Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KPR Mill Ltd

Mixed bag Q4; long-term growth prospects intact

Consumer Discretionary	Sharekhan code: KPRMILL

Reco/View: Buy	↔	CMP: Rs. 582	Price Target: Rs. 685	↑

↑ 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 Mar 08, 2023

Low Risk

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

Source: Morningstar

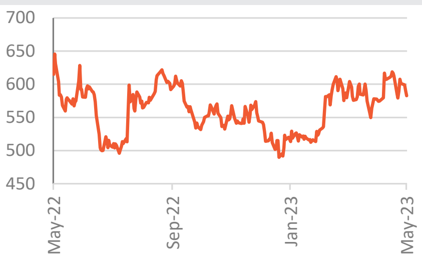
Company details

Market cap:	Rs. 19,894 cr
52-week high/low:	Rs. 666 / 480
NSE volume: (No of shares)	2.5 lakh
BSE code:	532889
NSE code:	KPRMILL
Free float: (No of shares)	8.6 cr

Shareholding (%)

Promoters	74.8
FII	3.4
DII	14.6
Others	7.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	9.7	5.0	-5.3
Relative to Sensex	-2.0	8.2	3.5	-16.2

Sharekhan Research, Bloomberg

Summary

- KPR Mill (KPR) posted a mixed bag of numbers, with revenue growing by 34% y-o-y, while higher cotton prices and a change in revenue mix affected both gross and EBITDA margins, which plunged by 744 bps and 675 bps y-o-y, to 33.4% and 16.4% respectively, leading to 5% y-o-y decline in PAT to Rs. 209.6 crore.
- Management expects export demand for garments to recover gradually in 6-8 months. This along with higher realisations and strong growth in sugar business will aid double-digit revenue growth. EBIDTA margins would improve with a correction in input prices.
- Modernisation and capacity expansion (in textile/power/ethanol business) to add Rs. 250 crore in revenues in the coming years and will provide more competitive advantage in the export markets.
- At 19x/15x its FY2024E/FY2025E EPS and 12x/10x its FY2024E/FY2025E EV/EBITDA, stock offers favourable risk-reward. We maintain a Buy on the stock with a revised price target (PT) of Rs. 685.

Q4FY2023 was mixed bag show for KPR Mill with revenues rising 34% y-o-y to Rs. 1,949.7 crore, while gross and EBITDA margins declined by 744 bps and 675 bps y-o-y to 33.4% and 16.4% (lower than our expectation of 21.5%), respectively and PAT declined by 5% y-o-y to Rs. 210 crore. Profitability was impacted due to higher input cost, unfavourable mix, higher employee expenses and increased other expenses (due to the higher power cost). Garment business revenues grew by 10% y-o-y to Rs. 656 crore. Sales volume decreased by 17% to 32 million pieces while realisation grew by 33% y-o-y to Rs. 205 per piece. Yarn & Fabric business revenues decreased by 10% to Rs. 516 crore due to 15% decline in realisations. Sugar business' revenue grew by 2.5x to Rs. 560.1 crore; EBIDTA margins stood at 25% in Q4. For FY2023, revenue grew by 28% y-o-y to Rs. 6185.9 crore, while EBITDA margin fell by 470 bps to 20.6% and PAT declined by 3.3% y-o-y to Rs. 814.1 crore. Management is confident of achieving double-digit revenue growth and EBIDTA margins to improve with correction in the cotton prices and a better mix.

Key positives

- Garment business' realisation grew by 33% y-o-y to Rs. 205 per piece led by increase in cotton prices and value addition in product profile.
- Sugar business' revenues grew by 2.5x to Rs. 560 crore led by higher sugar sales.
- Strong cash flow generation operations before working capital at Rs. 1,300 crore; remained stable y-o-y.

Key negatives

- Yarn and fabric revenues fell 10.4% y-o-y due to 15% decline in sales realisations.
- Inventory days have gone up by 14 days as the company is maintaining a higher inventory of garments and increased inventory of sugar on books.

Management Commentary

- KPR announced capacity expansion and modernisation across its multiple facilities and businesses including ethanol capacity expansion from existing 130 KLPD to 250 KLPD at a cost of Rs. 150 crore by FY2024, setting up a spinning mill for viscose yarn production at an outlay of Rs. 100 crore by FY2024, capacity expansion of its solar power plant by 12 MW at a cost of Rs. 50 crore by FY2023-end and debottlenecking its existing processing and printing facilities at a cost of Rs. 50 crore.
- Modernisation and capacity expansion would incrementally add ~Rs. 250 crore to revenues and also aid in improving the company's profitability in the coming years.
- Garment order book for next six months stands at Rs. 1,000 crore. The company expects situation in Europe to normalise in the coming months and expect garment demand to improve in the coming quarters.
- Decision on garment capacity expansion will be made based on the any improvement in the demand environment in European regions.
- The company is likely to clock ethanol sales of 10 crore litre in FY2024.
- Management guided for double-digit revenue growth. EBIDTA margins will improve in FY2024 and FY2025 on back of reduction in the cotton prices and improved mix. Garment business EBIDTA margins will be ~25%, sugar business around 25% and yarn & fabric business EBIDTA margins around 19-20%.

Revision in estimates – We have raised our earnings estimates for FY2024 and FY2025 to factor in higher sales growth than earlier expected in the garments business (led by higher realisation growth) and sugar business (to factor in higher ethanol revenues).

Our Call

View: Retain Buy with a revised PT of Rs. 685: KPR's management is optimistic about the long term growth prospects led by India's emerging strength in textile exports. The China + 1 factor, a likely sign of free trade agreement (FTA) with the UK and increasing opportunities in the US market provides scope of consistent growth for its high margin garment business. Further, integrated business model along with strong capacity expansion plan in the sugar & textile businesses would aid to faster recovery for KPR, once demand scenario improves. Higher free cash flow generation will aid to future capacity expansions, while higher ethanol blending could be an additional growth lever. At 19x/15x its FY2024E/FY2025E EPS and 12x/10x its FY2024E/FY2025E EV/EBITDA, the stock offers favourable risk reward. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 685.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	4,822	6,186	7,457	8,428
EBITDA Margin (%)	25.3	20.6	22.4	23.5
Adjusted PAT	842	814	1,048	1,314
% Y-o-Y growth	63.4	-3.3	28.7	25.4
Adjusted EPS (Rs.)	24.5	23.7	30.4	38.2
P/E (x)	23.8	24.4	19.0	15.1
P/B (x)	6.3	5.4	4.2	3.4
EV/EBIDTA (x)	17.0	16.5	12.3	9.9
RoNW (%)	30.4	23.6	25.0	24.7
RoCE (%)	31.0	24.3	26.7	28.4

Source: Company; Sharekhan estimates

Mixed Q4 - strong revenue growth, margins miss expectations

KPR's revenues grew by 34.5% y-o-y to Rs. 1,950 crore (ahead of our as well as average street expectation Rs. 1,544 crore and Rs. 1,570 crore, respectively). Textile business grew by 12.2% y-o-y while sugar business revenues grew by 2.5x y-o-y during the quarter. Garments production is up by 7.4% y-o-y to 133.23 million garments in FY2023 as compared to 124.11 million garments in FY2022. Gross margin declined by 744 bps y-o-y to 33.4%, while EBITDA margin declined by 675 bps y-o-y to 16.4% impacted by decline in gross margins and higher employee cost and other expenses. EBITDA margin was significantly lower than our expectation and average street expectation of 21.5 and 20.9%, respectively. EBIDTA declined by 4.7% y-o-y to Rs. 320 crore. In line with decline in EBITDA, PAT declined by 4.7% y-o-y to Rs. 210 crore, which is largely in line with ours and the average street expectation of Rs. 213-219 crore. The board has recommended a final dividend of Rs. 2 per share for FY2023.

Muted quarter for textile business

Textile business' revenue grew by 12.2% y-o-y to Rs. 1,355 crore aided by higher realisation growth in garment business. PBIT margin of the textile business contracted by 783 bps y-o-y to 13.1%. Fabric and yarn business revenue declined by 10.0% y-o-y to Rs.516 crore in Q4FY2023 impacted by 15% y-o-y decline in sales realisations to Rs. 300 per tonne while volumes grew by 6.5%yoy to 17,200 metric tonnes. EBIDTA margins of yarn & fabric business dropped to 10% in Q4. Garment business reported revenue of Rs. 656 crore in Q4FY2023, registering 10.4% y-o-y growth aided by 33% y-o-y growth in the realisation to Rs. 205 per piece. Sales volume of garment business was down by 16%yoy to 32 million pieces.

Garment and fabric and yarn volumes and realisation

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Garment					
Production (million pieces)	31.9	32.2	-1.0	31.9	0.0
Sales (million pieces)	29.4	27.6	6.4	25.3	16.1
Realisation (Rs./piece)	203.2	162.3	25.2	207.1	-1.9
Fabric & yarn					
Sales (MT)	16,980	17,731	-4.2	14,628	16.1
Realisation (Rs./tonne)	293.9	314.7	-6.6	366.4	-19.8

Source: Company, Sharekhan Research

Strong performance by sugar business

Sugar business revenue grew by 2.5x y-o-y to Rs.560.1 crore in Q4FY2023. PBIT margin were down by 358 bps to 17.0% due to change in revenue mix.

Key conference call highlights

Garment business

- Sales volume to grow by high single digit; capacity utilisation to reach almost 100% by end of FY24 (capacity is 147 million garments).
- Garment business' realisation grew by 30% to Rs. 198 per piece in FY23; 10-15% of grow was led by increase in cotton prices and rest by value addition in product.
- Realisation expected to grow by 8-10% in the coming years.
- The company has order book of Rs. 1,000 crore for next six months.
- Shipment of order is happening little slow as per the demand generated by top retailers in Europe.
- Decision on capacity expansion will be taken in next six looking at demand environment in export markets.
- Optimistic about medium-term outlook as China + 1 factor and expected FTA with UK will create more opportunities.
- Garment business' EBIDTA margins to be at around 25% in the near term.

Yarn & Fabric

- Volumes fell due to lower demand in the domestic market. Yarn mills are operating at 10-15% lower capacity than the historical levels.
- Realisation is down by 15% in Q4 and 3% in FY2023 due to correction in the cotton prices.
- EBITDA margins of yarn & fabric stood at 10% in Q4 and 17% in FY23.
- Management expects margins to 19-20% in FY2024 with correction in the cotton prices.
- Increase in garment export volumes will help the yarn & fabric volumes to improve in the coming quarters.

Sugar & Ethanol

- Company is likely to clock ethanol sales of 10 crore litres in FY2024.
- Sugar biz margins will remain at around 25% and will improve with scale up in ethanol revenues.

Modernisation/capacity expansion

- The company planning to do capital expenditure of Rs. 500 crore+ for modernisation and capacity expansion.
- Capacity expansion will largely be done through internal accruals.
- Planned expansion will help in yielding additional revenues of Rs. 250 crore.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y (%)	Q3FY23	q-o-q (%)
Total Revenue	**1,949.7**	**1,449.9**	**34.5**	**1,431.4**	**36.2**
Raw material cost	1,298.0	857.4	51.4	866.8	49.7
Employee cost	142.9	111.0	28.7	140.8	1.5
Other expenses	188.5	145.4	29.7	155.3	21.4
Total operating cost	1,629.4	1,113.8	46.3	1,162.8	40.1
EBITDA	**320.3**	**336.1**	**-4.7**	**268.7**	**19.2**
Other income	8.4	11.4	-26.8	13.3	-36.8
Interest & other financial cost	21.3	5.7	-	19.7	8.0
Depreciation	46.1	36.4	26.8	29.4	57.0
Profit Before Tax	**261.3**	**305.5**	**-14.5**	**232.8**	**12.2**
Tax	51.7	85.7	-39.7	58.2	-11.2
Adjusted PAT	**209.6**	**219.8**	**-4.7**	**174.6**	**20.0**
Adjusted EPS (Rs.)	6.1	6.4	-4.0	5.1	20.0
			bps		**bps**
GPM (%)	33.4	40.9	-744	39.4	-602
EBITDA Margin (%)	16.4	23.2	-675	18.8	-234
NPM (%)	10.7	15.2	-441	12.2	-145
Tax rate (%)	19.8	28.1	-826	25.0	-522

Source: Company, Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
Revenues					
Textile	1,355.1	1,207.4	12.2	1,152.4	17.6
% contribution to total revenue	*69.5*	*83.3*		*80.5*	
.....Garment (a)	656.0	594.0	10.4	597.0	9.9
....Fabric & yarn (b)	516.0	576.0	-10.4	499.0	3.4
Sugar	560.1	222.6	-	252.7	-
% contribution to total revenue	*28.7*	*15.4*		*17.7*	
Others	34.5	19.9	73.1	26.4	30.5
Total revenues	**1,949.7**	**1,449.9**	**34.5**	**1,431.4**	**36.2**
PBIT					
Textile	178.0	253.2	-29.7	152.9	16.4
Sugar	95.1	45.8	-	85.1	11.8
PBIT margin (%)			**bps**		**bps**
Textile	13.1	21.0	-783	13.3	-14
Sugar	17.0	20.6	-358	33.7	-

Source: Company, Sharekhan Research

Outlook and Valuation

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

Export demand would stay uncertain as inflation, rising interest rates and geopolitical disturbances reduce demand visibility in global markets. The value segment in the domestic market witnessed a drop in demand. However, the same is expected to see some pick up in the quarters ahead. 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. Textile companies would benefit and report higher profitability with the government extended the RoSCTL scheme until 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 in the quarters ahead.

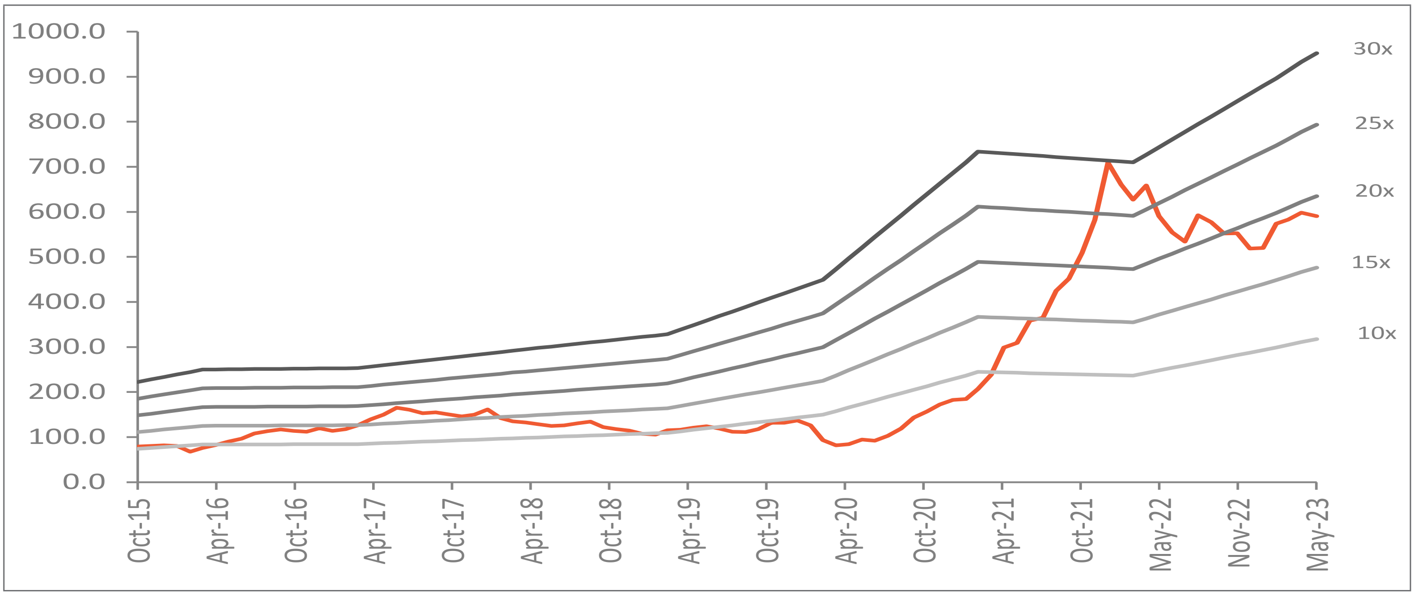
■ Company Outlook – Near-term outlook weak; Long-term growth prospects intact

KPR Mill (KPR) posted a mixed bag performance in FY2023 with revenues growing by 28%yoy to Rs. 6185.9 crore while EBIDTA margins were down by 470 bps due to higher cotton prices and change in mix. We expect the company to reap benefits of expanded garment capacity with recovery in export demand (likely in FY2024). The decline in cotton/yarn prices will provide some relief on margins. We expect the company's revenue and PAT to clock a CAGR of 17% and 27%, respectively, over FY2023-2025E.

■ Valuation – Retain Buy with a revised PT of Rs. 685

KPR's management is optimistic about the long term growth prospects led by India's emerging strength in textile exports. The China + 1 factor, a likely sign of free trade agreement (FTA) with the UK and increasing opportunities in the US market provides scope of consistent growth for its high margin garment business. Further, integrated business model along with strong capacity expansion plan in the sugar & textile businesses would aid to faster recovery for KPR, once demand scenario improves. Higher free cash flow generation will aid to future capacity expansions, while higher ethanol blending could be an additional growth lever. At 19x/15x its FY2024E/FY2025E EPS and 12x/10x its FY2024E/FY2025E EV/EBITDA, the stock offers favourable risk reward. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs.685.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Arvind	8.5	6.9	5.1	5.1	4.1	3.3	8.3	9.2	10.9
KPR Mill	24.4	19.0	15.1	16.5	12.3	9.9	24.3	26.7	28.4

Source: Company; Sharekhan Research

About the company

KPR Mills is one of the largest vertically integrated textile manufacturing companies in India present across the value chain from 'fibre-to-fashion'. KPR Mills has 12 technology-oriented manufacturing units with a capacity to produce 1,04,000 MT of yarn per annum; 40,000 MT of fabric per annum; and 157 million readymade knitted apparel per annum and a 25,000 MT fabric processing capacity. KPR Mills 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 Mills is one of India's largest vertically integrated textile players, which has a steady financial record with a 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 key raw-material prices such as cotton can affect the company's profitability.

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	4.3
2	L & T Mutual Fund Trustee Ltd	2.1
3	DSP Investment Managers	1.7
4	DSP Value Fund	1.6
5	Nippon Life India Asset Management Company	1.3
6	Vanguard Group Inc	0.9
7	Axis AMC	0.8
8	Franklin Resources Inc	0.6
9	IDFC Mutual Fund	0.5
10	Aditya Birla Sun Life AMC	0.4

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

Sharekhan

by BNP PARIBAS

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