

## Healthy performance continues amid strong demand

KPR Mill reported yet another robust quarter driven by strong demand for textile products. Revenue in Q3FY21 grew 21% YoY to ₹ 929.6 crore, with textile division (87% of sales) posting 19% YoY growth and sales from sugar division inching up 67% YoY. On the back of healthy order book & sustained demand for casualwear products (where KPR's expertise lies), garment volumes jumped 12% YoY to 22.6 million pieces. Average realisation/piece also firmed up 9% to 163/piece, translating to value growth of 22% YoY to ₹ 369 crore (40% of sales). The export order book at the end of Q3FY21 was healthy at ₹ 600 crore. Demand for cotton yarn and fabrics globally over the past few months has been strong. Revenue from yarn & fabric division (44% of sales) grew 16% YoY to ₹ 412 crore. Gross margins expanded significantly by 707 bps YoY to ~50% on account of favourable spreads and advantage of being vertically integrated. Furthermore, owing to positive operating leverage, EBITDA margins came in at an all-time high of 27% (up 920 bps YoY/ 690 bps QoQ) in Q3FY21. On the back of robust operational performance, PBT grew 1.2x YoY to ₹ 218.2 crore. Owing to higher tax rate (28% vs. 6% YoY), PAT growth was restricted to 66% YoY to ₹ 156.3 crore (up 87% QoQ). KPR has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore) and ethanol facility (₹ 500 crore). Both projects are expected to come on stream by FY22E.

## Sugar capacity expansion to supplement profitable growth...

The company is planning a capex of ₹ 500 crore by setting up a sugar (10000 TCD) and ethanol plant (230 KLPD). The project is expected to become operational by November 2021. The rationale behind expansion of sugar and ethanol business is owing to the management belief that current government policies (sugar MSP, 50% interest subsidy on term loan for ethanol capacity and enhanced ethanol blending in petrol) are conducive and offer an RoCE opportunity (~22%) in the aforesaid business segments. The already existing sugar ethanol capacity has revenue potential of ~₹ 550 crore with margin profile in range of 20-21%. The new capacity that is being set up is expected to have revenue potential of ~₹ 600 crore with margin profile in the range of 24-25% owing to vertically integrated operations. Also, after the business gains sufficient scale the company hinted at the possibility of demerging the sugar business from the company.

## Valuation & Outlook

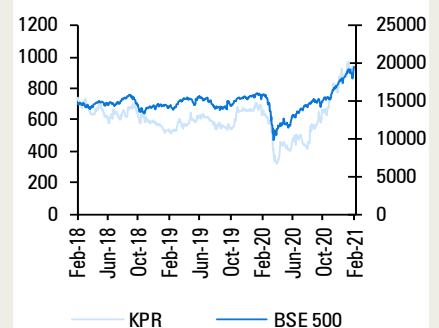
As on Q3FY21, KPR has outstanding debt worth ₹ 556 crore (D/E: 0.2x) and cash balance worth ₹ 350 crore. Recently announced capex plans are expected to increase debt from current levels but both projects are covered under schemes (garmenting covered under TUFs and 50% interest subsidy for ethanol capacity). Also, the new capacities will be coming up under a new subsidiary company that will be eligible for lower tax rate of ~15%. Driven by new capacity additions, we expect revenue, earnings to grow at CAGR of 19%, 20%, respectively, in FY21-23E. Capital deployment towards value accretive projects (targeted RoCE: garmenting: 30%, ethanol: 22%) augurs well for KPR. We anticipate RoCE will gradually get enhanced to 24% by FY23E. We maintain **BUY** rating on the stock with a revised target price of ₹ 1200 (13x FY23E EPS, previous TP: ₹ 1100).



### Particulars

| Particulars                     | Amount    |
|---------------------------------|-----------|
| Market Capitalisation (₹ crore) | 6,345.2   |
| Total Debt (FY20) (₹ crore)     | 787.6     |
| Cash (FY20) (₹ crore)           | 154.2     |
| EV (₹ crore)                    | 6,978.6   |
| 52 Week H / L                   | 999 / 316 |
| Equity Capital (₹ crore)        | 34.4      |
| Face Value (₹)                  | 5.0       |

### Price Performance



### Key Risks

- Delay in expansion of garment & sugar capacity can negatively impact revenue growth
- Input cost inflation can result in lower than estimated margins

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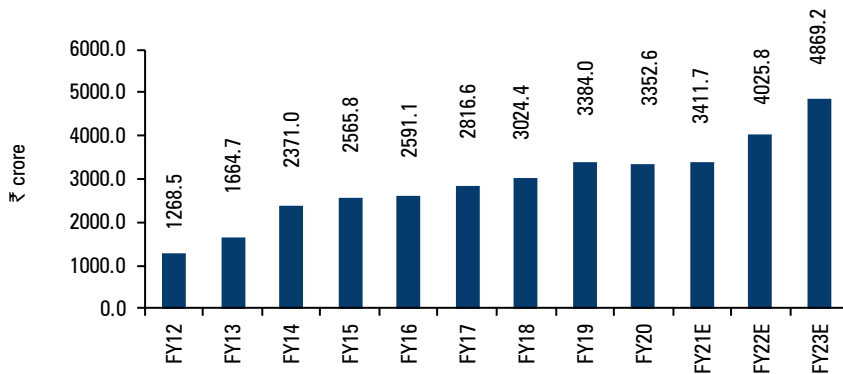
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### Key Financial Summary

| ₹ crore       | FY19    | FY20    | FY21E   | FY22E   | FY23E   | CAGR (FY20-23E) |
|---------------|---------|---------|---------|---------|---------|-----------------|
| Net Sales     | 3,384.0 | 3,352.6 | 3,411.7 | 4,025.8 | 4,869.2 | 13.2%           |
| EBITDA        | 611.8   | 621.9   | 757.4   | 805.2   | 1,061.5 | 19.5%           |
| Adjusted PAT  | 334.9   | 376.7   | 453.2   | 450.0   | 653.8   | 20.2%           |
| P/E (x)       | 18.9    | 16.8    | 14.0    | 14.1    | 9.7     |                 |
| EV/EBITDA (x) | 11.6    | 11.2    | 8.9     | 8.7     | 6.5     |                 |
| RoCE (%)      | 19.6    | 19.6    | 22.5    | 18.3    | 23.7    |                 |
| RoE (%)       | 18.7    | 20.2    | 19.9    | 17.1    | 21.6    |                 |

Financial story in charts....

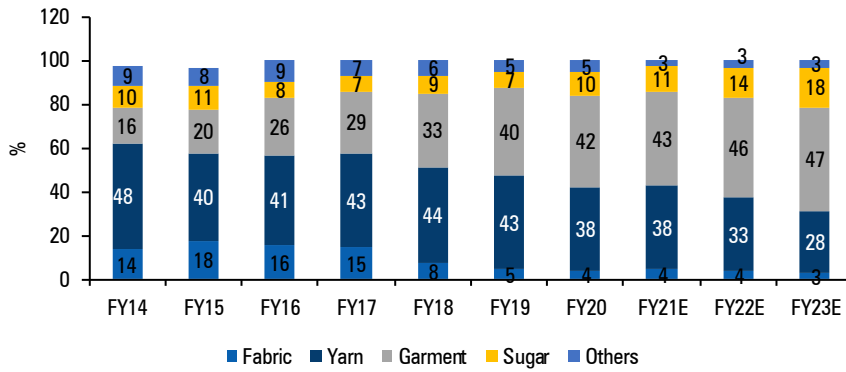
Exhibit 1: We model revenue CAGR of 13% in FY20-23E



Majority of growth to be driven by garmenting segment (17% CAGR) and sugar division (38% CAGR). 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

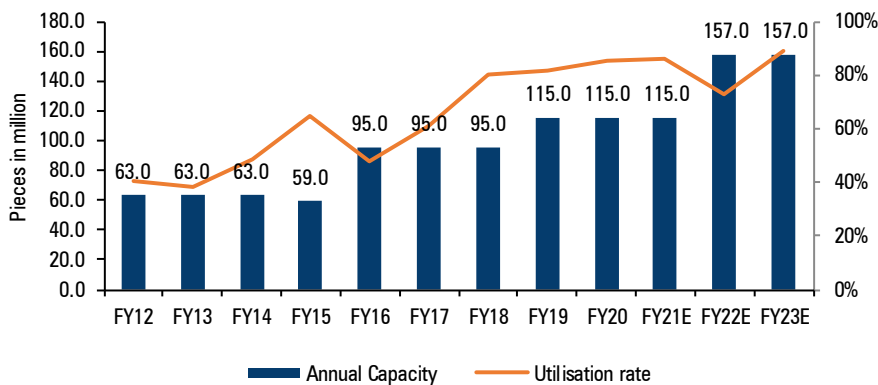
Exhibit 2: Segmental revenue share trend



On the back of capacity expansion, share of garmenting and sugar division is expected to increase from 42%, 10% in FY20 to 47%, 18%, respectively, in FY23E

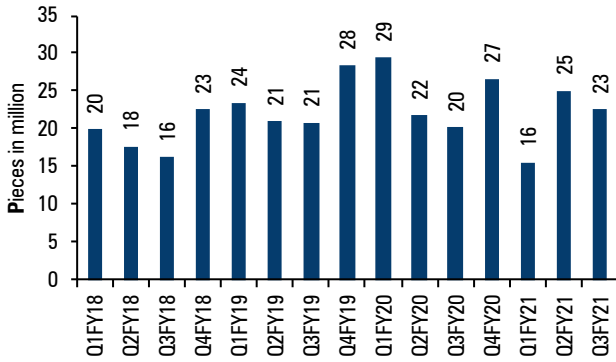
Source: Company, ICICI Direct Research

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



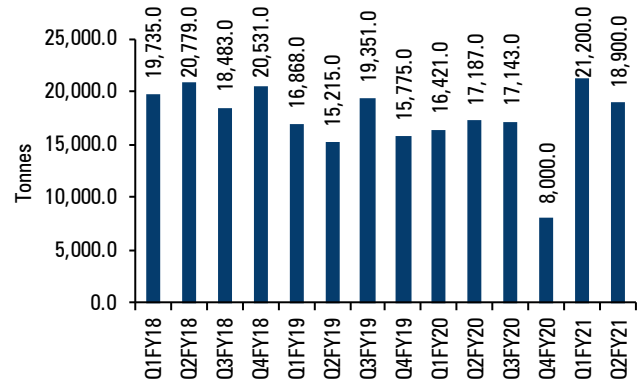
Source: Company, ICICI Direct Research

Exhibit 4: Garment volumes increase 12% in Q3FY21



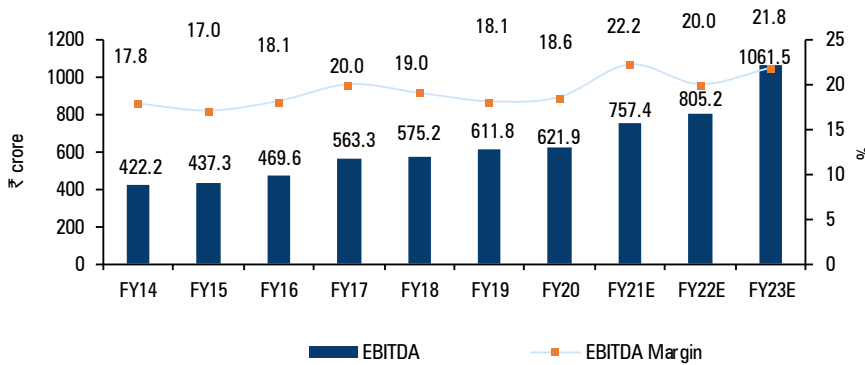
Source: Company, ICICI Direct Research

Exhibit 5: Yarn & fabric volume trend



Source: Company, ICICI Direct Research

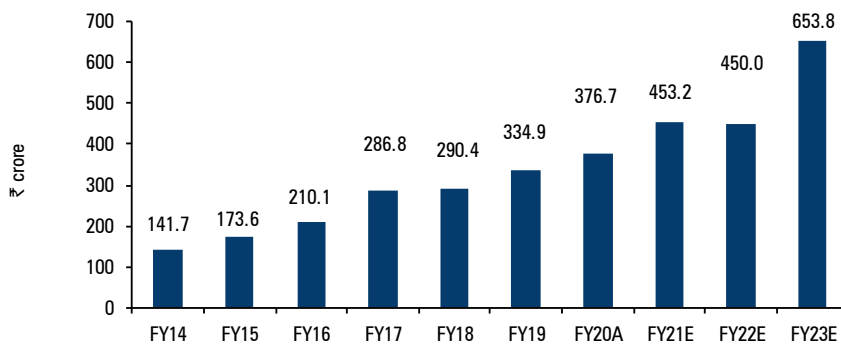
Exhibit 6: We build in EBITDA CAGR of 20% in FY20-23E



Source: Company, ICICI Direct Research

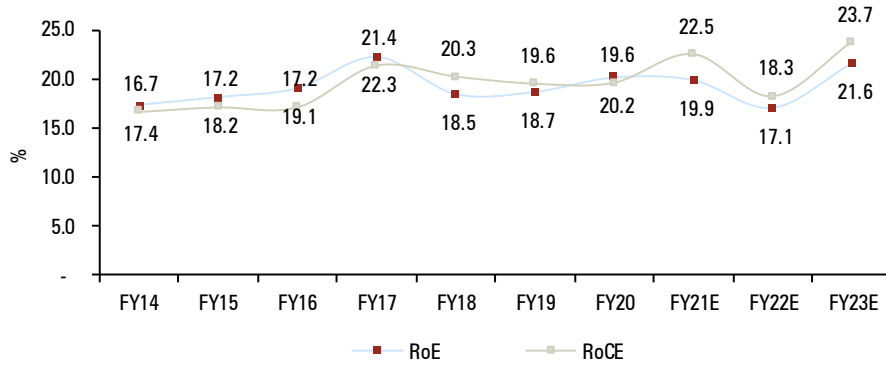
KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in the range of 22-23% while yarn division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

Exhibit 7: Expect PAT to grow at 20% CAGR in FY20-23E



Source: Company, ICICI Direct Research

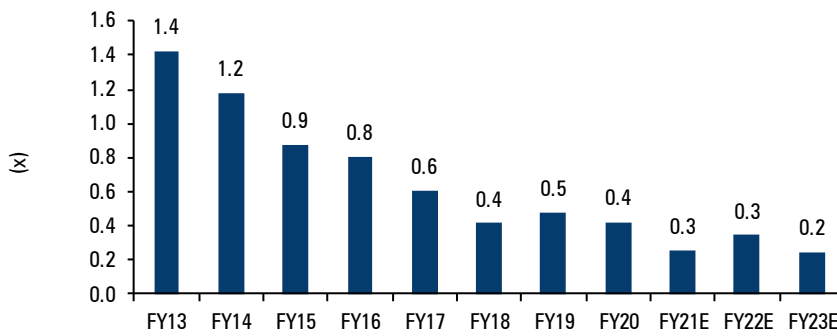
Exhibit 8: Return Ratio trend



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



With no major capex plans expected in FY23E, we expect the company to generate FCF worth ~₹ 440 crore and, in turn, result in higher dividend payout ratio and reduction in debt

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 | 3,411.7 | 4,025.8 | 4,869.2 |
| Growth (%)                  | 10.9    | 1.8     | 18.0    | 20.9    |
| Total Raw Material Cost     | 1,987.2 | 1,876.4 | 2,294.7 | 2,765.7 |
| Gross Margins (%)           | 40.7    | 45.0    | 43.0    | 43.2    |
| Employee Expenses           | 394.4   | 409.4   | 491.1   | 555.1   |
| Other Expenses              | 349.1   | 368.5   | 434.8   | 486.9   |
| Total Operating Expenditure | 2,730.7 | 2,654.3 | 3,220.6 | 3,807.7 |
| <b>EBITDA</b>               | 621.9   | 757.4   | 805.2   | 1,061.5 |
| EBITDA Margin               | 18.6    | 22.2    | 20.0    | 21.8    |
| Interest                    | 49.7    | 37.9    | 55.2    | 45.6    |
| Depreciation                | 137.1   | 151.4   | 196.6   | 203.5   |
| Other Income                | 36.5    | 37.6    | 38.7    | 36.7    |
| Exceptional Expense         | -       | -       | -       | -       |
| PBT                         | 471.7   | 605.6   | 592.1   | 849.1   |
| Total Tax                   | 95.0    | 152.4   | 142.1   | 195.3   |
| <b>Profit After Tax</b>     | 376.7   | 453.2   | 450.0   | 653.8   |

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        | 2,239.3        | 2,599.3        | 2,991.6        |
| Total Shareholders funds    | 1,865.9        | 2,273.8        | 2,633.7        | 3,026.0        |
| Total Debt                  | 787.6          | 582.7          | 904.6          | 747.4          |
| Non Current Liabilities     | 54.2           | 54.6           | 54.9           | 55.3           |
| <b>Source of Funds</b>      | <b>2,707.7</b> | <b>2,911.0</b> | <b>3,593.2</b> | <b>3,828.8</b> |
| Gross block                 | 2,014.3        | 2,074.3        | 2,849.3        | 2,949.3        |
| Less: Accum depreciation    | 694.8          | 846.2          | 1,042.8        | 1,246.3        |
| Net Fixed Assets            | 1,319.6        | 1,228.1        | 1,806.5        | 1,703.0        |
| Capital WIP                 | 6.4            | 210.0          | 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          | 841.2          | 1,058.8        | 1,334.0        |
| Cash                        | 154.2          | 169.4          | 196.5          | 214.0          |
| Debtors                     | 443.5          | 467.4          | 529.4          | 600.3          |
| Loans & Advances & Other CA | 189.7          | 199.2          | 209.2          | 230.1          |
| Total Current Assets        | 1,503.2        | 1,677.2        | 1,993.9        | 2,378.4        |
| Creditors                   | 132.0          | 215.0          | 220.6          | 266.8          |
| Provisions & Other CL       | 57.5           | 60.4           | 63.4           | 66.6           |
| Total Current Liabilities   | 189.4          | 275.3          | 284.0          | 333.4          |
| Net Current Assets          | 1,313.7        | 1,401.9        | 1,710.0        | 2,045.0        |
| 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>2,911.0</b> | <b>3,593.2</b> | <b>3,828.8</b> |

Source: Company, ICICI Direct Research

### Exhibit 11: Cash flow statement

| (Year-end March)                    | FY20          | FY21E         | FY22E         | FY23E         |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Profit/(Loss) after taxation        | 376.7         | 453.2         | 450.0         | 653.8         |
| Add: Depreciation                   | 137.1         | 151.4         | 196.6         | 203.5         |
| Net Increase in Current Assets      | 341.7         | -158.9        | -289.6        | -367.0        |
| Net Increase in Current Liabilities | -88.1         | 85.9          | 8.6           | 49.4          |
| <b>CF from operating activities</b> | <b>767.3</b>  | <b>531.7</b>  | <b>365.6</b>  | <b>539.7</b>  |
| (Inc)/dec in Investments            | -7.0          | -0.1          | -0.8          | -0.8          |
| (Inc)/dec in Fixed Assets           | -315.7        | -263.6        | -567.0        | -100.0        |
| Others                              | 9.8           | -2.9          | -3.0          | -3.2          |
| <b>CF from investing activities</b> | <b>-312.9</b> | <b>-266.5</b> | <b>-570.8</b> | <b>-104.0</b> |
| Inc / (Dec) in Equity Capital       | -1.9          | 0.0           | 0.0           | 0.0           |
| Inc / (Dec) in Loan                 | -68.7         | -205.0        | 321.9         | -157.1        |
| Others                              | -304.4        | -45.0         | -89.6         | -261.2        |
| <b>CF from financing activities</b> | <b>-375.0</b> | <b>-249.9</b> | <b>232.3</b>  | <b>-418.3</b> |
| Net Cash flow                       | 79.4          | 15.2          | 27.1          | 17.5          |
| Opening Cash                        | 74.8          | 154.2         | 169.4         | 196.5         |
| <b>Closing Cash</b>                 | <b>154.2</b>  | <b>169.4</b>  | <b>196.5</b>  | <b>214.0</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  | 65.9  | 65.4  | 95.0  |
| Cash EPS                    | 74.7  | 87.9  | 94.0  | 124.6 |
| BV                          | 271.1 | 330.4 | 382.7 | 439.7 |
| DPS                         | 5.5   | 6.6   | 13.1  | 38.0  |
| Cash Per Share              | 22.4  | 24.6  | 28.6  | 31.1  |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| EBITDA margins              | 18.6  | 22.2  | 20.0  | 21.8  |
| PBT margins                 | 14.1  | 17.8  | 14.7  | 17.4  |
| Net Profit margins          | 11.2  | 13.3  | 11.2  | 13.4  |
| Inventory days              | 77.9  | 90.0  | 96.0  | 100.0 |
| Debtor days                 | 48.3  | 50.0  | 48.0  | 45.0  |
| Creditor days               | 14.4  | 23.0  | 20.0  | 20.0  |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| RoE                         | 20.2  | 19.9  | 17.1  | 21.6  |
| RoCE                        | 19.6  | 22.5  | 18.3  | 23.7  |
| RoIC                        | 21.0  | 26.1  | 19.4  | 25.2  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 16.8  | 14.0  | 14.1  | 9.7   |
| EV / EBITDA                 | 11.2  | 8.9   | 8.7   | 6.5   |
| EV / Sales                  | 2.1   | 2.0   | 1.7   | 1.4   |
| Market Cap / Revenues       | 1.9   | 1.9   | 1.6   | 1.3   |
| Price to Book Value         | 3.4   | 2.8   | 2.4   | 2.1   |
| <b>Solvency Ratios</b>      |       |       |       |       |
| Debt / Equity               | 0.4   | 0.3   | 0.3   | 0.2   |
| Debt/EBITDA                 | 1.3   | 0.8   | 1.1   | 0.7   |
| Current Ratio               | 7.1   | 5.5   | 6.3   | 6.5   |
| Quick Ratio                 | 3.3   | 2.4   | 2.6   | 2.5   |

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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