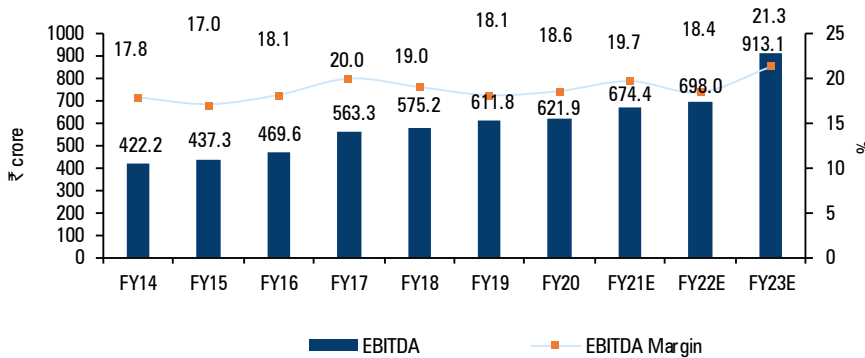
Source: Company, ICICI Direct Research

Exhibit 5: Strong demand in yarn, fabric segment (29% YoY growth)



Source: Company, ICICI Direct Research

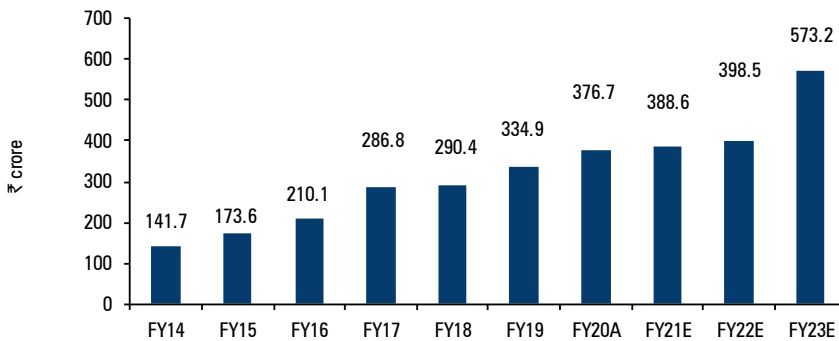
Exhibit 6: Build in EBITDA CAGR of 14% in FY20-23E



Source: Company, ICICI Direct Research

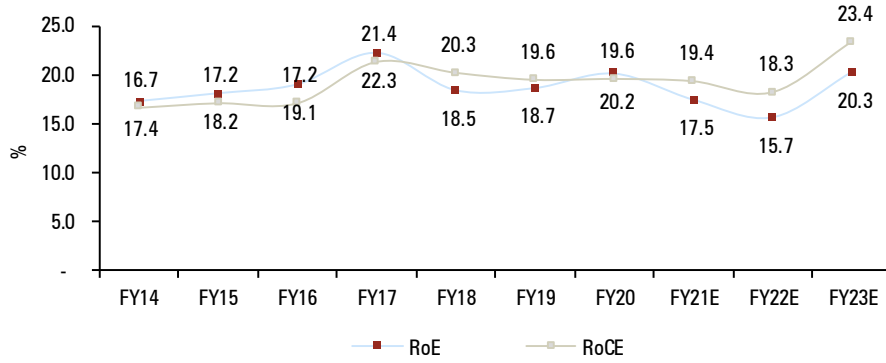
KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in range of 22-23% while yarn division derives ~15-18% EBITDA margins

Exhibit 7: Expect PAT to grow at 15% CAGR in FY20-23E



Source: Company, ICICI Direct Research

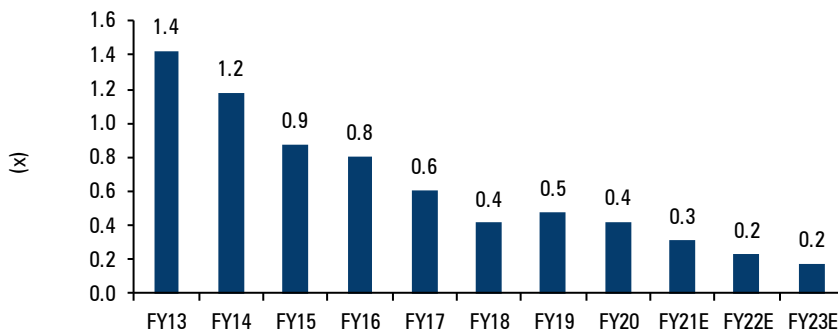
Exhibit 8: Return Ratio trend



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

Source: Company, ICICI Direct Research

Exhibit 9: Debt/equity ratio trend



Over FY21-23E, we expect company to incur capex worth ~ ₹ 470 crore. However, given strong OCF, we expect company to generate FCF of ₹ 847 crore in FY21-23E. Subsequently, we expect debt reduction to continue

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 10: Profit & loss statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	3,352.6	3,423.4	3,793.3	4,286.7
Growth (%)	10.9	2.1	10.8	13.0
Total Raw Material Cost	1,987.2	1,985.5	2,230.5	2,464.8
Gross Margins (%)	40.7	42.0	41.2	42.5
Employee Expenses	394.4	400.5	455.2	471.5
Other Expenses	349.1	362.9	409.7	437.2
Total Operating Expenditure	2,730.7	2,749.0	3,095.3	3,373.6
<b>EBITDA</b>	621.9	674.4	698.0	913.1
EBITDA Margin	18.6	19.7	18.4	21.3
Interest	49.7	44.8	38.0	32.5
Depreciation	137.1	143.1	164.2	171.1
Other Income	36.5	32.8	36.8	34.9
Exceptional Expense	-	-	-	-
PBT	471.7	519.3	532.5	744.4
Total Tax	95.0	130.7	134.0	171.2
<b>Profit After Tax</b>	376.7	388.6	398.5	573.2

Source: Company, ICICI Direct Research

### Exhibit 11: Cash flow statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	376.7	388.6	398.5	573.2
Add: Depreciation	137.1	143.1	164.2	171.1
Net Increase in Current Assets	341.7	-397.8	-104.5	-140.5
Net Increase in Current Liabilities	-88.1	86.6	-4.8	30.2
<b>CF from operating activities</b>	<b>767.3</b>	<b>220.5</b>	<b>453.4</b>	<b>633.9</b>
(Inc)/dec in Investments	-7.0	-0.1	-0.8	-0.8
(Inc)/dec in Fixed Assets	-315.7	-163.6	-197.0	-100.0
Others	9.8	-2.9	-3.0	-3.2
<b>CF from investing activities</b>	<b>-312.9</b>	<b>-166.5</b>	<b>-200.8</b>	<b>-104.0</b>
Inc / (Dec) in Equity Capital	-1.9	0.0	0.0	0.0
Inc / (Dec) in Loan	-68.7	-98.2	-104.2	-84.9
Others	-304.4	-38.5	-79.3	-286.2
<b>CF from financing activities</b>	<b>-375.0</b>	<b>-136.7</b>	<b>-183.6</b>	<b>-371.1</b>
Net Cash flow	79.4	-82.7	69.0	158.8
Opening Cash	74.8	154.2	71.5	140.5
<b>Closing Cash</b>	<b>154.2</b>	<b>71.5</b>	<b>140.5</b>	<b>299.3</b>

Source: Company, ICICI Direct Research

### Exhibit 12: Balance Sheet

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	34.4	34.4	34.4	34.4
Reserve and Surplus	1,831.5	2,181.2	2,500.0	2,786.5
Total Shareholders funds	1,865.9	2,215.6	2,534.4	2,821.0
Total Debt	787.6	689.4	585.2	500.3
Non Current Liabilities	54.2	54.6	54.9	55.3
<b>Source of Funds</b>	<b>2,707.7</b>	<b>2,959.6</b>	<b>3,174.5</b>	<b>3,376.6</b>
Gross block	2,014.3	2,074.3	2,379.3	2,479.3
Less: Accum depreciation	694.8	837.9	1,002.1	1,173.1
Net Fixed Assets	1,319.6	1,236.4	1,377.3	1,306.2
Capital WIP	6.4	110.0	2.0	2.0
Intangible assets	1.8	1.8	1.8	1.8
Investments	9.1	9.2	10.0	10.8
Inventory	715.7	1,031.7	1,143.2	1,233.2
Cash	154.2	71.5	140.5	299.3
Debtors	443.5	515.8	498.8	528.5
Loans & Advances & Other CA	189.7	199.2	209.2	230.1
Total Current Assets	1,503.2	1,818.3	1,991.7	2,291.1
Creditors	132.0	215.7	207.9	234.9
Provisions & Other CL	57.5	60.4	63.4	66.6
Total Current Liabilities	189.4	276.1	271.2	301.4
Net Current Assets	1,313.7	1,542.2	1,720.5	1,989.6
LT L&A, Other Assets	57.2	60.0	63.0	66.2
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>2,707.7</b>	<b>2,959.6</b>	<b>3,174.5</b>	<b>3,376.6</b>

Source: Company, ICICI Direct Research

### Exhibit 13: Key ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	54.7	56.5	57.9	83.3
Cash EPS	74.7	77.3	81.8	108.1
BV	271.1	321.9	368.3	409.9
DPS	5.5	5.6	11.6	41.6
Cash Per Share	22.4	10.4	20.4	43.5
<b>Operating Ratios (%)</b>				
EBITDA margins	18.6	19.7	18.4	21.3
PBT margins	14.1	15.2	14.0	17.4
Net Profit margins	11.2	11.4	10.5	13.4
Inventory days	77.9	110.0	110.0	105.0
Debtor days	48.3	55.0	48.0	45.0
Creditor days	14.4	23.0	20.0	20.0
<b>Return Ratios (%)</b>				
RoE	20.2	17.5	15.7	20.3
RoCE	19.6	19.4	18.3	23.4
RoIC	21.0	20.8	19.2	25.8
<b>Valuation Ratios (x)</b>				
P/E	13.3	12.9	12.6	8.8
EV / EBITDA	9.1	8.4	7.8	5.7
EV / Sales	1.7	1.6	1.4	1.2
Market Cap / Revenues	1.5	1.5	1.3	1.2
Price to Book Value	2.7	2.3	2.0	1.8
<b>Solvency Ratios</b>				
Debt / Equity	0.4	0.3	0.2	0.2
Debt/EBITDA	1.3	1.0	0.8	0.5
Current Ratio	7.1	6.3	6.8	6.6
Quick Ratio	3.3	2.6	2.6	2.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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