KPR Mill (KPRMIL)

ICICI direct Research

CMP: ₹ 656 | Target: ₹ 815 (24%) | Target Period: 12 months | **BUY**

April 29, 2022

Result Update

Garmenting division continues to scale new highs

About the stock: KPR Mill is among select vertically integrated textile players in India (from yarn to garments) that has displayed 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)
- Over the years, it has consistently maintained ~18-20% margins with average RoCE of ~20% and D/E ratio of 0.4x

Q4FY22 Results: Garmenting division reported record high volumes in Q4FY22, driven by capacity expansion and sales of previous quarter stock, which was not delivered in Q3FY22 due to lack of availability of container

- Revenue for the quarter grew 30% YoY (15% QoQ) to ₹ 1449.9 crore. Revenue from textile division grew 34% YoY to ₹ 1207 crore while revenue from sugar division increased 13% YoY to ₹ 223 crore
- Gross margins contracted 292 bps QoQ to 40.9% mainly on account of higher cotton prices (up 21% to ₹ 225/kg)
- EBITDA margins contracted 100 bps QoQ to 23.2% with absolute EBITDA increasing 10% QoQ to ₹ 336.1 crore
- KPR in the previous quarter had commissioned its garmenting facility (42 million pieces) and has robust order book of ₹ 900 crore

What should investors do? Since our initiation report, the stock price has appreciated ~5.4x (from ₹ 120 in September 2020 to ₹ 650 in April 2022).

- We like KPR as a structural long term story to play the apparel export space. Maintain **BUY** recommendation on the stock

Target Price and Valuation: We value KPR at ₹ 815 i.e. 28x FY24E EPS

Key triggers for future price performance:

- Two major capex projects worth ₹ 750 crore towards garmenting (₹ 250 crore) and ethanol facility (₹ 500 crore) expected to be ramped up in FY23E
- 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 export growth (currently Europe is key market for garment exports). Recent FTA with Australia to benefit KPR as the region contributes 15% to sales

Alternate Stock Idea: Apart from KPR, we also like Gokaldas Exports (GEL).

- GEL is one of India's leading apparel exporter with an annual capacity of 30 million pieces which focuses on manufacturing complex garmenting
- BUY with target price of ₹ 480

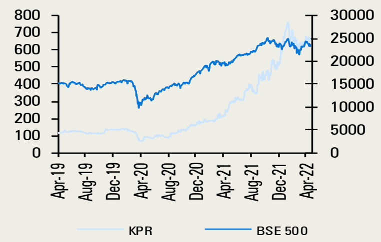
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	22,573.0
Total Debt (FY22) (₹ crore)	1,185.0
Cash (FY21) (₹ crore)	435.0
EV (₹ crore)	23,323.0
52 Week H / L	772 /266
Equity Capital (₹ crore)	34.2
Face Value (₹)	1.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	74.7	74.7	74.7	74.7	74.7
FII	2.2	2.7	3.1	3.6	4.3
DII	15.3	14.6	13.4	13.0	12.0
Others	7.8	8.1	8.8	8.7	9.0

Price Chart



Recent Event & Key risks

Company delivered 39.0 million pieces in Q4FY22 in garmenting division

- **Key Risk:** (i) Pandemic led restriction can lower sales (ii) Significant increase in cotton price can subdue margins

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ICICI Securities – Retail Equity Research

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	3,384.0	3,352.6	3,530.2	4,822.5	12.0%	5,477.6	6,064.0	12.1%
EBITDA	611.8	621.9	829.6	1,218.6	17.0%	1,320.1	1,479.6	10.2%
Adjusted PAT	334.9	376.7	515.3	841.8		870.7	994.2	
P/E (x)	67.4	59.9	43.8	26.8		25.8	22.6	
EV/EBITDA (x)	38.2	37.3	27.6	19.1		17.3	15.3	
RoCE (%)	19.6	19.6	24.0	26.6		25.8	26.4	
RoE (%)	18.7	20.2	21.9	26.4		23.5	23.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

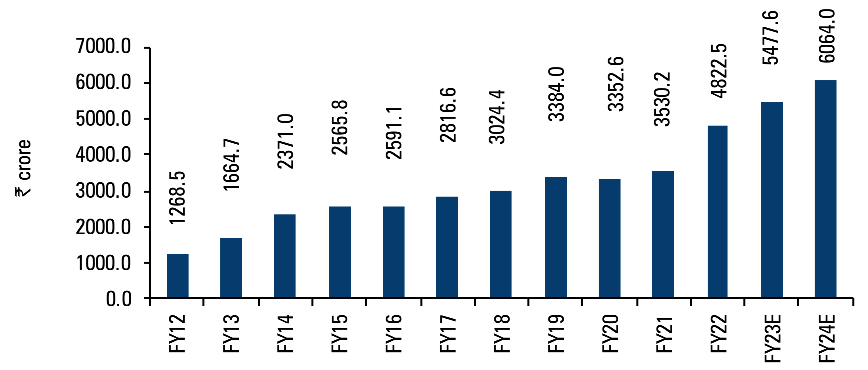
- Despite significant increase in raw material prices (cotton), KPR reported steady operational performance. Revenue for the quarter grew 30% YoY (15% QoQ) to ₹ 1449.9 crore. On the segmental front, garmenting division recorded an all-time high volume of 39 million pieces (up 41% QoQ) with average realisations of ₹ 152/piece. Garment sales were higher as it had stocks, which were stuck in the previous quarter due to lack of availability of containers and also small contribution from the newly commissioned plant. In Q4FY22, revenue from garmenting division grew 57% YoY (33% QoQ) to ₹ 594 crore. For FY22, company clocked in robust volumes to the tune of 121.6 million pieces (up 31% YoY) with sales increasing 35% YoY to ₹ 1876 crore
- Post the commissioning of new 42 million garment production capacity in Tamil Nadu, the current capacity is at 157 million garments per annum. The company expects the ramp up of the new capacity by September 2022 (currently operating at 25% utilisation levels) and the full impact on revenue would be visible in FY24. On the utilisation of the expanded capacity, the management indicated that it would first increase volumes supplied to existing customers and later on supply to its newer customers. Of the total incremental capacity, 60-70% is going to be utilised for the existing customer, while balance from new customers
- For yarn & fabric division, volumes declined ~11% QoQ to 16000 tonnes in Q4FY22 mainly on account of higher captive consumption for the new garmenting capacity. However, significantly higher realisations (up 16% QoQ), resulted in division reporting 3% revenue growth to ₹ 575 crore. FY22 turned out to be the one of the best performing years for all yarn players on account of all time high spreads (average: ₹ 105-₹ 120/kg) and materially higher yarn realisations. Yarn segment in FY22 reported revenue growth of 49% YoY to ₹ 1820 crore driven by 34% realisation growth and 11% volume growth. Going forward revenue from yarn division is expected to decline with increased share in captive consumption from current 30% to 40%
- Revenue from sugar division grew 30% YoY to ₹ 645 crore in FY22. The new sugar and ethanol plant is commissioned in Q4FY22 and company is targeting revenue mix of 50:50 from ethanol and sugar division. With the new expanded capacity, the management targets overall sugar revenues to cross ₹ 1200-1300 crore in next 2-3 years with EBITDA margins of ~20%+
- **FY22 was a landmark year for KPR with company reporting its highest ever sales and PAT. Overall revenue grew by 37% YoY to ₹ 4822.5 crore with EBITDA margins improving 180 bps YoY to 25.3%. PAT grew by 63% YoY to ₹ 841.8 crore. On the balance sheet front, higher working capital requirements (mainly owing to increase in cotton prices) and capex (₹ 890 crore) resulted in company reporting negative FCF worth ₹ 314 crore. Subsequently, net debt increased to ₹ 748 crore in FY22 (vs. ₹ 346 crore in FY21). The company continues to have a comfortable D/E ratio of <0.5x. Furthermore, company generated healthy RoIC of ~30% (up 300 bps YoY). We continue to like KPR to play as a structural long term story to play on the apparel exports space**

Q4FY22 Earnings Conference Call highlights

- The management indicated that in spite of challenges, the demand scenario for Indian players was good considering that competing countries like Pakistan and Sri Lanka were facing issues and the same has been beneficial for Indian textile players
- On the orderbook front, the management indicated that the current order book was at ₹ 900 crore (Q3FY22: ₹ 1000 crore). The current order book is an historically high order book (as on March) considering its mid-season order book and the management is optimistic about maintaining the strong order book momentum
- The management indicated that 40% of the yarn produced was captively used by the fabric division and for garment the company utilises its own fabric only and does not buy from outside
- All expansion projects are expected to start contributing to revenues in FY23. The new garment capacity ramp up is currently around 25% and the management expects significant ramp up in the utilisation of the new capacity over the next two to three quarters. The new sugar capacity has been commissioned in March 2022 while the ethanol capacity is expected to be commissioned in Q1FY23 and is expected to contribute to overall revenues from H2FY23
- On the margin front, the management expects to maintain margin of ~ 18% for yarn, 25% for garments and sugar divisions
- The company has a cotton inventory of around three months with average cost of ₹ 80-85000 per candy. The management indicated that the recent removal of import duty is not likely to result in significant reduction in cotton prices in domestic market but it can improve the availability of the cotton for the Indian textile companies
- The company had planned a capex of ₹ 750 crore for FY22 but it has incurred capex of ₹ 890 crore. The higher capex is on account of modification in the expansion plan as the company has done some modernisation of existing plant and machinery, which has led to increased capex for the year. For FY23, KPR has not firmed up new capex and would be incurring only maintenance capex of ₹ 150 crore. The focus in FY23 would be to stabilise the newly added capacity and ramp up the utilisation from the capacities added recently. Further the management indicated that any capex that may be planned in future may be mainly for enhancing the garmenting capacity
- On the sugar and ethanol capacity front, the company has a current sugar capacity of 90000 tonnes per annum while the ethanol capacity is 4 crore litre. Post expansion the sugar capacity is expected to increase to 165000 tonnes per annum and the ethanol capacity is expected to increase to 10 crore litre. The company has started to operate the new sugar mill on trial basis and is awaiting the commercial launch approval

Financial story in charts….

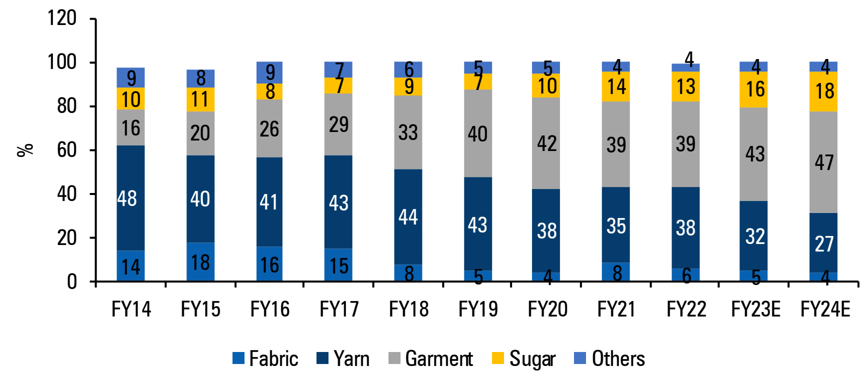
Exhibit 1: We model revenue CAGR of 12% in FY22-24E



Source: Company, ICICI Direct Research

Majority of the growth to be driven by garmenting segment (23% CAGR) and sugar division (31% CAGR). Revenue from yarn & fabric division to decline on the back of a gradual increase in captive consumption for garmenting segment.

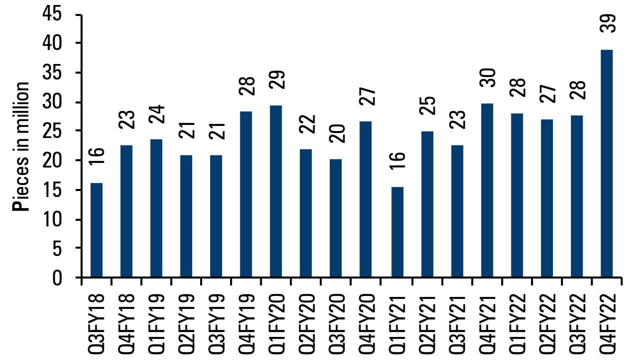
Exhibit 2: Segmental revenue share trend



Source: Company, ICICI Direct Research

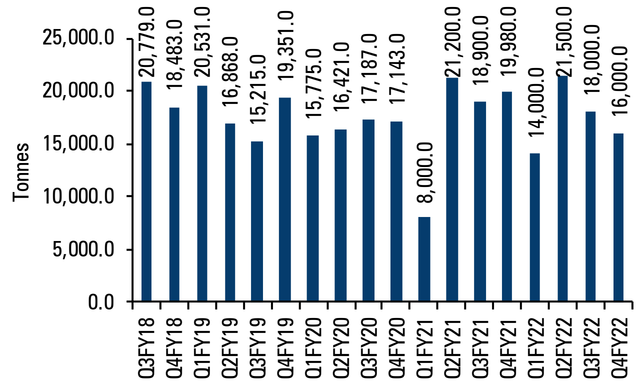
On the back of capacity expansion, share of garmenting and sugar division to increase from 38%/13% in FY22 to 47%/18% in FY24E.

Exhibit 3: Garment volume trend



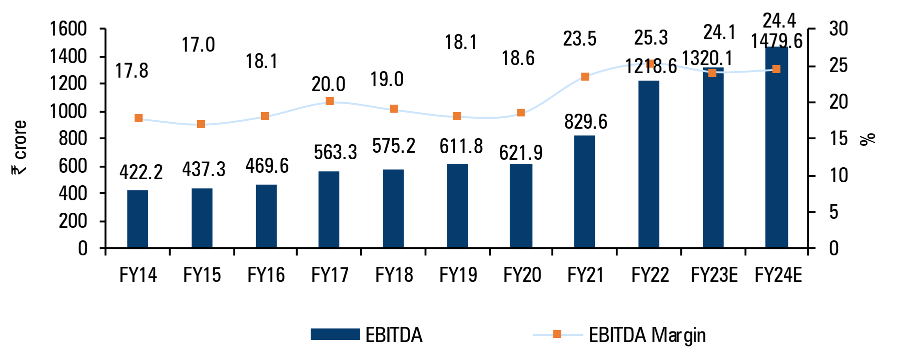
Source: Company, ICICI Direct Research

Exhibit 4: Yarn & fabric volume trend



Source: Company, ICICI Direct Research

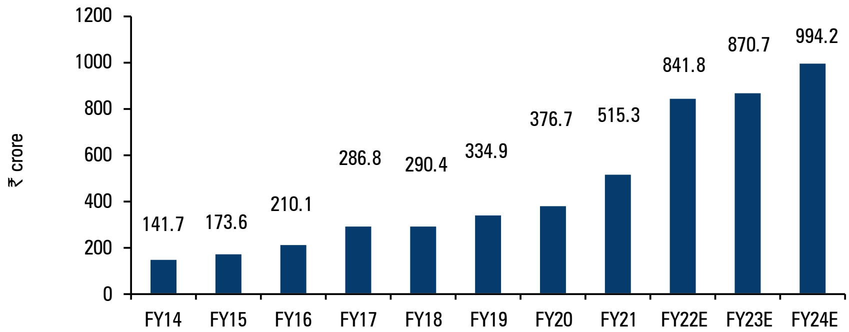
Exhibit 5: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

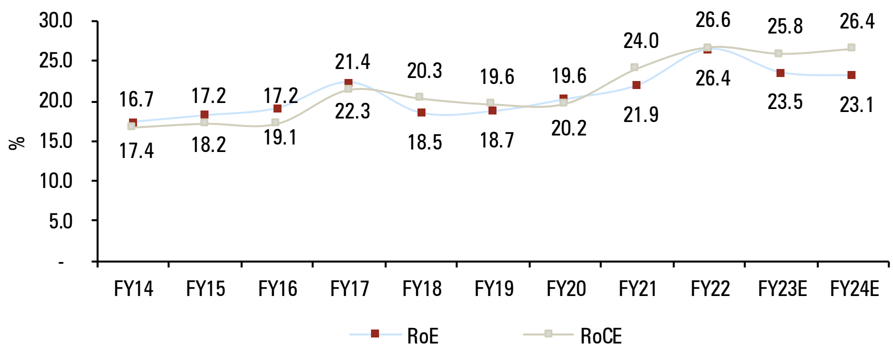
KPR strategically has a vertically integrated alignment from yarn to apparels. This has translated into lower RM volatility and steady EBITDA margins over the years. Higher proportion of garmenting enhances overall margin profile

Exhibit 6: PAT trend



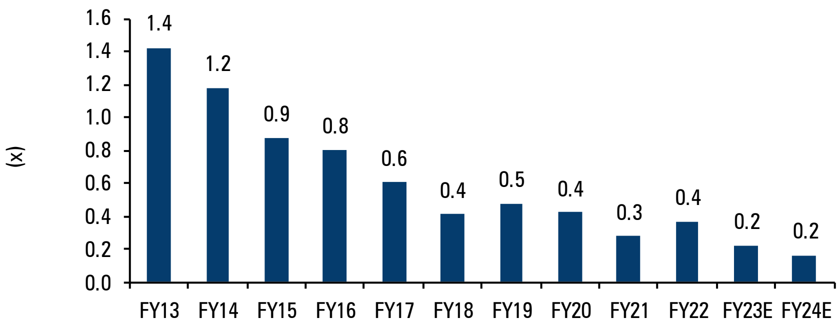
Source: Company, ICICI Direct Research

Exhibit 7: Return Ratio trend



Source: Company, ICICI Direct Research

Exhibit 8: Debt/Equity ratio trend



With no major capex plans in FY23E, we expect the company to generate FCF worth ₹ 645 crore. Subsequently we expect company to retire debt worth ₹ 350 crore

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	3,530.2	4,822.5	5,477.6	6,064.0
Growth (%)	5.3	36.6	13.6	10.7
Total Raw Material Cost	1,962.9	2,685.7	3,023.6	3,335.2
Gross Margins (%)	44.4	44.3	44.8	45.0
Employee Expenses	393.7	445.5	586.1	667.0
Other Expenses	344.0	472.6	547.8	582.1
Total Operating Expenditure	2,700.6	3,603.9	4,157.5	4,584.4
EBITDA	829.6	1,218.6	1,320.1	1,479.6
EBITDA Margin	23.5	25.3	24.1	24.4
Interest	32.8	23.3	41.8	36.0
Depreciation	146.7	141.1	197.5	207.5
Other Income	38.8	87.2	50.0	55.0
Exceptional Expense	-	-	-	-
PBT	688.9	1,141.4	1,130.8	1,291.2
Total Tax	173.6	299.7	260.1	297.0
Profit After Tax	515.3	841.8	870.7	994.2

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	515.3	841.8	870.7	994.2
Add: Depreciation	146.7	141.1	197.5	207.5
Net Increase in Current Assets	-94.8	-594.9	-253.9	-326.4
Net Increase in Current Liabilities	20.7	210.2	-50.1	31.4
CF from operating activities	**587.8**	**598.2**	**764.3**	**906.7**
(Inc)/dec in Investments	-225.8	-75.8	-30.9	-34.0
(Inc)/dec in Fixed Assets	-270.9	-912.6	-119.7	-265.0
Others	0.0	-112.0	0.0	0.0
CF from investing activities	**-496.7**	**-1,100.4**	**-150.6**	**-299.0**
Inc / (Dec) in Equity Capital	0.0	0.0	-180.0	0.0
Inc / (Dec) in Loan	-130.5	527.9	-348.8	-117.2
Others	-37.5	22.8	-172.5	-396.0
CF from financing activities	**-168.0**	**550.7**	**-701.3**	**-513.2**
Net Cash flow	-77.0	48.5	-87.7	94.5
Opening Cash	154.2	77.3	125.8	38.1
Closing Cash	**77.3**	**125.8**	**38.1**	**132.5**

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	34.4	34.4	34.2	34.2
Reserve and Surplus	2,315.8	3,152.4	3,669.1	4,265.7
Total Shareholders funds	2,350.2	3,186.8	3,703.3	4,299.8
Total Debt	657.1	1,185.0	836.2	719.0
Non Current Liabilities	47.7	75.7	77.2	78.9
Source of Funds	**3,055.0**	**4,447.4**	**4,616.8**	**5,097.8**
Gross block	2,090.3	2,916.4	3,086.4	3,346.4
Less: Accum depreciation	836.4	977.5	1,175.1	1,382.5
Net Fixed Assets	1,253.9	1,938.8	1,911.3	1,963.8
Capital WIP	28.6	115.3	65.0	70.0
Intangible assets	1.7	1.5	1.5	1.5
Investments	234.9	310.7	341.6	375.6
Inventory	913.3	1,288.8	1,425.7	1,628.1
Cash	77.3	125.8	38.1	132.5
Debtors	321.0	480.2	570.3	664.5
Loans & Advances & Other CA	209.5	269.6	296.6	326.2
Total Current Assets	1,521.0	2,164.4	2,330.6	2,751.5
Creditors	122.2	282.1	225.1	249.2
Provisions & Other CL	87.9	138.2	145.2	152.4
Total Current Liabilities	210.1	420.3	370.3	401.6
Net Current Assets	1,310.9	1,744.1	1,960.4	2,349.9
LT L& A, Other Assets	225.0	337.0	337.0	337.0
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**3,055.0**	**4,447.4**	**4,616.8**	**5,097.8**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	15.0	24.5	25.5	29.1
Cash EPS	19.2	28.6	31.2	35.2
BV	68.3	92.6	108.3	125.8
DPS	0.9	0.1	5.1	11.6
Cash Per Share	2.2	3.7	1.1	3.9
Operating Ratios (%)				
EBITDA margins	23.5	25.3	24.1	24.4
PBT margins	19.5	23.7	20.6	21.3
Net Profit margins	14.6	17.5	15.9	16.4
Inventory days	94.4	97.5	95.0	98.0
Debtor days	33.2	36.3	38.0	40.0
Creditor days	12.6	21.3	15.0	15.0
Return Ratios (%)				
RoE	21.9	26.4	23.5	23.1
RoCE	24.0	26.6	25.8	26.4
RoIC	27.1	30.5	28.6	29.9
Valuation Ratios (x)				
P/E	43.8	26.8	25.8	22.6
EV / EBITDA	27.6	19.1	17.3	15.3
EV / Sales	6.5	4.8	4.2	3.7
Market Cap / Revenues	6.4	4.7	4.1	3.7
Price to Book Value	9.6	7.1	6.1	5.2
Solvency Ratios				
Debt / Equity	0.3	0.4	0.2	0.2
Debt/EBITDA	0.8	1.0	0.6	0.5
Current Ratio	6.9	4.9	6.2	6.5
Quick Ratio	2.5	1.8	2.3	2.5

Source: Company, ICICI Direct Research

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Sell: <-15%

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