Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KPR Mill Ltd

Capacity expansion to drive growth

Textiles	Sharekhan code: KPRMILL
Reco/View: Buy ↔	CMP: Rs. 638 / Price Target: Rs. 800 ↑

↑ 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	Neutral	↑	Positive
RQ	Positive	↔	Positive
RV	Positive	↔	Positive

ESG Disclosure Score NEW

ESG RISK RATING 16.86

Updated May 08, 2023

Low Risk

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

Source: Morningstar

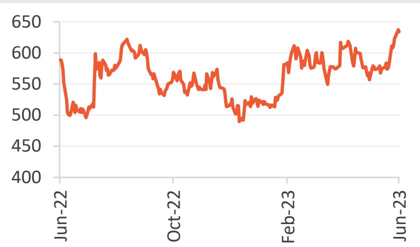
Company details

Market cap:	Rs. 21,791 cr
52-week high/low:	Rs. 649/480
NSE volume: (No of shares)	2.4 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	10.1	6.3	22.5	7.7
Relative to Sensex	8.8	-3.4	21.6	-11.7

Sharekhan Research, Bloomberg

Summary

- We re-iterate a Buy on KPR Mill (KPR) and revise upwards our target price to Rs. 800. The stock is trading at 21x and 17x its FY24E and FY25E earnings. With double-digit earnings growth visibility and a favourable risk-reward, KPR is the best bet in the textile space.
- 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 (of 17% over FY23-25E). 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 a greater competitive advantage in export markets.
- Cumulative FCF to stand at Rs. 1,450 crore over the next two years; RoCE will improve to 28% in FY25E from 24.3% in FY23. KPR will deleverage its balance sheet in next two to three years.

KPR Mill's strength lies in its integrated business model helping to achieve consistent EBITDA margin improvement, which is much better than some export-focused peers. The company has recently announced capex of Rs. 500 crore (~Rs. 250 crore in modernisation of plants). Modernisation and capacity expansion would incrementally add ~Rs. 250 crore to revenues and also help boost profitability in the coming years. Garment order book for next six months stands at Rs. 1,000 crore. The company expects the situation in Europe to normalise in the coming months and expects garment demand to improve in the coming quarters. Management has 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. Revenues and PAT are expected to grow at CAGR of 17% and 27% over FY23-25E. Cash flows to consistently improve, which will help in reducing debt on books ahead.

- **Investment in modernisation and capacity expansion to drive revenue growth and margins:** KPR announced capacity expansion and modernisation across 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 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. Further, it will also help save on power cost and efficiencies would add to margins ahead.
- **Garment business to deliver strong performance in the coming years:** Garment business order book for the next six months stands at Rs. 1,000 crore. The company expects situation in Europe to normalise in the coming months and expects garment demand to improve in the coming quarters. Decision on garment capacity expansion will be made based on any improvement in the demand environment in European regions. KPR is optimistic about medium-term outlook as China + 1 factor and expected FTA with UK will create more opportunities. Garment business EBIDTA margins to be around 25% in the coming years.
- **Strong improvement in profitability to drive cashflows:** EBIDTA margins will improve in FY2024 and FY2025 on back of reduction in the cotton prices and an improved mix. Garment business EBIDTA margins will be ~25%, sugar business ~25% and yarn & fabric business EBIDTA margins ~19-20%. With improvement in the profitability and stable working capital, the cash flows of the company are expected to consistently improve in the coming years. KPR is likely to achieve cumulative FCF of Rs, 1,450 crore over the next two years. RoCE is expected to consistently improve with RoCE likely to increase to 28.4% in FY25E from 24.3% in FY23.

Our Call

View - Retain Buy with a revised PT of Rs. 800: The management is optimistic about the long-term growth prospects led by India's emerging strength in textile exports. The China + 1 factor, a likely signing 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 and textile businesses would aid a faster recovery, once demand improves. Higher free cash flow generation will aid future capacity expansions, while higher ethanol blending could be an additional growth lever. At 20.9x/16.6x its FY2024E/FY2025E EPS and 13.5x/10.9x its FY2024E/FY2025E EV/EBITDA, the stock offers favourable risk reward. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 800.

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.

Valuations (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)	26.1	26.8	20.9	16.6
P/B (x)	6.9	5.9	4.7	3.7
EV/EBIDTA (x)	18.6	18.0	13.5	10.9
RoNW (%)	30.4	23.6	25.0	24.7
RoCE (%)	31.0	24.3	26.7	28.4

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - Near-term prospects improving; upgrade to positive

The Indian textiles sector is strategically consolidating its position in key export markets such as home textiles and readymade garments, capitalising on opportunities arising from the US-China trade war. India has witnessed a notable increase in its share of exports in these segments to the US. After challenging and subdued FY2023 affected by muted demand, higher retailer inventory, supply constraints, and rising cotton prices, textile companies believe the worst is over and anticipate a demand revival by Q3FY2024 with reducing inventories on global retailers' shelves. Further, factors such as the "China + 1" strategy, geopolitical uncertainties in competitor countries, and potential free-trade agreements (FTAs) with the UK and Europe offer promising prospects for consistent earnings growth and improved cash flows. With material capex already completed, textile players are poised to leverage their expanded capacities. Moreover, falling cotton and crude oil prices are expected to bolster margins and enhance India's competitiveness in export markets. The Indian textile sector is well positioned to overcome challenges and looks forward to ride the next upcycle.

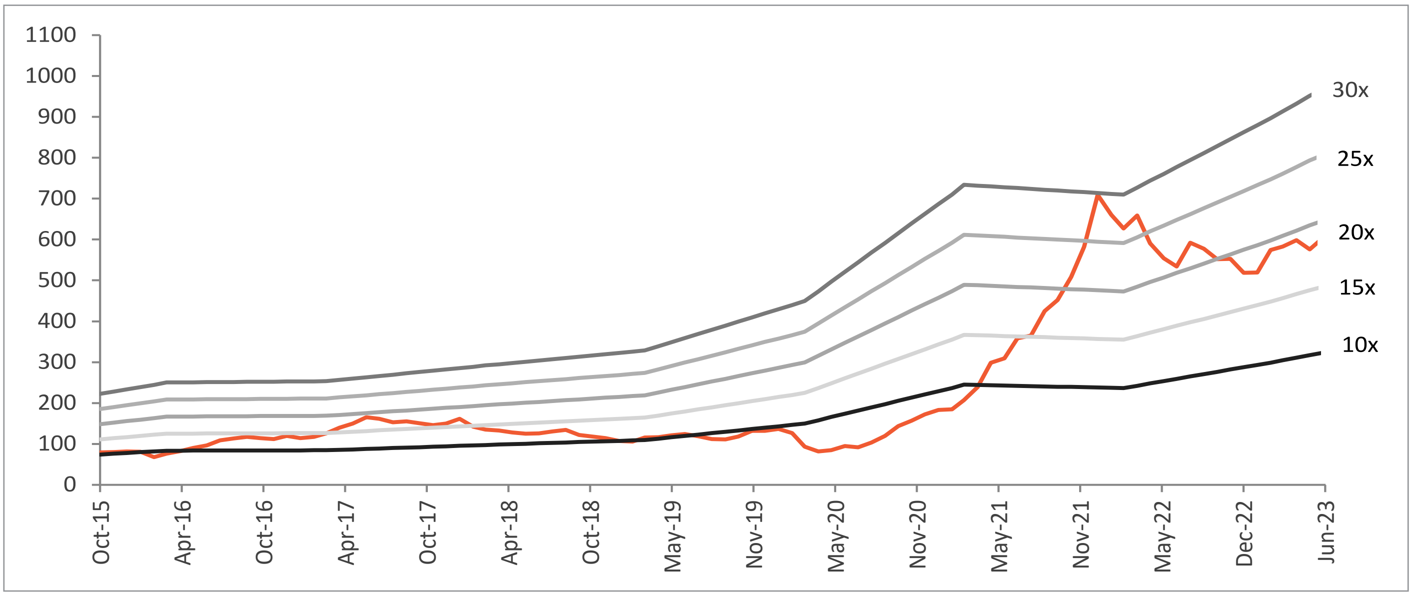
■ Company outlook - Near-term outlook weak; Long-term growth prospects intact

KPR Mill (KPR) posted mixed bag numbers for 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. 800

The management is optimistic about the long-term growth prospects led by India's emerging strength in textile exports. The China + 1 factor, a likely signing 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 and textile businesses would aid a faster recovery, once demand improves. Higher free cash flow generation will aid future capacity expansions, while higher ethanol blending could be an additional growth lever. At 20.9x/16.6x its FY2024E/FY2025E EPS and 13.5x/10.9x its FY2024E/FY2025E EV/EBITDA, the stock offers favourable risk reward. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 800.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Arvind	9.7	8.4	6.1	5.8	5.1	4.0	8.1	9.0	11.1
KPR Mill	26.8	20.9	16.6	18.0	13.5	10.9	24.3	26.7	28.4

Source: Company, Sharekhan estimates

About 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	4.34
2	L & T Mutual Fund Trustee Ltd	2.08
3	DSP Investment Managers	1.68
4	DSP Value Fund	1.57
5	Nippon Life India Asset Management Company	1.33
6	Vanguard Group Inc	0.91
7	Axis AMC	0.78
8	Franklin Resources Inc	0.60
9	IDFC Mutual Fund	0.47
10	Aditya Birla Sun Life AMC	0.44

Source: Bloomberg (Old data)

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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