

Sustained capex to drive revenue, profitability...

KPR Mill continued to witness encouraging demand across all its segments in Q4FY21. Revenue for the quarter grew 28% YoY (20% QoQ) to ₹ 1117.9 crore, with textile division (80% of sales) posting 26% YoY (12% QoQ) growth, sales from sugar division inching up 50% YoY (81% QoQ). On the back of healthy order book, sustained demand for casualwear products (where KPR's expertise lies), garment volumes jumped 12% YoY to 29.7 million (mn) pieces. However, realisations were lower at ₹ 127/piece (average realisations: ₹ 150-160) on the back of unaccounted export incentive (~4-5%). KPR is awaiting clarity on the new RoDTEP incentive and will be accounting for it in subsequent quarters retrospectively. Export order book at the end of Q3FY21 was healthy at ₹ 575 crore. Demand for cotton yarn globally in the past few months has been pretty robust, translating into significant rise in yarn realisation. Revenue from yarn & fabric division grew robustly by 42% YoY to ₹ 496 crore driven by 22% realisation growth, 17% volume growth. EBITDA margins for the quarter expanded substantially by 810 bps YoY to 24% with absolute EBITDA growth of 94% YoY (6% QoQ) to ₹ 267.5 crore. KPR has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore), ethanol facility (₹ 500 crore).

New garment, sugar capacities to spur revenue growth

The upcoming garmenting facility (42 mn pieces) is expected to be commissioned by Q2FY22. The same would be fully ramped up in eight to 12 months. Of total incremental capacity, 60-70% is to be utilised for existing customer with balance for new customers. Europe has been the key market for KPR (~54% of garment export revenues) whereas US stays underpenetrated with share of ~22%. Robust opportunities in US market gives strong visibility for sustained export growth. At average realisation of ₹ 150/piece, the new facility would generate incremental revenue of ~₹ 600 crore (Asset/Turnover: ~ 2.5x). We expect garmenting division to post revenue CAGR of 28% in FY21-23E. The new sugar and ethanol plant is expected to be commissioned in Q3FY22 with company targeting 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 next two to three years (from current ₹ 496 crore in FY21).

Valuation & Outlook

KPR generated healthy operating cashflows worth ~₹ 580 crore (CFO/EBITDA: 70%) in FY21E due to healthy profitability growth and controlled working capital cycle (NWC days: 115). Liquidity position continues to remain robust with net debt worth ~ ₹ 350 crore (D/E: 0.2x). Of the total proposed capex worth ₹ 750 crore, KPR has already incurred ₹ 235 crore in FY21. Balance capex requirements will be incurred in FY22E, which will be a mix of internal accrual and debt (garmenting covered under TUFs and 50% interest subsidy for ethanol capacity). Capital deployment towards value accretive projects (targeted RoCE: garmenting: 30%, ethanol: 22%) augurs well for KPR. Resilient performance during challenging times (RoCE improvement by 440 bps YoY to 24% in FY21) instils confidence in the business model. We revise our earnings estimates upwards by 6-8% for FY22-23E & model in earnings CAGR of 16% in FY21-23E. We reiterate **BUY** and value it at ₹ 1620 i.e. 16x FY23E EPS (1x PEG, earlier TP: ₹ 1200).

Key Financial Summary

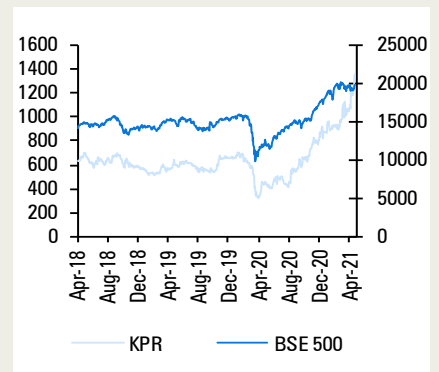
₹ crore	FY19	FY20	FY21A	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	3,384.0	3,352.6	3,530.2	4,092.1	4,858.8	17.3%
EBITDA	611.8	621.9	829.6	851.2	1,098.1	15.1%
Adjusted PAT	334.9	376.7	515.3	489.6	696.0	16.2%
P/E (x)	28.4	25.2	18.4	19.4	13.6	
EV/EBITDA (x)	16.8	16.3	11.9	11.9	8.9	
RoCE (%)	19.6	19.6	24.0	19.5	25.3	
RoE (%)	18.7	20.2	21.9	17.9	22.0	



Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	9,497.2
Total Debt (FY21) (₹ crore)	657.1
Cash (FY21) (₹ crore)	310.7
EV (₹ crore)	9,843.6
52 Week H / L	1423 / 395
Equity Capital (₹ crore)	34.4
Face Value (₹)	5.0

Price Chart



Key Risks

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

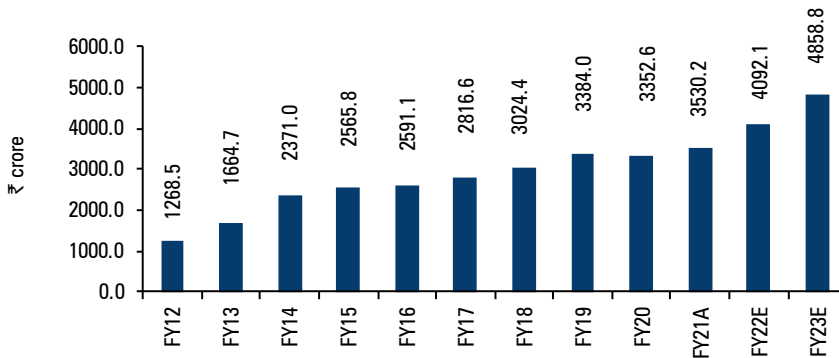
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Financial story in charts....

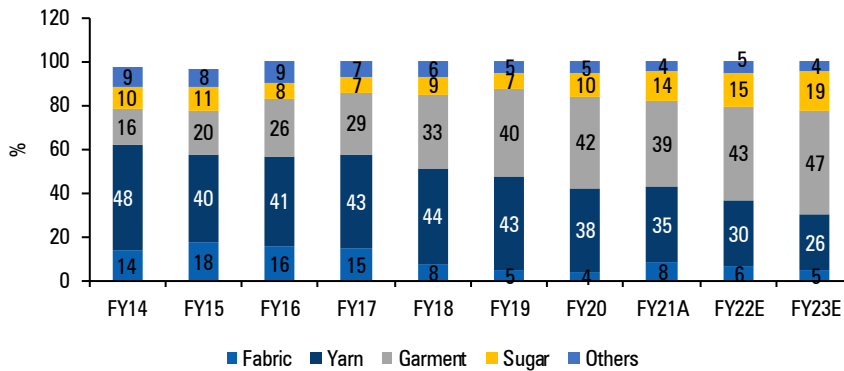
Exhibit 1: We model revenue CAGR of 17% in FY21-23E



Majority of growth to be driven by garmenting segment (28% CAGR) and sugar division (35% CAGR). Revenue from yarn & fabric division is expected to decline on the back of a gradual increase in captive consumption for garmenting segment

Source: Company, ICICI Direct Research

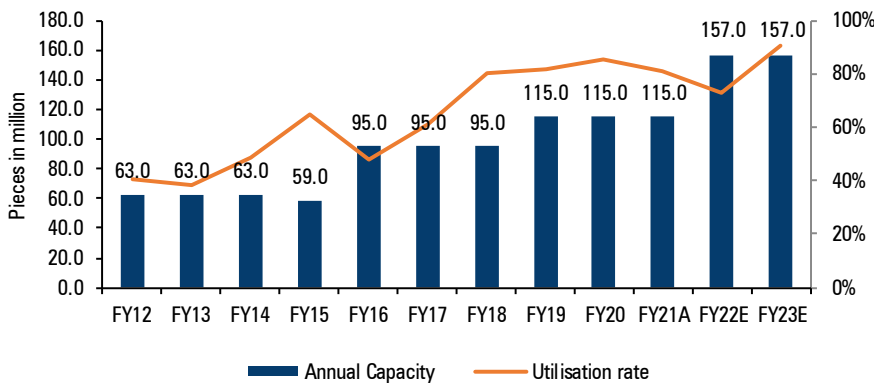
Exhibit 2: Segmental revenue share trend



On the back of capacity expansion, share of garmenting and sugar division to increase from 39%/14% in FY21 to 47%/19% in FY23E

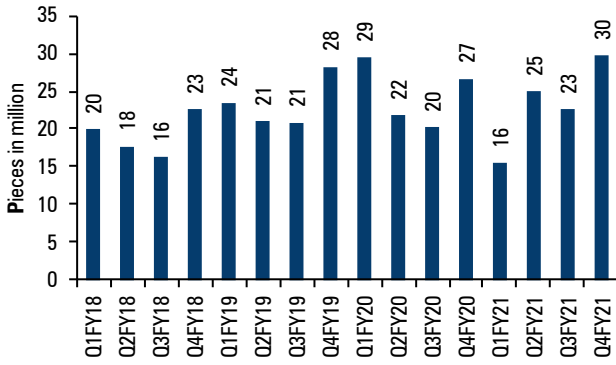
Source: Company, ICICI Direct Research

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



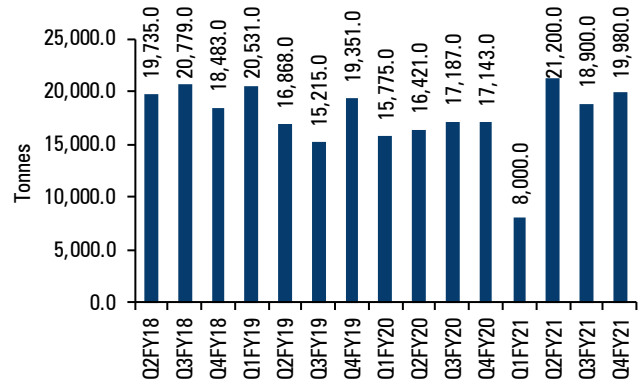
Source: Company, ICICI Direct Research

Exhibit 4: Garment volumes increase by 12% in Q4FY21



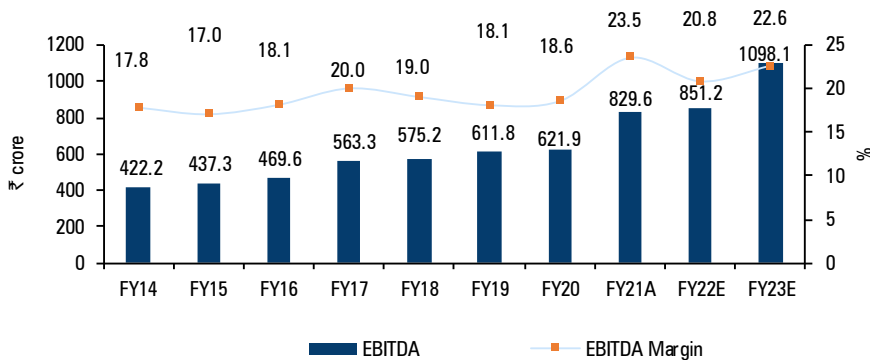
Source: Company, ICICI Direct Research

Exhibit 5: Yarn & fabric volume trend



Source: Company, ICICI Direct Research

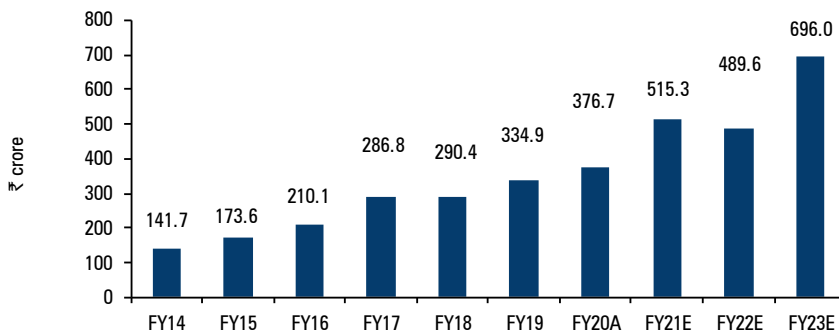
Exhibit 6: We build in EBITDA CAGR of 15% in FY21-23E



Source: Company, ICICI Direct Research

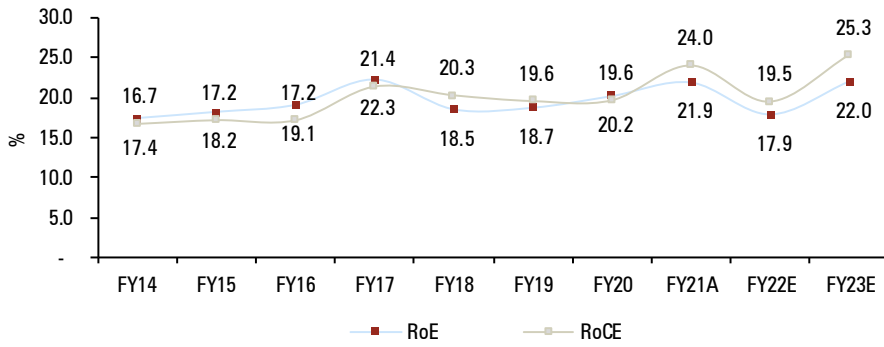
KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in the range of 22-23%.

Exhibit 7: Expect PAT to grow at 16% CAGR in FY21-23E



Source: Company, ICICI Direct Research

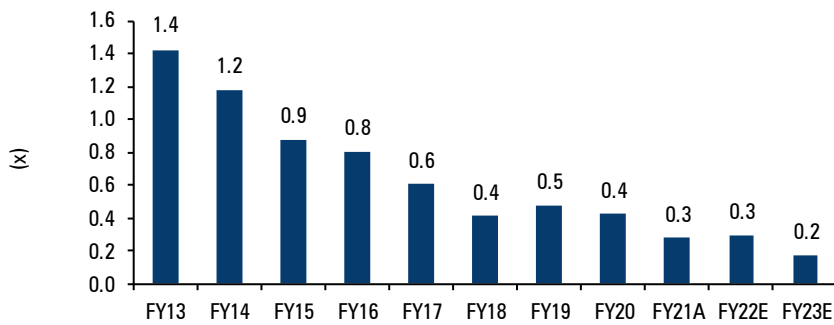
Exhibit 8: Return ratio trend



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 it to generate FCF worth ~₹ 590 crore and, in turn, result in higher dividend payout ratio and debt reduction

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit & loss statement

(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	3,352.6	3,530.2	4,092.1	4,858.8
Growth (%)	10.9	5.3	15.9	18.7
Total Raw Material Cost	1,987.2	1,962.9	2,312.0	2,720.9
Gross Margins (%)	40.7	44.4	43.5	44.0
Employee Expenses	394.4	393.7	499.2	553.9
Other Expenses	349.1	344.0	429.7	485.9
Total Operating Expenditure	2,730.7	2,700.6	3,241.0	3,760.7
EBITDA	621.9	829.6	851.2	1,098.1
EBITDA Margin	18.6	23.5	20.8	22.6
Interest	49.7	32.8	50.1	33.5
Depreciation	137.1	146.7	196.9	200.7
Other Income	36.5	38.8	40.0	40.0
Exceptional Expense	-	-	-	-
PBT	471.7	688.9	644.2	903.9
Total Tax	95.0	173.6	154.6	207.9
Profit After Tax	376.7	515.3	489.6	696.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement

(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	376.7	515.3	489.6	696.0
Add: Depreciation	137.1	146.7	196.9	200.7
Net Increase in Current Assets	341.7	-94.8	-323.4	-245.3
Net Increase in Current Liabilities	-88.1	20.7	50.4	36.1
CF from operating activities	767.3	587.8	413.5	687.5
(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	-496.8	-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	-97.7	-278.2
CF from financing activities	-375.0	-168.0	65.8	-550.2
Net Cash flow	79.4	-77.0	-25.7	23.4
Opening Cash	74.8	154.2	77.3	51.6
Closing Cash	154.2	77.3	51.6	74.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet

(Year-end March)	FY20	FY21A	FY22E	FY23E
Equity Capital	34.4	34.4	34.4	34.4
Reserve and Surplus	1,831.5	2,315.8	2,707.4	3,125.1
Total Shareholders funds	1,865.9	2,350.2	2,741.9	3,159.5
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	3,610.4	3,756.3
Gross block	2,014.3	2,095.4	2,895.4	2,995.4
Less: Accum depreciation	694.8	841.5	1,038.3	1,239.0
Net Fixed Assets	1,319.6	1,253.9	1,857.0	1,756.3
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	1,098.7	1,264.6
Cash	154.2	77.3	51.6	74.9
Debtors	443.5	321.0	448.5	505.8
Loans & Advances & Other CA	189.7	209.5	220.0	242.0
Total Current Assets	1,503.2	1,521.0	1,818.7	2,087.3
Creditors	132.0	122.2	168.2	199.7
Provisions & Other CL	57.5	87.9	92.3	96.9
Total Current Liabilities	189.4	210.1	260.5	296.6
Net Current Assets	1,313.7	1,310.9	1,558.2	1,790.7
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	3,610.4	3,756.3

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	54.7	74.9	71.1	101.1
Cash EPS	74.7	96.2	99.8	130.3
BV	271.1	341.5	398.4	459.1
DPS	5.5	4.5	14.2	40.5
Cash Per Share	22.4	11.2	7.5	10.9
Operating Ratios (%)				
EBITDA margins	18.6	23.5	20.8	22.6
PBT margins	14.1	19.5	15.7	18.6
Net Profit margins	11.2	14.6	12.0	14.3
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	17.9	22.0
RoCE	19.6	24.0	19.5	25.3
RoIC	21.0	27.1	20.6	27.0
Valuation Ratios (x)				
P/E	25.2	18.4	19.4	13.6
EV / EBITDA	16.3	11.9	11.9	8.9
EV / Sales	3.0	2.8	2.5	2.0
Market Cap / Revenues	2.8	2.7	2.3	2.0
Price to Book Value	5.1	4.0	3.5	3.0
Solvency Ratios				
Debt / Equity	0.4	0.3	0.3	0.17
Debt/EBITDA	1.3	0.8	1.0	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

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