Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KPR Mill Ltd

Near term pain, long term growth levers intact

Consumer Discretionary	Sharekhan code: KPRMILL

Reco/View: Buy	↔	CMP: **Rs. 575**	Price Target: **Rs. 710**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Jul 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

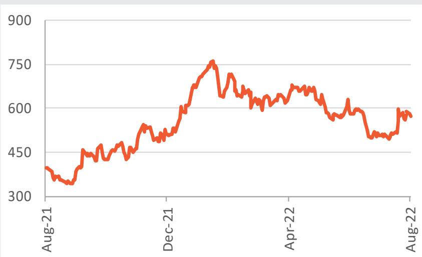
Company details

Market cap:	Rs. 19,654 cr
52-week high/low:	Rs. 772 / 332
NSE volume: (No of shares)	4.6 lakh
BSE code:	532889
NSE code:	KPRMILL
Free float: (No of shares)	8.6 cr

Shareholding (%)

Promoters	74.8
FII	4.2
DII	13.2
Others	7.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.9	-10.9	-19.8	45.2
Relative to Sensex	4.2	-15.8	-17.8	36.7

Sharekhan Research, Bloomberg

Summary

- In Q1FY23, KPR Mill's (KPR's) revenue growth was strong for yet another quarter, at 75.5% y-o-y to Rs. 1,584.8 crore aided by a 63% y-o-y growth in the textile business, while the sugar business reported 2.6x y-o-y growth. Yet, EBITDA margin fell by 160 bps y-o-y to 23.2%, as cotton/yarn prices surged.
- PAT grew by 35.3% y-o-y to Rs. 226.7 crore. Textile business PBIT margin came in at 22.8% (down 106 bps y-o-y), while sugar business PBIT margin stood at 9.7% (up 426 bps y-o-y).
- A slowdown in global export markets and higher input prices would keep near-term performance stressed but KPR's integrated business model would help it recover faster than peers.
- Stock trades at 21.0x/17.8x its FY2023E/FY2024E EPS and 13.7x/11.5x its FY2023E/FY2024E EV/EBITDA. We maintain a Buy with a revised PT of Rs. 710.

Q1FY2023 revenue grew by 75.5% y-o-y to Rs. 1,584.8 crore, driven by a 63% y-o-y growth in the textile business and 2.6x y-o-y growth in the sugar business. The yarn & fabric and garment divisions registered an y-o-y revenue growth of 42% and 82%, respectively. Yarn & fabric sales volumes fell by 3.1% y-o-y, while garment sales volumes rose by 27.9% y-o-y. Margins were impacted by sustained input cost inflation, which led to a 644 bps y-o-y decline in gross margin and a 160 bps y-o-y decline in EBITDA margin. The textile and sugar divisions' PBIT margins stood at 22.8% and 9.7%, respectively. EBITDA grew by 64.2% y-o-y to Rs. 368.1 crore. Adjusted PAT grew by 35.3% y-o-y to Rs. 226.7 crore aided by lower other income, higher interest expenses and tax rate.

Key positives

- Yarn & fabric and garment divisions registered y-o-y revenue growth of 42% and 82%, respectively.
- Garment sales volumes increased by 27.9% y-o-y to 36.7 million.
- PBIT margin of the sugar business rose by 426 bps y-o-y to 9.7%.

Key negatives

- Gross margins declined by 644 bps y-o-y, whereas EBITDA margin declined by 160 bps y-o-y due to sustained input cost inflation.
- Fabric & yarn sales volume fell by 3.1% y-o-y to 13,606 MT.
- PBIT margins of the textile business declined by 106 bps y-o-y to 22.8%.
- Net debt grew by 98.8 crore largely due to an increase in working capital requirements.

Management Commentary

- The fabric and yarn sales volume for the quarter came in at 13,606 MT, down by 3.1% y-o-y from 14,043 MT in Q1FY22. Garment sales came in at 36.7 million versus 28.7 million in Q1FY22, growing by 27.9% y-o-y.
- Revenue contribution from Europe, North America and Rest of the World grew from 55.4%, 19.7% and 1.2% in FY2022 to 59.4%, 22.4% and 1.6%, respectively in Q1FY2023.
- Net debt to equity rose to 0.25x in Q1FY2023 vs. 0.22x in FY2022. The increase in net debt can be on account of higher working capital requirements.

Revision in estimates – We have lowered our earnings estimates for FY2023 and FY2024 by 7% and 10%, respectively to factor in lower-than-earlier expected margins.

Our Call

View: Maintain Buy with a revised PT of Rs. 710: Q1 revenue growth was strong on account of low base of corresponding quarter last year as base quarter sales were impacted by emergence of second COVID-19 wave. Industry is expecting muted environment in the near term due to rising inflationary environment in key markets such as Europe and US and also most of retailers have higher inventories on shelves. Thus we expect KPR's near-term performance to be weak. However, with integrated business model, the company likely to post a faster recovery compared to other textile companies. Further scale-up in the sugar business will also add on to earnings in the coming years. The stock has corrected by 25% from its recent high and is currently trading at 21.0x/17.8x its FY2023E/FY2024E EPS and 13.7x/11.5x its FY2023E/FY2024E EV/EBITDA. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 710.

Key Risks

Any sustained slowdown in the global export market due to inflationary pressure or significant increase in the input prices would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

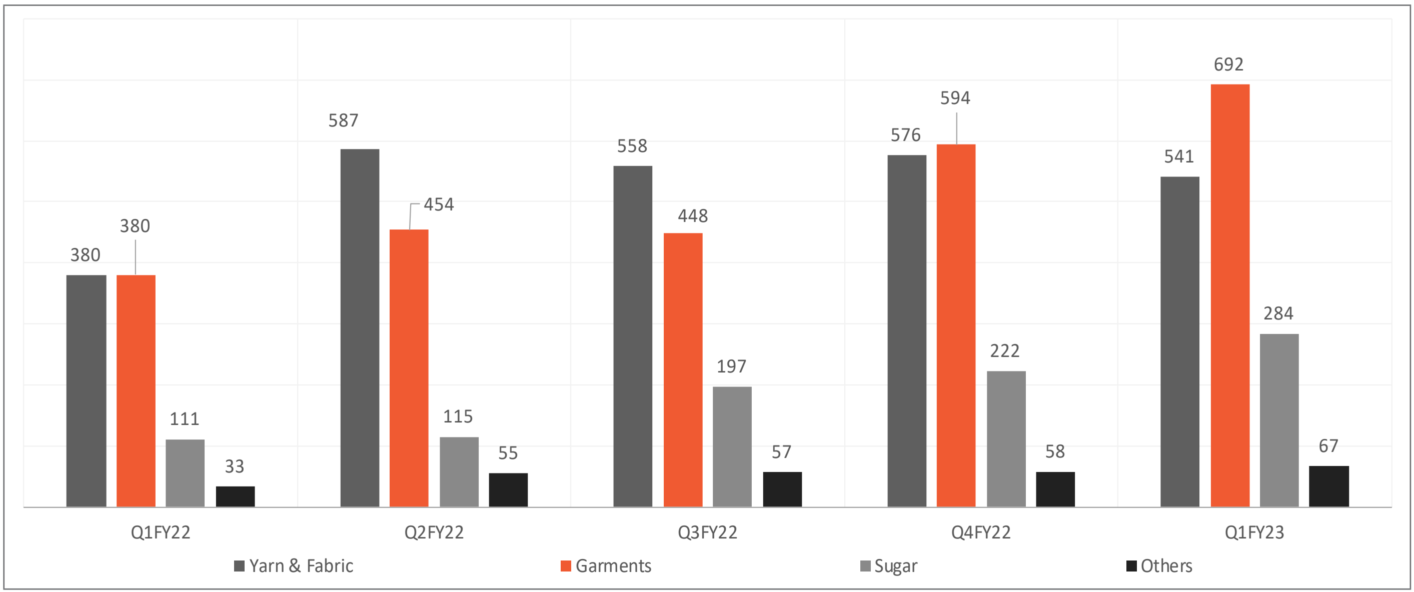
Particulars	FY21	FY22	FY23E	FY24E
Revenue	3,530	4,822	6,217	6,945
EBITDA Margin (%)	23.5	25.3	23.7	24.6
Adjusted PAT	515	842	943	1,112
% Y-o-Y growth	*36.8*	*63.4*	*12.0*	*17.9*
Adjusted EPS (Rs.)	15.0	24.5	27.4	32.3
P/E (x)	38.4	23.5	21.0	17.8
P/B (x)	8.4	6.2	4.8	3.9
EV/EBITDA (x)	24.3	16.8	13.7	11.5
RoNW (%)	24.4	30.4	26.0	24.2
RoCE (%)	25.2	31.0	27.7	28.0

Source: Company; Sharekhan estimates

Robust revenue growth at 75.5% y-o-y; EBITDA margin declined by 160 bps y-o-y

Revenues grew by 75.5% y-o-y to Rs. 1,584.8 crore, which is ahead of our as well as average street expectation Rs. 1,203 crore and Rs. 1,409 crore, respectively. Both the textile and sugar business registered strong growth with the textile business growing by 63% y-o-y while sugar business revenues grew by 2.6x y-o-y. Higher input prices led to 644/160 bps y-o-y decline in the gross/EBITDA margins to 40.5%/23.2%, respectively. EBITDA margins lagged our expectation of 24%, but higher than average street expectation of 22.9%. PBIT margin of the textile business declined by 106 bps y-o-y to 22.8%, while PBIT margin of the sugar business was up by 426 bps y-o-y to 9.7%. EBITDA grew by 64.2% y-o-y to Rs. 368.1 crore. However, lower other income, higher interest expense and higher incidence of tax led to 35.3% y-o-y growth in the adjusted PAT to Rs. 226.7 crore, which is higher than ours and the average street expectation of Rs. 204-221 crore. Net debt grew by 98.8 crore in Q1FY23 to Rs. 806.9 crore. Cash & cash equivalents stood at Rs. 346 crore at Q1FY23-end.

Trend in segment-wise revenue contribution

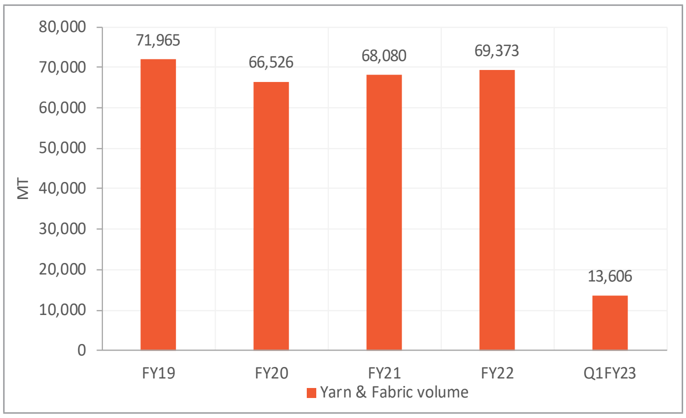


Source: Company, Sharekhan Research

Fabric and yarn business gaining traction

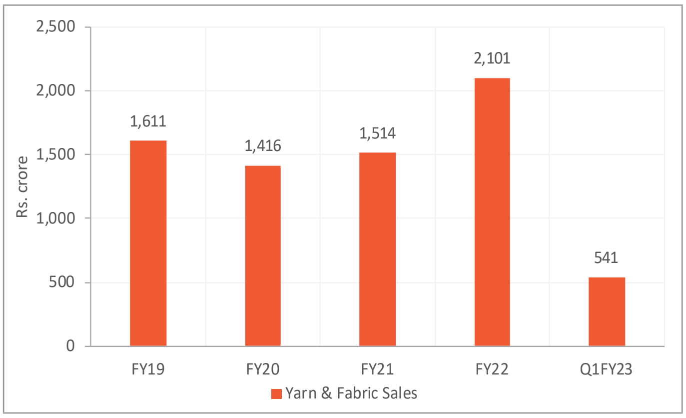
Fabric and yarn business registered price-led revenue growth of 42% y-o-y to Rs. 541 crore. Sales volume for the quarter came in at 13,606 MT, down by 3.1% y-o-y from 14,043 MT in Q1FY22.

Trend in fabric and yarn sales volume



Source: Company, Sharekhan Research

Fabric and yarn business revenue trend

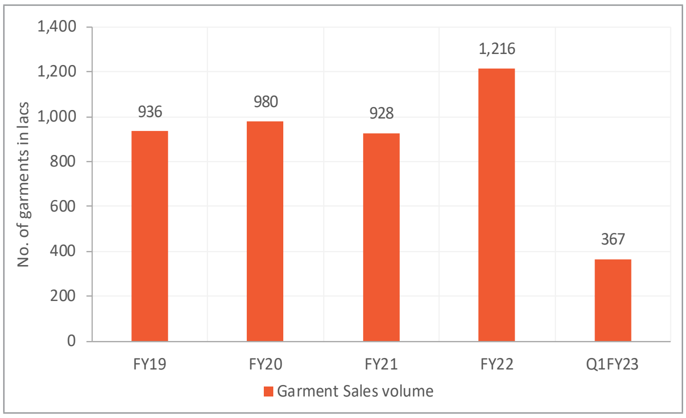


Source: Company, Sharekhan Research

Garment business growth momentum continued

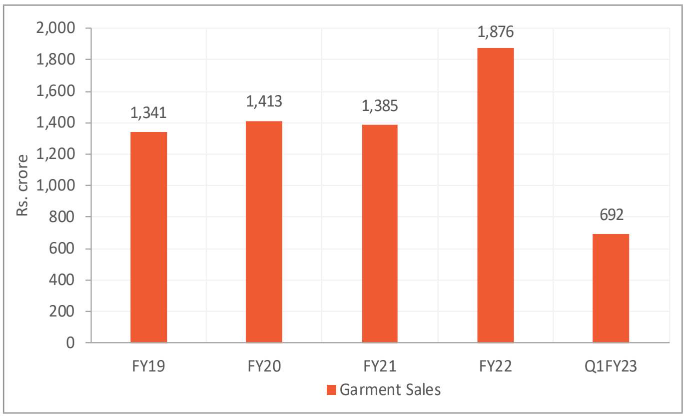
The garments business reported revenue of Rs. 692 crore in Q1FY2023, registering 82.1% y-o-y growth. Garment production is up by 25.7% y-o-y to 33.47 mn garments in Q1FY2023 as compared to 26.63 million garments in Q1FY2022. Garment sales for the quarter came in at 36.7 million garments, registering a y-o-y growth of 27.9%.

Trend in garment sales volume



Source: Company, Sharekhan Research

Garment business revenue trend

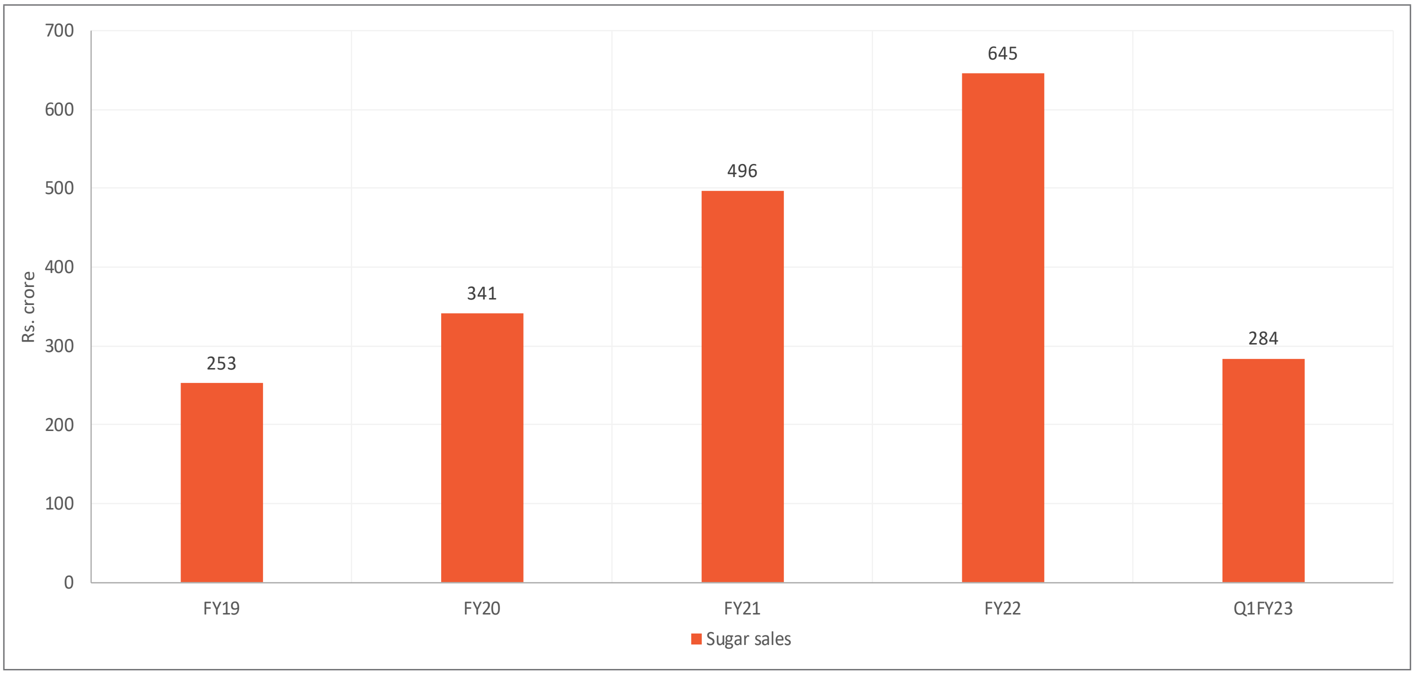


Source: Company, Sharekhan Research

Sugar business to pick up with capacity expansion

Sugar business reported revenue of Rs. 284.2 crore, registering 2.6x y-o-y growth. PBIT margin for the quarter came in at 9.7%, up from 5.4% (up 426 bps y-o-y) in Q1FY2022.

Sugar business revenue trend



Source: Company, Sharekhan Research

Results (Consolidated) **Rs cr**

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Total Revenue	**1,584.8**	**903.2**	**75.5**	**1,449.9**	**9.3**
Raw material cost	943.7	479.7	96.7	857.4	10.1
Employee cost	133.6	105.9	26.2	111.0	20.4
Other expenses	139.5	93.4	49.3	145.4	-4.1
Total operating cost	1,216.8	679.0	79.2	1,113.8	9.2
EBITDA	**368.1**	**224.2**	**64.2**	**336.1**	**9.5**
Other income	20.2	36.9	-45.3	11.4	76.1
Interest & other financial cost	16.8	5.3	214.6	5.7	195.8
Depreciation	48.6	31.4	54.9	36.4	33.6
Profit Before Tax	**322.8**	**224.4**	**43.9**	**305.5**	**5.7**
Tax	96.1	56.8	69.2	85.7	12.2
Adjusted PAT	**226.7**	**167.6**	**35.3**	**219.8**	**3.1**
Adjusted EPS (Rs.)	6.6	4.9	35.3	6.4	3.1
			bps		**bps**
GPM (%)	40.5	46.9	-644	40.9	-41
EBITDA Margin (%)	23.2	24.8	-160	23.2	5
NPM (%)	14.3	18.6	-425	15.2	-85
Tax rate (%)	29.8	25.3	446	28.1	173

Source: Company; Sharekhan Research

Segment-wise performance **Rs cr**

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Revenues					
Textile	1,276.3	782.9	63.0	1,207.4	5.7
.....Garment (a)	692.0	380.0	82.1	594.0	16.5
....Fabric & yarn (b)	541.0	380.0	42.4	576.0	-6.1
Sugar	284.2	111.4	155.1	222.6	27.7
Others	24.4	9.5	157.9	19.9	22.3
Total revenues	**1,584.8**	**903.7**	**75.4**	**1,449.9**	**9.3**
PBIT					
Textile	290.7	186.6	55.8	253.2	14.8
Sugar	27.6	6.1	-	45.8	-39.7
PBIT margin (%)			**bps**		**bps**
Textile	22.8	23.8	-106	21.0	181
Sugar	9.7	5.4	426	20.6	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Near-term outlook uncertain; Long-term growth prospects intact

Export demand is expected to stay uncertain as inflation, rising interest rates, and geopolitical disturbances reduce demand visibility in global markets. However, domestic demand is expected to remain firm due to the forthcoming festive season. 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. Textile companies are expected to benefit and report higher profitability with the government extending the RoSCTL scheme till March 2024 and keeping rates unchanged. Margins are likely to remain volatile in the near term but are likely to improve in FY2024. Cotton prices are expected to soften moderately by November upon new crop arrivals and margins are expected to improve from Q3FY2023.

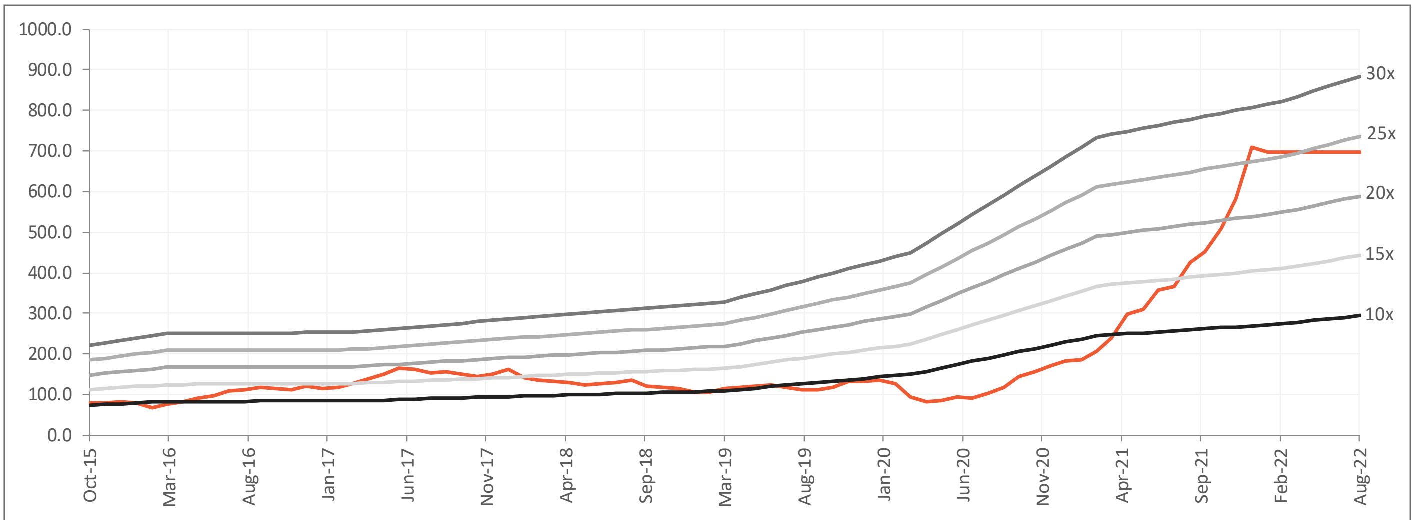
■ Company Outlook – New garment capacity to drive growth in the long run

KPR delivered mixed performance in Q1FY2023 with revenue growing by 75.5% y-o-y backed by strong growth in the textile/sugar business (63%/2.6x y-o-y growth). Higher raw material prices led to 644/160 bps y-o-y decline in gross/EBITDA margins. Though near term outlook is weak, scale-up in the garment capacity and increased utilisation in the company is likely to post double digit revenue growth over the next two to three years. Sugar business will add to overall revenues and margins 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 ~25% in FY2024.

■ Valuation – Maintain Buy with a revised PT of Rs. 710

Q1 revenue growth was strong on account of low base of corresponding quarter last year as base quarter sales were impacted by emergence of second COVID-19 wave. Industry is expecting muted environment in the near term due to rising inflationary environment in key markets such as Europe and US and also most of retailers have higher inventories on shelves. Thus we expect KPR's near-term performance to be weak. However, with integrated business model, the company likely to post a faster recovery compared to other textile companies. Further scale-up in the sugar business will also add on to earnings in the coming years. The stock has corrected by 25% from its recent high and is currently trading at 21.0x/17.8x its FY2023E/FY2024E EPS and 13.7x/11.5x its FY2023E/FY2024E EV/EBITDA. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 710.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Arvind	10.3	7.6	5.8	5.2	4.9	3.7	7.7	8.1	9.3
KPR Mill	23.5	21.0	17.8	16.8	13.7	11.5	31.0	27.7	28.0

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

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	L & T Mutual Fund Trustee Ltd	4.31
2	SBI Funds Management Ltd	3.00
3	DSP Investment Managers	1.32
4	Nippon Life India Asset Management Company	1.27
5	Vanguard Group Inc	0.90
6	Franklin Resources Inc	0.62
7	PGIM India AMC	0.53
8	Dimensional Fund Advisors	0.45
9	Aditya Birla Sun Life AMC	0.44
10	IDFC Mutual Fund	0.42

Source: Bloomberg

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 detoriating 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

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by BNP PARIBAS

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