

Margins to sustain amid strong demand

About the stock: KPR Mill is among select vertically integrated textile players in India (from yarn to garments) that has displayed a 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

Q1FY22 Results: Despite pandemic related challenges, KPR Mills has reported yet another solid operational performance in Q1FY22.

- Revenue grew 67% YoY (down 19% QoQ) to ₹ 903.7 crore. Textile segment (87% of revenue) grew 85% YoY while sugar division (12% of revenues) de-grew 1.9% YoY
- Gross margins improved 458 bps QoQ to 46.9% and continue to remain higher than its average level of 42-43% owing to enhanced yarn spreads
- EBITDA margins expanded 90 bps QoQ to 24.9%. This is the fifth consecutive quarter wherein KPR has maintained 20%+ EBITDA margins
- Announced stock split of one equity share of ₹ 5 into five equity shares of ₹ 1 each

What should investors do? Since our initiation report, the stock price has appreciated by ~3.2x (from ₹ 597 in September 2020 to ₹ 1941 in July 2021).

- 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 ₹ 2310 i.e. 21x FY23E EPS

Key triggers for future price performance:

- KPR has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore) and ethanol facility (₹ 500 crore)
- 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, earnings CAGR of 18%, 21%, respectively, in FY21-23E with higher RoCE of 26%

Alternate Stock Idea: Apart from KPR, in our textile coverage we also like Filatex

- FIL has maintained a capital efficient business model with stringent working capital policy (NWC days:17) and high asset turn (2.0x), generating healthy RoCE of more than 22%
- BUY with a target price of ₹ 125



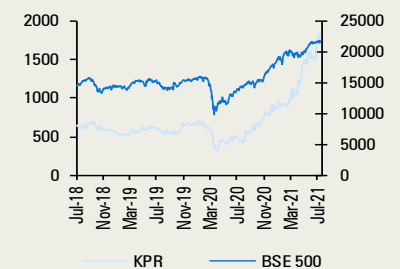
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	13,378.6
Total Debt (FY21) (₹ crore)	657.1
Cash (FY21) (₹ crore)	310.7
EV (₹ crore)	13,725.0
52 Week H / L	2086 / 408
Equity Capital (₹ crore)	34.4
Face Value (₹)	5.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	75.2	74.7	74.7	74.7	74.7
FII	1.2	1.4	1.8	2.2	2.7
DII	16.5	15.8	15.9	15.3	14.6
Others	7.1	8.0	7.6	7.8	8.1

Price Chart



Recent Event & Key risks

- Robust order book for garmenting division (₹ 700 crore)
- Key Risk:** (i) Delay in expansion can lower sales (ii) Significant increase in cotton price can subdue margins

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

Financials	FY19	FY20	FY21A	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	3,384.0	3,352.6	3,530.2	6.4%	4,177.6	4,945.1	18.4%
EBITDA	611.8	621.9	829.6	12.1%	927.4	1,176.9	19.1%
Adjusted PAT	334.9	376.7	515.3	19.7%	547.6	756.7	21.2%
P/E (x)	40.0	35.5	26.0		24.4	17.7	
EV/EBITDA (x)	23.1	22.5	16.5		15.1	11.6	
RoCE (%)	19.6	19.6	24.0		21.4	26.8	
RoE (%)	18.7	20.2	21.9		19.6	23.3	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Sturdy performance

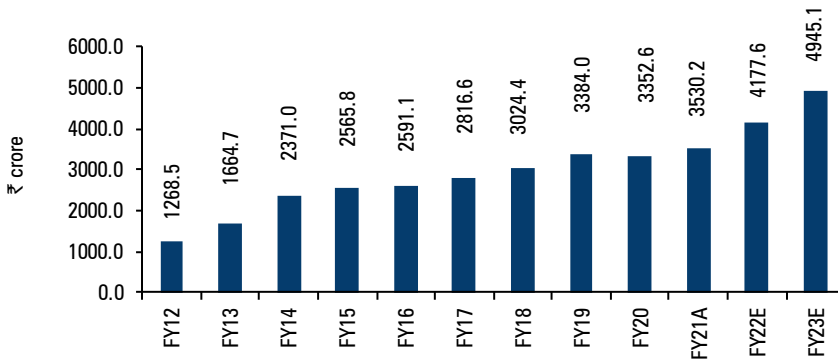
- KPR Mill reported a steady operational performance despite disrupted quarter (factories shut for ~15 days)
- On the back of a healthy order book and sustained demand for casualwear product exports (where KPR's expertise lies), garmenting division continued to operate at optimum utilisation levels. Volumes came in at 28 million pieces (up 81% YoY, flattish QoQ) with average realisations of ₹ 136/piece
- Demand for yarn exports continued to remain robust but demand in the domestic markets was impacted. Volumes for yarn & fabric division were lower by ~30% QoQ to 14000 tonnes but better realisations (up 10% QoQ) restricted revenue de-growth for the segment to 23% to ₹ 380 crore
- On the profitability front, yarn segment continued to witness robust margin expansion on account of favourable yarn spreads. Yarn division reported one its highest ever margins of ~25+ while garmenting division maintained margins of 23-24% during the quarter. During the quarter, the company has not accounted for the benefit of RoSCTL scheme (~₹ 15-16 crore). KPR's vertically integrated business model gives an edge over peers in terms of lower cost of production
- The upcoming garmenting facility (42 million pieces) is expected to be commissioned by Q2FY22 and the same would be fully ramped up in eight to 12 months. Of the total incremental capacity, 60-70% is going to be utilised for the existing customer, while balance is 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 28% in FY21-23E
- The new sugar and ethanol plant is expected to be commissioned in Q3FY22 and the company is 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 the next two to three years (from current ₹ 496 crore in FY21)

Q1FY22 Earnings Conference Call highlights

- The company's plant was closed for 15 days during the quarter. After that statutory authorities relaxed restrictions related to companies catering to exports, which enabled KPR to restart its manufacturing operations
- The company indicated that margins in cotton yarn business continue to be healthy due to strong export demand
- The expansion of the sugar cum ethanol capacity has been delayed by 15-20 days due to delay in importing machinery and the capacity is expected to begin by end of Q3FY22
- The management indicated that it has sufficient cotton inventory till October 2021 and average cost of inventory is lower than the current prevailing market price (₹ 49000/candy vs. ₹ 56000/candy)
- The garment order book, which was around ₹ 575 crore in Q4FY21, is now close to ₹ 700 crore
- On the Ethiopian manufacturing facility, the management indicated they are planning to get the machinery back to India and planning to suspend Ethiopian operations owing to Ethiopian civil war. The machines will be used to expand garment capacity in India

Financial story in charts....

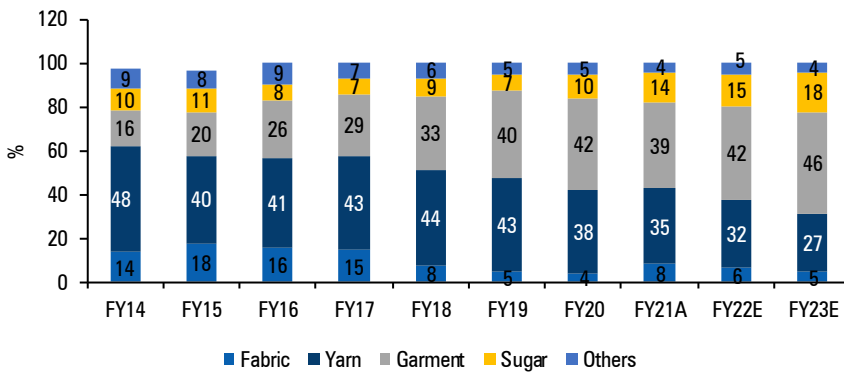
Exhibit 1: We model revenue CAGR of 18% in FY21-23E



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

Source: Company, ICICI Direct Research

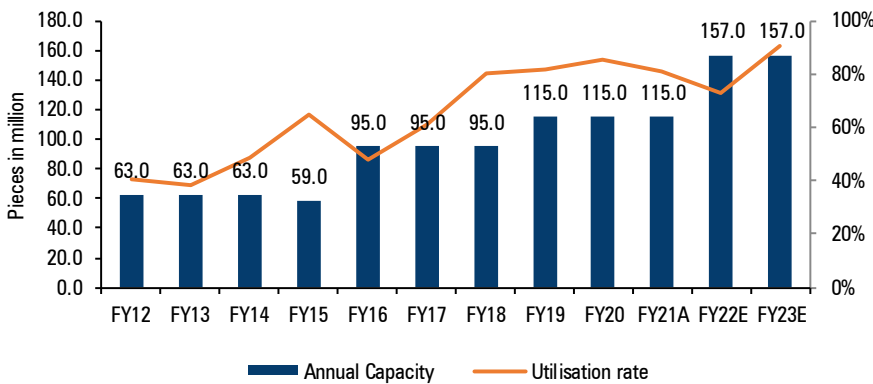
Exhibit 2: Segmental revenue share trend



On the back of capacity expansion, share of garmenting and sugar division to increase from 39%/14% in FY21 to 46%/18% in FY23E

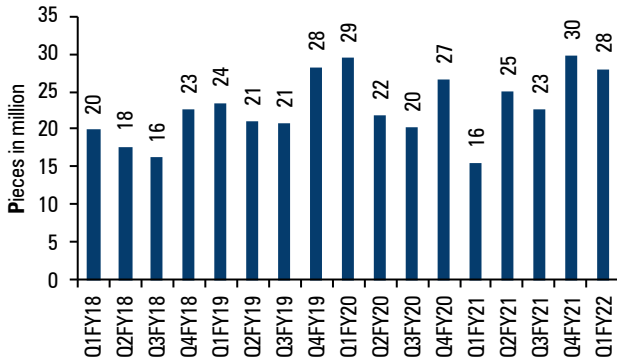
Source: Company, ICICI Direct Research

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



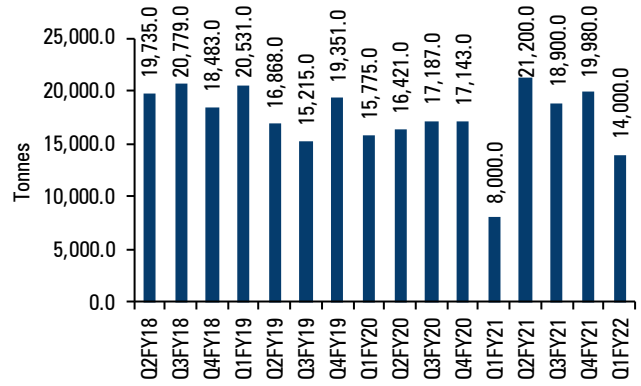
Source: Company, ICICI Direct Research

Exhibit 4: Garment volume trend



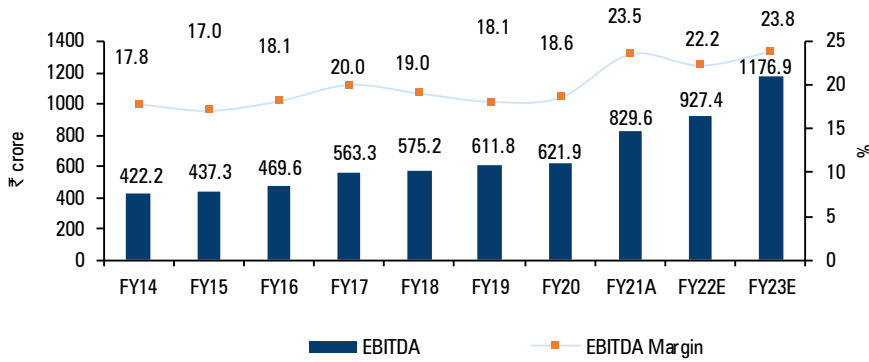
Source: Company, ICICI Direct Research

Exhibit 5: Yarn & fabric volume trend



Source: Company, ICICI Direct Research

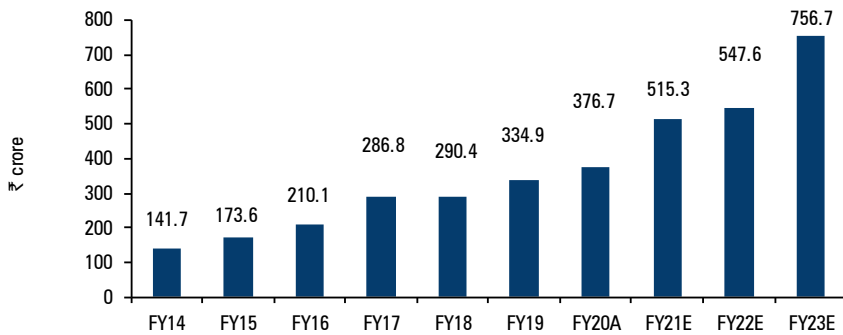
Exhibit 6: We build in EBITDA CAGR of 19% in FY21-23E



Source: Company, ICICI Direct Research

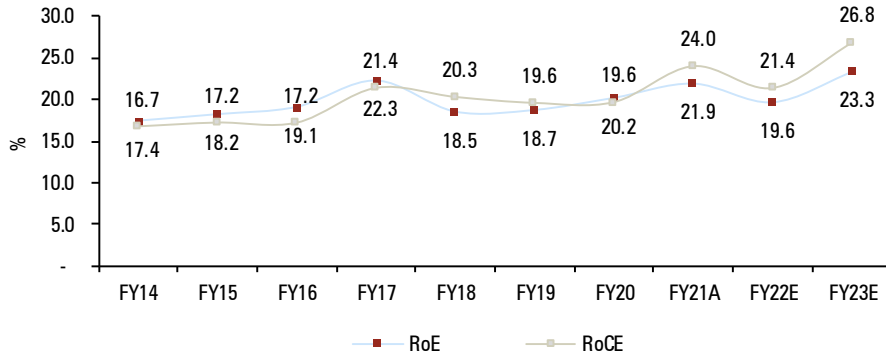
KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile as the segment yields margins in the range of 22-23%

Exhibit 7: Expect PAT to grow at 21% CAGR in FY21-23E



Source: Company, ICICI Direct Research

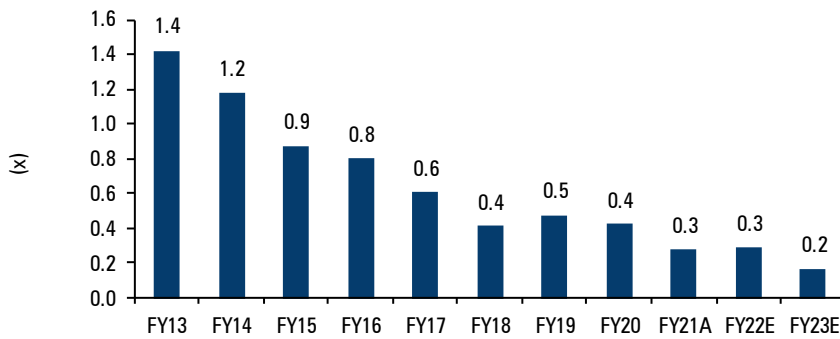
Exhibit 8: Return Ratio trend



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 company to generate FCF worth ~₹ 650 crore and in turn result in higher dividend pay-out ratio and reduction in debt

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	3,352.6	3,530.2	4,177.6	4,945.1
Growth (%)	10.9	5.3	18.3	18.4
Total Raw Material Cost	1,987.2	1,962.9	2,318.6	2,739.6
Gross Margins (%)	40.7	44.4	44.5	44.6
Employee Expenses	394.4	393.7	493.0	534.1
Other Expenses	349.1	344.0	438.6	494.5
Total Operating Expenditure	2,730.7	2,700.6	3,250.2	3,768.1
EBITDA	621.9	829.6	927.4	1,176.9
EBITDA Margin	18.6	23.5	22.2	23.8
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	720.5	982.8
Total Tax	95.0	173.6	172.9	226.0
Profit After Tax	376.7	515.3	547.6	756.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(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	2,753.8	3,207.9
Total Shareholders funds	1,865.9	2,350.2	2,788.2	3,242.3
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	3,656.8	3,839.0
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	1,121.7	1,287.1
Cash	154.2	77.3	69.1	129.8
Debtors	443.5	321.0	457.8	514.8
Loans & Advances & Other CA	189.7	209.5	220.0	242.0
Total Current Assets	1,503.2	1,521.0	1,868.6	2,173.7
Creditors	132.0	122.2	171.7	203.2
Provisions & Other CL	57.5	87.9	92.3	96.9
Total Current Liabilities	189.4	210.1	264.0	300.2
Net Current Assets	1,313.7	1,310.9	1,604.6	1,873.5
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	3,656.8	3,839.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	376.7	515.3	547.6	756.7
Add: Depreciation	137.1	146.7	196.9	200.7
Net Increase in Current Assets	341.7	-94.8	-355.7	-244.4
Net Increase in Current Liabilities	-88.1	20.7	53.9	36.2
CF from operating activities	767.3	587.8	442.7	749.2
(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	-109.3	-302.5
CF from financing activities	-375.0	-168.0	54.2	-574.5
Net Cash flow	79.4	-77.0	-8.1	60.7
Opening Cash	74.8	154.2	77.3	69.1
Closing Cash	154.2	77.3	69.1	129.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	54.7	74.9	79.6	110.0
Cash EPS	74.7	96.2	108.2	139.1
BV	271.1	341.5	405.1	471.1
DPS	5.5	4.5	15.9	44.0
Cash Per Share	22.4	11.2	10.0	18.9
Operating Ratios (%)				
EBITDA margins	18.6	23.5	22.2	23.8
PBT margins	14.1	19.5	17.2	19.9
Net Profit margins	11.2	14.6	13.1	15.3
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	19.6	23.3
RoCE	19.6	24.0	21.4	26.8
RoIC	21.0	27.1	22.7	29.0
Valuation Ratios (x)				
P/E	35.5	26.0	24.4	17.7
EV / EBITDA	22.5	16.5	15.1	11.6
EV / Sales	4.2	3.9	3.3	2.8
Market Cap / Revenues	4.0	3.8	3.2	2.7
Price to Book Value	7.2	5.7	4.8	4.1
Solvency Ratios				
Debt / Equity	0.4	0.3	0.3	0.2
Debt/EBITDA	1.3	0.8	0.9	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

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available at www.icicibank.com

ICICI Securities is one of the leading merchant bankers/underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationships with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.