



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

## ESG Disclosure Score

NEW

ESG RISK RATING		16.86
Updated Feb 08, 2022		
Low Risk		
NEGL	LOW	MED
0-10	10-20	20-30
	30-40	40+

Source: Morningstar

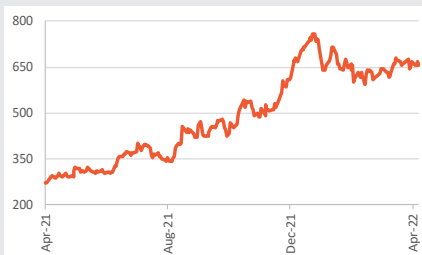
## Company details

Market cap:	Rs. 22,594 cr
52-week high/low:	Rs. 772 / 255
NSE volume: (No of shares)	5.2 lakh
BSE code:	532889
NSE code:	KPRMILL
Free float: (No of shares)	8.7 cr

## Shareholding (%)

Promoters	74.7
FII	4.8
DII	12.0
Others	8.5

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	0.0	44.0	143.9
Relative to Sensex	4.8	0.0	48.6	128.8

Sharekhan Research, Bloomberg

## KPR Mill Ltd

## Garment business maintained strong growth momentum

## Consumer Discretionary

Sharekhan code: KPRMILL

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 657

Price Target: Rs. 810

## Summary

- KPR Mill (KPR) continued its strong revenue growth momentum in Q4FY2022. Revenue grew 30% y-o-y to Rs. 1,449.9 crore; the textile business continued to grow strongly with 34% y-o-y revenue growth, while the sugar business reported 12.6% y-o-y revenue growth.
- EBITDA margin declined by 75 bps y-o-y to 23.2%, affected by the surge in cotton/yarn prices. PAT grew by 18% y-o-y to Rs. 220 crore.
- Strong export demand and capacity expansions will help the garmenting division's revenue to post a 20% CAGR over FY2022-FY2024. Sugar business would receive full benefits of expanded capacity from FY2023.
- The stock currently trades at 22.1x/18.1x its FY2023E/FY2024E EPS and 14.4x/11.8x its FY2023E/FY2024E EV/EBITDA. We maintain Buy with an unchanged PT of Rs. 810.

KPR Mill (KPR) posted yet another quarter of strong revenue performance. Q4FY2022 revenue grew by 30% y-o-y to Rs. 1,449.9 crore, driven by 34% y-o-y growth in the textile business and 13% y-o-y growth in the sugar business. Yarn and fabric and garment divisions registered y-o-y revenue growth of 16% and 57%, respectively. The garment division's sales volume stood at 38 million pieces in Q4FY2022 compared to 28 million pieces in Q3. Margins were impacted by higher cotton prices, which led to a 148 bps y-o-y decline in gross margin and a 150 bps y-o-y decline in EBITDA margin. Yarn and fabric and garment division's EBITDA margin stood at 18% and 25%, respectively. For FY2022, KPR's revenue and PAT grew by 37% and 63% y-o-y, respectively, with EBITDA margin improving by 177 bps to 25.3%, led by better mix. The company's liquid cash on books stood at around Rs. 440 crore, which can be utilised for its future capex programme in the coming years.

## Key positives

- The garment business maintained its strong growth momentum with revenue growing by 57% y-o-y in Q4; garment production stood at 34 million pieces.
- Garment exports grew by 30% y-o-y in FY2022.
- Sugar business's EBITDA margin stood at 28% during the quarter.

## Key negatives

- KPR's consolidated gross margins decreased by 148 bps y-o-y to 40.9%, affected by the surge in cotton prices.

## Management Commentary

- The garment business produced 124 million pieces in FY2022. The new garment facility commissioned operations in Q3FY2022 and is expected to operate at 100% capacity by Q2FY2023. With the facility fully operational in FY2024, the garment segment's production is expected to reach 150 million pieces. The garment segment's order book stood at Rs. 900 crore. The government signing new free trade agreements (FTA) with Australia and UAE provides a huge opportunity for the garment business to scale-up further in the coming years.
- New sugar facility has commissioned its operations from Q4FY2022 and the new ethanol facility will start operating from Q1FY2023. Post the operation of new facilities, the company will be producing 165 tonnes of sugar and 10 crore litres of ethanol. Management is confident of accruing 90% benefits of new sugar and ethanol capacity in FY2023. With strong scale-up in the sugar business along with improved mix, EBITDA margin of the sugar business is expected to stay close to 28% in the coming quarters.
- The company has cotton inventory for the next three months at a price of Rs. 80,000-85,000 per candy. Removal of import duty on cotton by the government would improve supply and help companies to fulfil export commitments in the quarters ahead.
- The company has guided for 15-20% revenue growth in FY2023. It expects yarn and fabric division's EBITDA margin to be at 17-18%. The garment division's EBITDA margin is expected at 23-25% and the sugar business's EBITDA margin is likely to be at 28% in FY2023.
- KPR did capital expenditure of Rs. 800 crore for setting up the new garment facility and sugar and ethanol capacity. The company spent around Rs. 100 crore for modernisation of plants. Going ahead, the company plans to spend around Rs. 100-150 crore for modernisation of existing capacities.

**Revision in estimates** – We have broadly maintained our earnings estimates for FY2023 and FY2024.

## Our Call

**View: Maintain Buy with an unchanged PT of Rs. 810** – KPR's textile business is expected to maintain the strong double-digit growth momentum with increased garmenting capacity, improving sales of high-value yarn/fabrics products, and better growth prospects in export markets backed by government reforms. We expect KPR's revenue and PAT to report a CAGR of 20% and 21%, respectively, over FY2022-FY2024 with most of the new capacities operating at optimum utilisation. Further, the company is likely to create value for shareholders by demerging its sugar business into a separate entity once it attains a certain scale. The stock currently trades at 22.1x/18.1x its FY2023E/FY2024E EPS and 14.4x/11.8x its FY2023E/FY2024E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 810.

## Key Risks

- Any decline in export revenue due to lower demand from international clients would act as a key risk to our earnings estimates.
- Any volatility in prices of key raw material such as cotton can affect the company's profitability.

## Valuation (Consolidated)

Rs cr

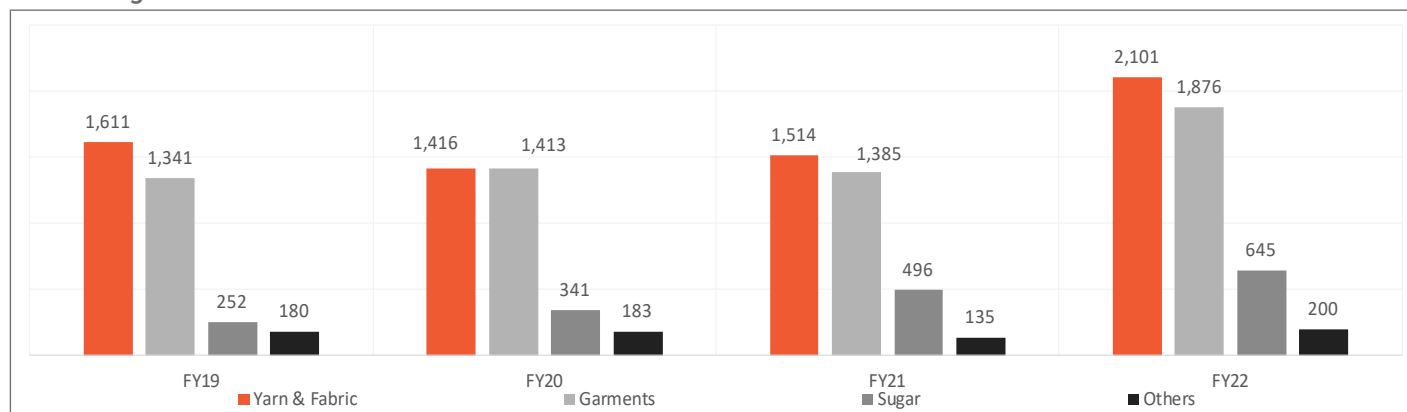
Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,530	4,822	6,039	6,982
EBITDA Margin (%)	23.5	25.3	26.0	26.7
Adjusted PAT	515	842	1,013	1,238
% Y-o-Y growth	36.8	63.4	20.3	22.2
Adjusted EPS (Rs.)	15.0	24.5	29.4	36.0
P/E (x)	43.4	26.6	22.1	18.1
P/B (x)	9.5	7.0	5.4	4.2
EV/EBITDA (x)	27.4	19.0	14.4	11.8
RoNW (%)	24.4	30.4	27.6	26.1
RoCE (%)	25.2	31.0	29.5	30.3

Source: Company; Sharekhan estimates

## Robust revenue growth at 29.7% y-o-y; EBITDA margin declined by 75 bps y-o-y to 23.2%

KPR's revenue grew by 29.7% y-o-y to Rs. 1,449.9 crore in Q4FY2022. Strong revenue growth can be attributed to 33.7% y-o-y growth in the textile business's revenue to Rs. 1,207.4 crore, while the sugar business's revenue grew by 12.6% y-o-y to Rs. 222.6 crore. With increased capacity, the garment segment's production stood at 34 million pieces in Q4, which was the highest compared to earlier quarter production volumes of 26 million-28 million pieces. Higher cotton prices led to a 148 bps y-o-y decline in gross margin to 40.9%. The same was lower by 292 bps on a sequential basis. However, operating efficiencies led to just a 75 bps y-o-y decline in EBITDA margin to 23.2%. EBIT margin of the textile business declined by 88 bps y-o-y to 21.0%, while EBIT margin of the sugar business was up by 253 bps y-o-y to 20.6%. Consolidated EBITDA grew by 25.6% y-o-y to Rs. 336.1 crore. However, higher incidence of tax led to 18% y-o-y growth in PAT to Rs. 219.8 crore. Tax rate for Q4FY2022 stood at 28.1% versus 21.8% in Q4FY2021. For FY2022, KPR's revenue grew by 36.6% y-o-y to Rs. 4,822.5 crore led by strong 37.9% y-o-y growth in the textile business to Rs. 4,113.2 crore and 30% y-o-y growth in the sugar business to Rs. 645.2 crore. FY2022 garment production was up 30.44% y-o-y to 124.10 million pieces compared to 95.14 million pieces in FY2021. EBITDA margin for FY2022 grew by 177 bps y-o-y to 25.3%, while EBITDA registered 46.9% y-o-y growth to Rs. 1,218.7 crore. Adjusted PAT grew by 63.4% y-o-y to Rs. 841.8 crore. The Board of Directors recommended a final dividend of Rs. 0.15 per share on the face value of Re. 1 each.

### Trend in segment wise revenue contribution

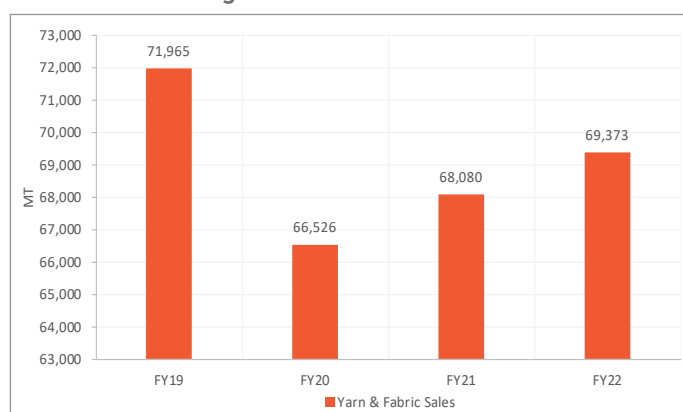


Source: Company; Sharekhan Research

## Fabric and yarn business gaining traction

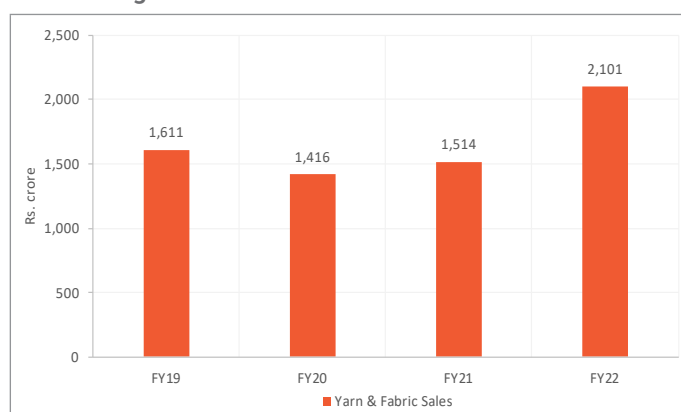
The fabric and yarn business registered Rs. 576 crore revenue during Q4FY2022, registering 16.1% y-o-y growth. Fabric revenue was at Rs. 86 crore, while yarn revenue stood at Rs. 489 crore. The company produced ~21,000 tonne of yarn and 6,600 tonne of fabric in Q4FY2022, while it sold 14,000 tonne of yarn and 2,200 tonne of fabric during the quarter. In FY2022, the business grew by 38.8% y-o-y to Rs. 2,101 crore with volume growth of 1.9% y-o-y to 69,373 MT yarn and fabric sold during the year.

### Trend in fabric and yarn sales volume



Source: Company, Sharekhan Research

### Fabric and yarn business revenue trend

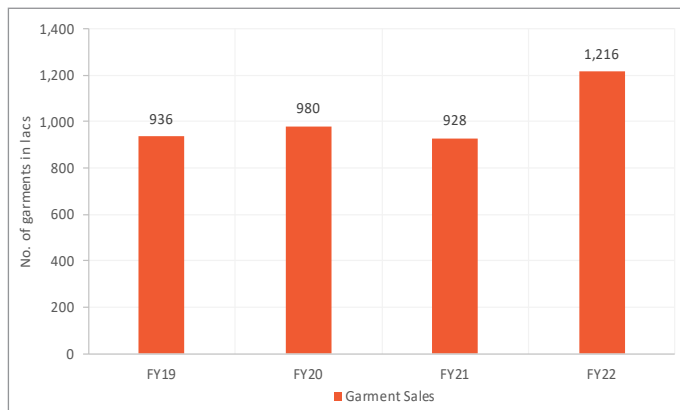


Source: Company, Sharekhan Research

## Garment business growth momentum continued

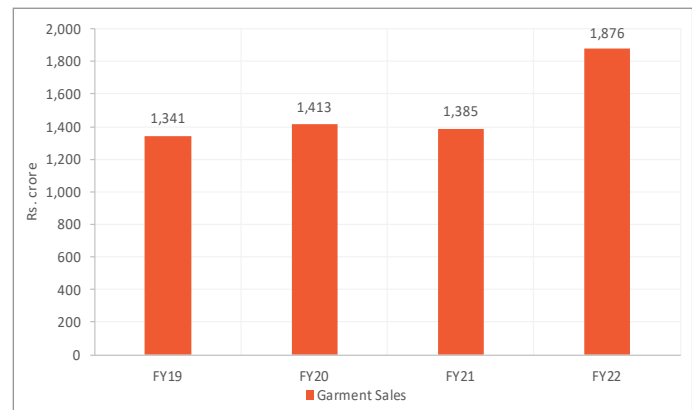
The garment business reported revenue of Rs. 594 crore in Q4FY2022, registering 57.1% y-o-y growth. The company produced/sold 34/38 million garment pieces in Q4, respectively. In FY2022, the business grew by 35.5% y-o-y to Rs. 1,876 crore with volume growth of 31% y-o-y to 121.6 million garments sold during the year. FY2022 garment production was up by 30.44% y-o-y to 124.10 million garments compared to 95.14 million garments in FY2021. The garment business continues to perform well and has a strong order book of ~Rs. 900 crore at quarter end.

Trend in garments sales volume



Source: Company, Sharekhan Research

Garment business revenue trend

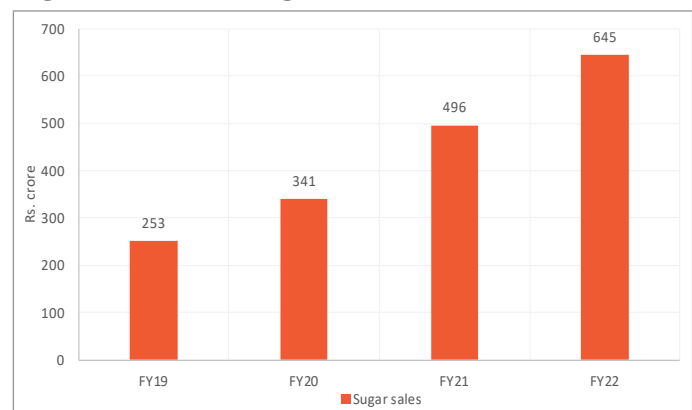


Source: Company, Sharekhan Research

## Sugar business to pick up with capacity expansion

KPR's sugar business reported revenue of Rs. 222.6 crore, registering 12.6% y-o-y growth. For FY2022, revenue grew by 30% y-o-y to Rs. 645.2 crore. The company produced 1.22 lakh tonne of sugar and 115 lakh litre of ethanol during the quarter, while it sold 45,000 tonne sugar and 88 lakh litre ethanol in Q4FY2022. EBITDA margin for the quarter came in at 20.6% in Q4FY2022, up from 18% in Q4FY2021 and 16.7% in Q3FY2022. Expansion of sugar capacity by 10,000 TCD, co-gen capacity of 47 MW, and ethanol capacity of 230 KLPD has been completed.

Sugar business revenue growth



Source: Company, Sharekhan Research

## Key conference call highlights

- ◆ As per the management, demand for textile products continues to remain strong. Small players such as Sri Lanka and Pakistan continue to face production issues due to bleak macro environment, which provides opportunity to gain share in exports markets.
- ◆ Management has guided that the company has cotton stock of about three months. The average price of inventory is at Rs. 80,000-85,000 per candy. With better availability of cartons, prices are expected to cool off, provided no further hiccups arise.
- ◆ Management has indicated that the company will incur maintenance capex of Rs. 100 crore-150 crore in FY2023 and will notify about any major capex in the coming months.
- ◆ Management indicated that retail sales are picking up and its FASO brand is performing well. The brand is now available in 3,000 retail stores.
- ◆ The company targets y-o-y growth of 15-20% in its garment production in FY2023 (FY2022 garment production stood at 124.1 million pieces).

#### Results (Consolidated)

	Rs cr				
Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
<b>Total Revenue</b>	<b>1,449.9</b>	<b>1,117.9</b>	<b>29.7</b>	<b>1,260.5</b>	<b>15.0</b>
Raw-material cost	857.4	644.6	33.0	708.6	21.0
Employee cost	111.0	101.7	9.2	112.0	-0.9
Other expenses	145.4	104.2	39.6	134.7	7.9
Total operating cost	1,113.8	850.4	31.0	955.3	16.6
<b>EBITDA</b>	<b>336.1</b>	<b>267.5</b>	<b>25.6</b>	<b>305.2</b>	<b>10.1</b>
Other income	11.4	11.8	-3.1	25.4	-55.0
Interest & other financial cost	5.7	7.8	-27.0	5.6	1.4
Depreciation	36.4	33.3	9.1	41.8	-12.9
<b>Profit Before Tax</b>	<b>305.5</b>	<b>238.2</b>	<b>28.3</b>	<b>283.2</b>	<b>7.9</b>
Tax	85.7	52.0	64.8	71.5	19.9
<b>Adjusted PAT</b>	<b>219.8</b>	<b>186.2</b>	<b>18.1</b>	<b>211.8</b>	<b>3.8</b>
Adjusted EPS (Rs.)	6.4	5.4	18.1	6.2	3.8
			<b>bps</b>		<b>bps</b>
GPM (%)	40.9	42.3	-148	43.8	-292
EBITDA Margin (%)	23.2	23.9	-75	24.2	-103
NPM (%)	15.2	16.7	-150	16.8	-164
Tax rate (%)	28.1	21.8	622	25.2	282

Source: Company; Sharekhan Research

#### Segment-wise performance

	Rs cr				
Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
<b>Revenue</b>					
Textile	1,207.4	903.2	33.7	1,045.0	15.5
Garment (a)	594.0	378.0	57.1	448.0	32.6
Fabric and yarn (b)	576.0	496.0	16.1	558.0	3.2
Sugar	222.6	197.6	12.6	197.3	12.8
Others	19.9	17.1	16.2	18.3	9.1
<b>Total revenue</b>	<b>1,449.9</b>	<b>1,117.9</b>	<b>29.7</b>	<b>1,260.5</b>	<b>15.0</b>
<b>PBIT</b>					
Textile	253.2	197.4	28.3	229.8	10.2
Sugar	45.8	35.6	28.4	33.0	38.8
<b>PBIT margin (%)</b>			<b>bps</b>		<b>bps</b>
Textile	21.0	21.9	-88	22.0	-103
Sugar	20.6	18.0	253	16.7	384

Source: Company; Sharekhan Research

#### Q4FY22 Production and sales

Segment	Production volume	Sales Volume	Revenue (Rs. Crore)
Yarn	21,385 tonnes	14,000 tonnes	489
Fabric	6,000 tonnes	2,200 tonnes	86
Garments	34 million pieces	38 million pieces	593
Sugar	1.22 lakh tonnes	45,000 tonnes	144
Ethanol	115 lakh litre	88 lakh litre	55

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Long-term growth prospects improving

Revenue growth of textile companies is expected to moderate in Q4 compared to Q3FY2022 as sales were affected by emergence of the third wave, lesser availability of containers, and shorter inventories maintained by global retailers in an uncertain environment. Margins are expected to be lower on a y-o-y basis due to inflated input prices (including cotton/yarn prices). However, the long-term growth prospects of the Indian textile industry are intact. Augmentation of capacity with value-added products, key export markets focusing on increasing supply from India, and the government's support policies provide scope for textile companies to post robust growth in the long run. With the government extending RoSCTL scheme till March 2024 and keeping rates unchanged, it will be beneficial for textile companies and would add to their profitability.

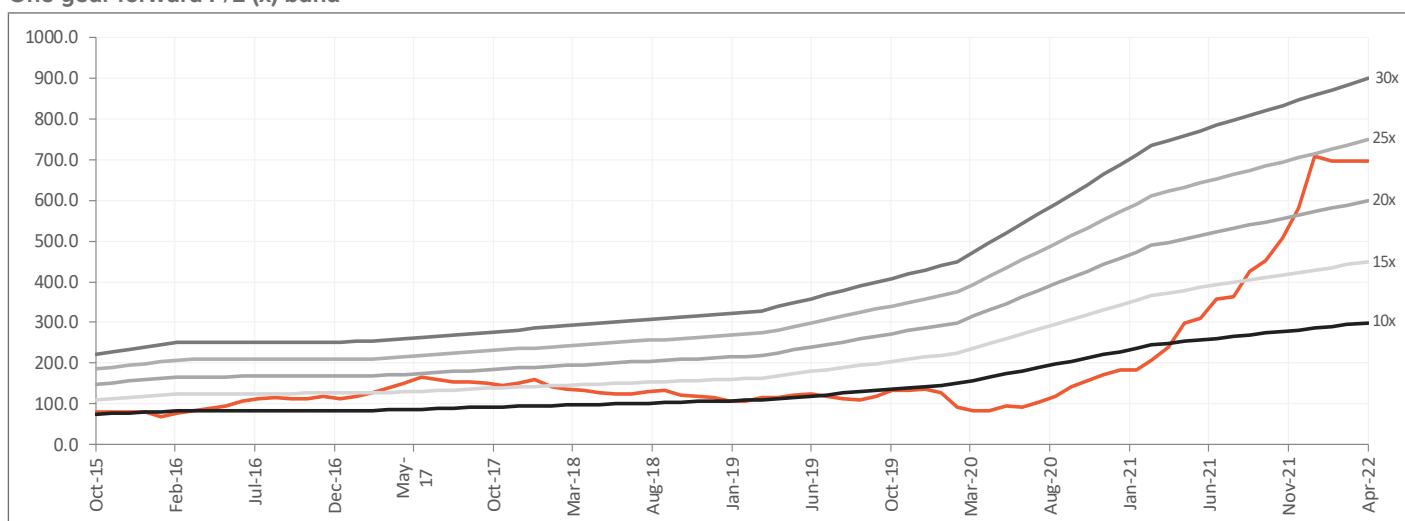
### ■ Company Outlook – New garment capacity to drive growth in the long run

KPR continued its strong growth momentum in Q4FY2022 with revenue growing at 29.7% y-o-y backed by strong growth in the textile/sugar business (33.7%/12.6% y-o-y growth). Higher raw-material prices led to lower margins. With scale-up in the garment capacity and increased utilisation, we expect revenue of the garment business to post a 20% CAGR over FY2022-FY2024. This along with increased revenue contribution from the sugar business would lead to strong double-digit revenue growth in the coming years. Higher contribution from value-added yarn products and improving margins of the sugar division will help consolidated margin to stand at 27% in FY2024.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 810

KPR's textile business is expected to maintain the strong double-digit growth momentum with increased garmenting capacity, improving sales of high-value yarn/fabrics products, and better growth prospects in export markets backed by government reforms. We expect KPR's revenue and PAT to report a CAGR of 20% and 21%, respectively, over FY2022-FY2024 with most of the new capacities operating at optimum utilisation. Further, the company is likely to create value for shareholders by demerging its sugar business into a separate entity once it attains a certain scale. The stock currently trades at 22.1x/18.1x its FY2023E/FY2024E EPS and 14.4x/11.8x its FY2023E/FY2024E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 810.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Arvind	14.6	10.9	7.9	6.5	5.5	4.5	7.2	8.5	10.2
KPR Mill	26.6	22.1	18.1	19.0	14.4	11.8	31.0	29.5	30.3

Source: Company, Sharekhan estimates

## About company

KPR is one of the largest vertically integrated textile manufacturing companies in India present across the value chain from 'fibre-to-fashion'. KPR has 12 technology-oriented manufacturing units with a capacity to produce 1,00,000 MT of yarn per annum; 40,000 MT of fabric per annum; and 157 million readymade knitted apparel per annum, including a 10-million knitted garment capacity in Ethiopia. KPR has recently forayed into the retail segment with FASO, a 100% organic innerwear, sportswear, and athleisure brand. The company also has sugar business with sugar production capacity of 20,000 TCD, ethanol capacity of 360 KLPD, and power-generation capacity of 90 MW. In FY2022, 62% of the total revenue came from the domestic market, whereas exports contributed 38% to revenue. The company exports to over 60 countries, including Europe, Australia, and the US.

## Investment theme

KPR is one of India's largest vertically integrated textile players, which has a steady financial record with sturdy balance sheet. The strength of its integrated model helps the company to achieve consistent EBITDA margin, which is much better than some exporting peers. A shift in base from China to India, addition of more international clients, transforming itself from a volatile yarn business to a profitable garment business, scale-up in the retail business, and scale-up in garmenting revenue through increased capacity utilisation from the newly commissioned Ethiopia facility are some of the medium to long-term growth drivers for KPR.

## Key Risks

- Any decline in export revenue due to lower demand from international clients would act as a key risk to our earnings estimates.
- Any volatility in prices of key raw material such as cotton can affect the company's profitability.

## Additional Data

### Key management personnel

KPD Sigamani	Managing Director
KP Ramasamy	Chairman
P Nataraj	CEO & MD
PL Murugappan	CFO
P Kandaswamy	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	L&T Mutual Fund Trustee Ltd	4.94
2	DSP Investment Managers Pvt. Ltd.	1.29
3	Nippon Life India Asset Mgmt	1.27
4	Franklin Resources Inc	0.95
5	Vanguard Group Inc	0.94
6	SBI Funds Mgmt	0.62
7	Dimensional Fund Advisors LP	0.45
8	IDFC Mutual Fund	0.45
9	Aditya Birla Sunlife Asset Mgmt	0.43
10	Blackrock Inc	0.35

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



# Sharekhan

by BNP PARIBAS

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