

Large global market to aid sustained export growth

KPR Mill is India's leading garment manufacturer & exporter of knitted apparels, boasting capacity to produce 115 million (mn) pieces per annum. KPR, given its vertically integrated business model seems well placed to benefit from China plus one strategy. Its export order book at the end of Q2FY21 was healthy at ₹ 540 crore. To cater to the growing market demand and tapping new potential markets (like US), KPR had embarked upon 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. The new capacity is expected to come on stream from H1FY22E onwards. Over the years, Europe has been the key market for KPR contributing ~54% of overall garment export revenues, whereas US remains underpenetrated with share of ~22%. Robust opportunities in US market (total imports: ~US\$85 billion, India's share: ~5%) gives strong visibility for sustained growth in exports.

Garment capacity expansion to drive next phase of growth

Over the last six years, KPR has strategically focused on increasing capacities in the garmenting businesses. In FY14-20, its garment capacity increased at ~20% CAGR, with garmenting revenues increasing 24% in the same period. Subsequently, share of garment revenue has increased from 16% in FY14 to 42% in FY20. KPR, in the previous quarter, announced 40% increase in new garmenting capacity (~47 mn pieces) with full ramp expected up by FY23E. 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 (A/To: ~ 2.5x). 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 further to 51% in FY23E.

National textile policy to boost exports

As per media reports, the new National Textile Policy is expected to be rolled out soon with a target of investing ~ ₹ 10000 crore in Mega Integrated Textile parks. The policy aims to triple the textile industry to US\$300 billion with overall exports reaching US\$100 billion in the next five years. While we wait for the granular data, we believe the new textile policy could act as key growth catalyst for the textile Industry.

Valuation & Outlook

We continue to remain positive on KPR due to its competitive advantages due to lower power & labour cost, vertically integrated operations, focus on value-added products and robust balance sheet. Higher proportion of garmenting enhances the 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. The new textile policy is expected to aid in improving global competitiveness of Indian exporters. We like KPR as a structural long term story to play the apparel export space. We maintain **BUY** recommendation on the stock with a revised target price of ₹ 1100 (13x FY23E EPS, previous target price: ₹ 850).

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)	19.1	17.0	16.5	16.1	11.2	
EV/EBITDA (x)	11.7	11.3	10.4	9.8	7.2	
RoCE (%)	19.6	19.6	19.4	18.3	23.4	
RoE (%)	18.7	20.2	17.5	15.7	20.3	

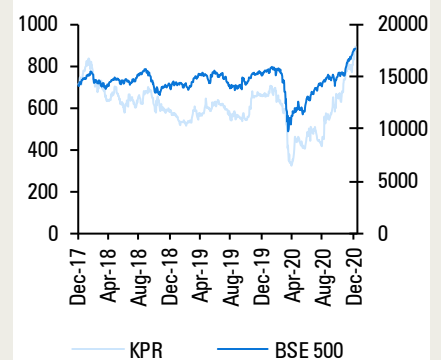
Source: ICICI Direct Research, Company



Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	6,400.3
Total Debt (FY20) (₹ crore)	787.6
Cash (FY20) (₹ crore)	154.2
EV (₹ crore)	7,033.7
52 Week H / L	955 / 316
Equity Capital (₹ crore)	34.4
Face Value (₹)	5.0

Price performance



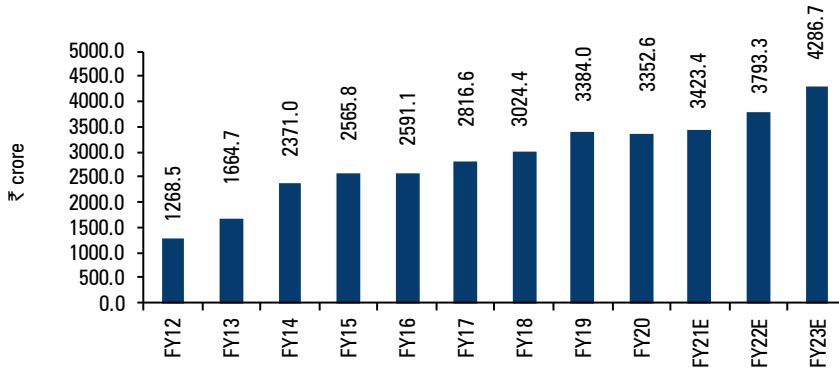
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Financial story in charts....

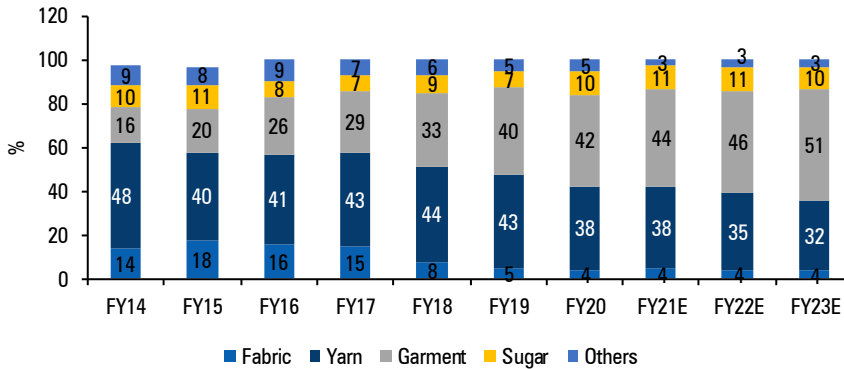
Exhibit 1: We model revenue CAGR of 8.5% in FY20-23E



Majority of the 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 the yarn & fabric segment on the back of a gradual increase in captive consumption for garmenting segment

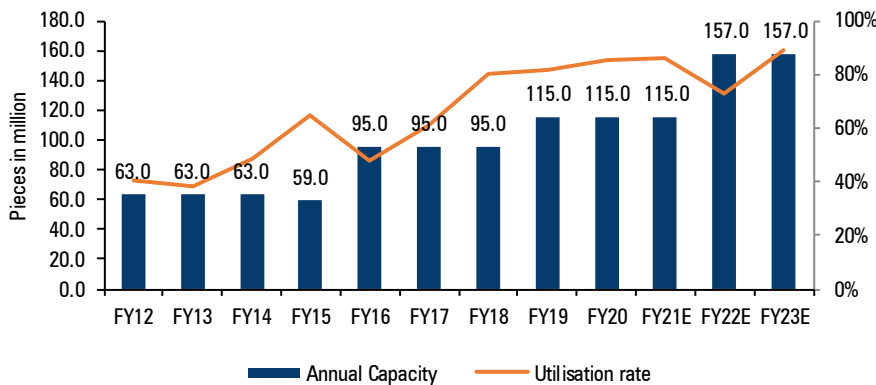
Source: Company, ICICI Direct Research

Exhibit 2: Segmental revenue share trend



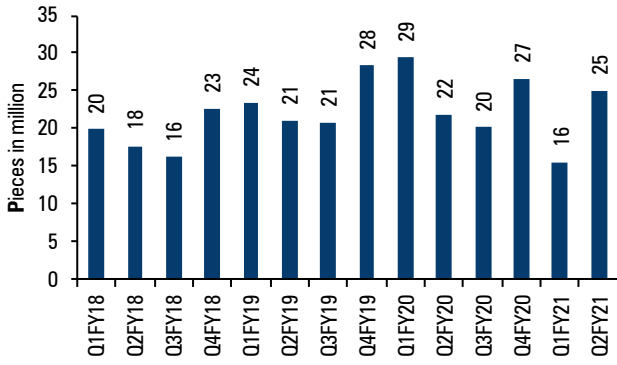
Source: Company, ICICI Direct Research

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



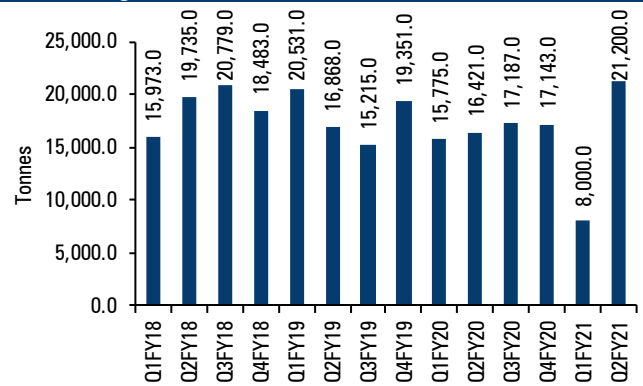
Source: Company, ICICI Direct Research

Exhibit 4: Garment volumes recover by 14% in Q2FY21



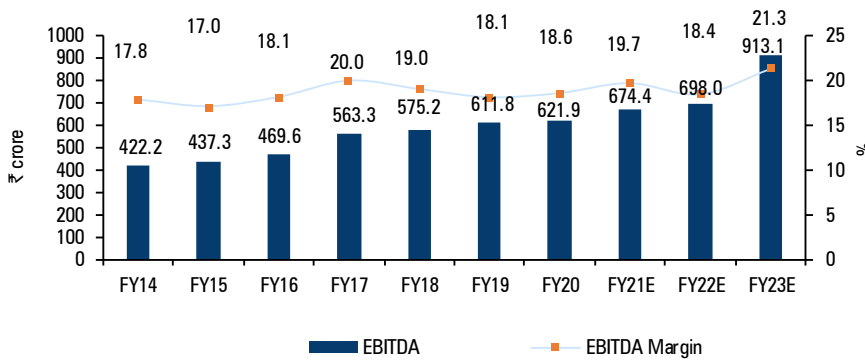
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

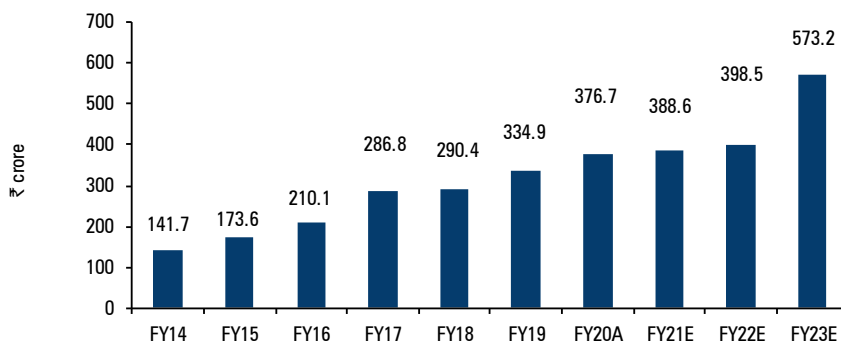
Exhibit 6: We build in EBITDA CAGR of 14% in FY20-23E



Source: Company, ICICI Direct Research

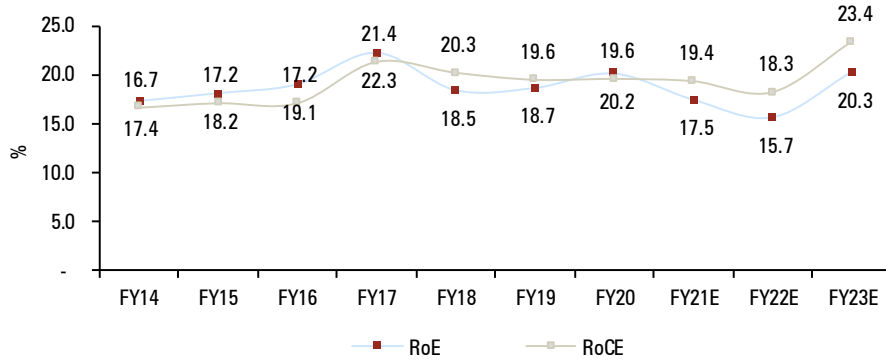
Strategically, KPR has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in the range of 22-23% while yarn division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

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



Source: Company, ICICI Direct Research

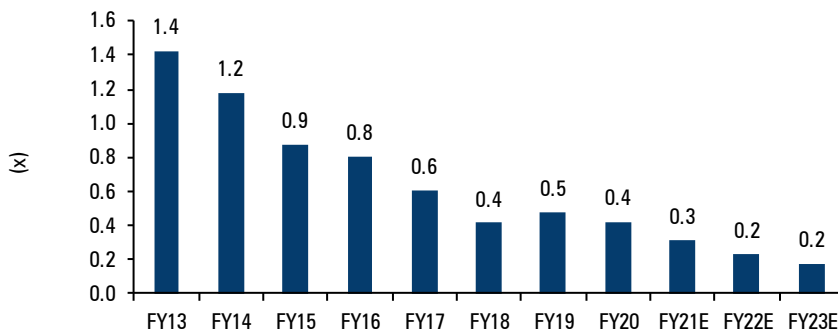
Exhibit 8: Return ratio trend



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

Source: Company, ICICI Direct Research

Exhibit 9: Debt/equity ratio trend



Over FY21-23E, we expect the company to incur capex worth ~ ₹ 470 crore. However, given strong OCF, we expect it 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
Net Sales	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
EBITDA	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
Profit After Tax	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
CF from operating activities	767.3	220.5	453.4	633.9
(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
CF from investing activities	-312.9	-166.5	-200.8	-104.0
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
CF from financing activities	-375.0	-136.7	-183.6	-371.1
Net Cash flow	79.4	-82.7	69.0	158.8
Opening Cash	74.8	154.2	71.5	140.5
Closing Cash	154.2	71.5	140.5	299.3

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
Source of Funds	2,707.7	2,959.6	3,174.5	3,376.6
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
Application of Funds	2,707.7	2,959.6	3,174.5	3,376.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
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
Operating Ratios (%)				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
P/E	17.0	16.5	16.1	11.2
EV / EBITDA	11.3	10.4	9.8	7.2
EV / Sales	2.1	2.0	1.8	1.5
Market Cap / Revenues	1.9	1.9	1.7	1.5
Price to Book Value	3.4	2.9	2.5	2.3
Solvency Ratios				
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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Sell: <-15%



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