Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

KPR Mill Ltd

Medium to long term growth prospects intact

Textiles	Sharekhan code: KPRMILL
Reco/View: Buy ↔	CMP: **Rs. 850** / Price Target: **Rs. 962** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We a retain Buy on KPR Mill with a revised PT of Rs. 962. Stock has corrected 8% from its recent high and trades at 23x/19x its FY25E/26E earnings.
- Garment volumes stood at ~70 million pieces in H1. With capacity utilisation at over 90%, the company is confident of ending FY24 with 150 million pieces in volumes. Business to grow at 12% CAGR over the next three years.
- Cotton prices have fallen to Rs. 55,000 per candy in India and are close to international prices. This will provide some support to demand for yarn & fabric products in the coming quarters.
- KPR's EBIDTA margins will be better in H2 compared to H1 as the yarn & fabric business will benefit from lower input prices and some uptick in volumes, helping business margins to improve to double digits.

KPR Mill's (KPR's) stock price has corrected by ~8% from recent high providing a good opportunity to enter the quality textile play with a sturdy balance sheet and strong growth prospects with efficient management. The company is likely to see healthy improvement in the operating performance in H2FY2024 driven by 1) Correction in Indian cotton prices to Rs. 55,000 per candy 2) Garment volumes to be at 80 million pieces (150 million pieces for FY2024) with capacity utilization of over 90% and 3) Strong performance of sugar business. Further, prudent capex plans to grab more opportunities in international markets, China + 1 strategy with India acting as a large supply base in South East Asia and customer additions will drive consistent revenue and PAT CAGR of 17% and 23% over FY2023-2026E. With profitability expected to improve, return profile will remain strong as RoE and RoCE are expected to be at 23% and 28% by FY2026E.

- **Garment business to clock 10-12% CAGR in three years:** KPR is targeting garment sales volumes of ~150 million pieces in FY2024E. This will lead to capacity utilisation of 93%. Despite weak demand in international markets, the company has a stable order book due to incremental orders from new clients and capacity expansion. KPR currently has 55 clients with 35-40% of revenues coming from the top 5 clients. Walmart and US GAP etc are some of KPR's top clients providing the company with a long-term scale opportunity. Hence, KPR might consider strategic capacity expansion, which will help the garment business post a 10-12% CAGR over the next three years.
- **Softening cotton prices – a positive for yarn and fabric business:** Indian cotton prices have corrected sharply and are trading at Rs. 55,000 per candy from Rs. 62,000-63,000 per candy in April-23. Current prices are largely at par with international prices. Stability in the cotton prices will help improve the demand for yarn/fabric products and an overall recovery in demand in the coming quarters. Volumes are likely to pick up from Q4FY2024 and would see a good pick-up from Q1FY2025. Realizations are expected to remain lower in FY2024 (down by 30% in H1FY24). EBIDTA margins of yarn & fabric business stood at 7-8% in H1FY2024 which is likely to improve to mid-teens by end of FY2024.
- **EBIDTA margins to be better in H2FY2024; will consistently improve in the coming years:** Expected recovery in EBIDTA margins of yarn & fabric business, decline in the input prices and improved capacity utilization in the garment business will help EBIDTA margins to better in H2FY2024 compared with H1FY2024. With garment margins expected to be at 22-25%, sugar EBIDTA margins at ~25% and strong recovery in the profitability of yarn & fabric business, the overall EBIDTA is expected to consistently improve in the coming years. We expect EBIDTA margins to inch closer to 23% by FY2026.

Our Call

View – Retain Buy with revised PT of Rs. 962: In the medium-to-long term, the China + 1 factor, a likely signing of free trade agreement (FTA) with the UK and rising opportunities in the US provide scope for consistent growth for KPR's high-margin garment business (~40% of total revenues). Further, the integrated business model along with strong capacity expansion plan in the sugar & textile businesses would aid a faster recovery for KPR, once demand improves. Higher free cash flow generation will aid future capacity expansions, while higher ethanol blending could be an additional growth lever. The stock trades at 29x/23x/19x its FY2024E/25E/26E EPS and 19x/15x/13x its FY2024E/25E/26E EV/EBITDA. We maintain a Buy on the stock with a revised price target (PT) of Rs. 962.

Key Risks

A 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 Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	6,186	7,150	8,341	9,825
EBITDA Margin (%)	20.6	21.8	22.5	22.7
Adjusted PAT	814	998	1,244	1,515
% Y-o-Y growth	-3.3	22.6	24.6	21.8
Adjusted EPS (Rs.)	23.7	29.0	36.1	44.0
P/E (x)	35.7	29.1	23.4	19.2
P/B (x)	7.8	6.3	5.0	4.0
EV/EBIDTA (x)	23.7	19.1	15.4	12.6
RoNW (%)	23.6	23.9	23.8	23.2
RoCE (%)	24.3	25.6	27.3	28.1

Source: Company; Sharekhan estimates

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 Aug 08, 2023

Low Risk

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

Source: Morningstar

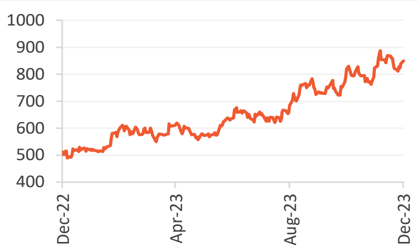
Company details

Market cap:	Rs. 29,052 cr
52-week high/low:	Rs. 927 / 480
NSE volume: (No of shares)	3.8 lakh
BSE code:	532889
NSE code:	KPRMILL
Free float: (No of shares)	9.0 cr

Shareholding (%)

Promoters	73.8
FII	4.5
DII	15.1
Others	6.7

Price chart



Price performance

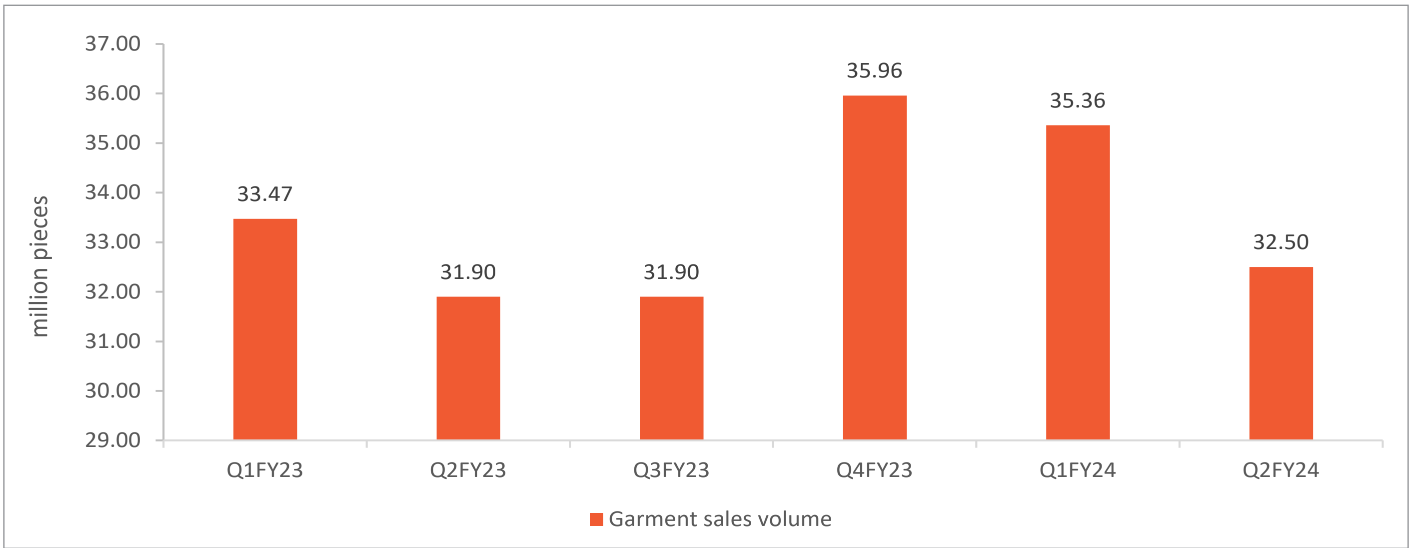
(%)	1m	3m	6m	12m
Absolute	3.2	15.6	33.3	66.0
Relative to Sensex	-5.2	10.1	20.4	49.7

Sharekhan Research, Bloomberg

Eyeing double-digit growth in garment business in the next three years

The garments business reported ~70 million pieces sales volume in H1FY2024 and is targeting 80 million pieces volume for H2FY2024 taking the total close to 150 million pieces in FY2024E. Despite weak demand in international markets, the company has a stable order book driven by incremental orders from new clients and capacity expansion. Capacity tilization is expected to be at ~90%. KPR currently has 55 clients and 35-40% of revenues coming from the top 5 clients. Walmart and US GAP, etc are some of KPR's top clients providing long term scale opportunity to the company. Hence, KPR might consider strategic capacity expansion, which will help the garment business to post 10-12% CAGR over the next three years.

Quarterly garment sales volume

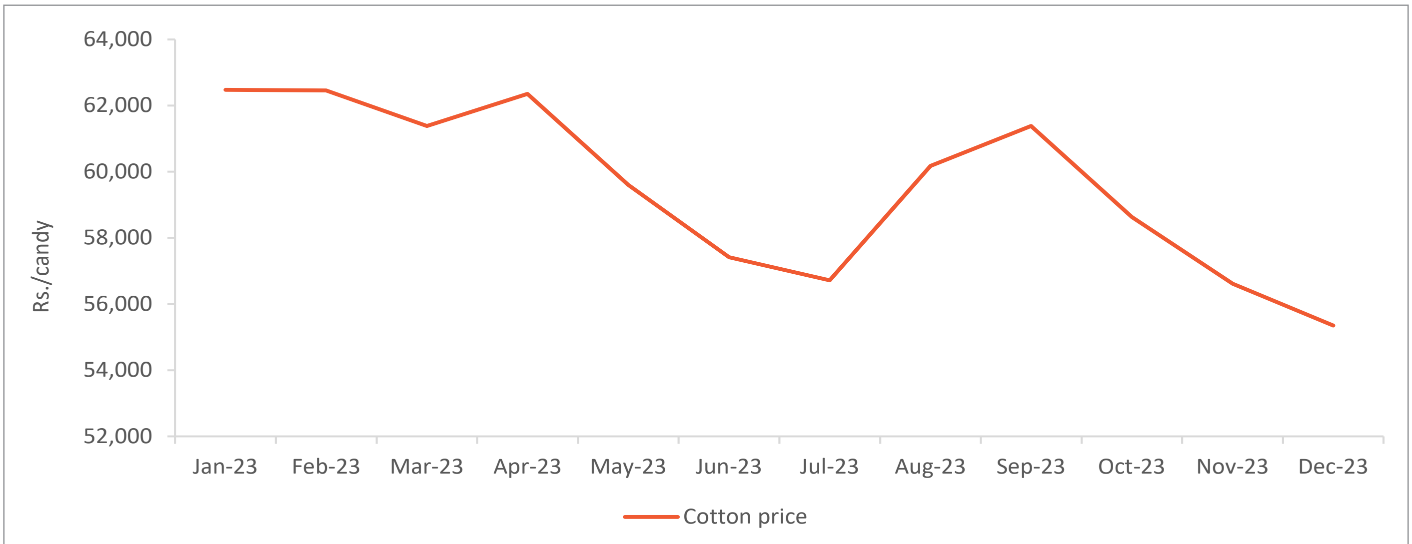


Source: Company, Sharekhan Research

Yarn and fabric business to benefit from softening cotton prices

Indian cotton prices have corrected sharply from Rs. 62,000-63,000 per candy in April-23 to Rs. 55,000 per candy currently. Recovery in demand in the coming quarters coupled with stability in the cotton prices will help improve the demand for yarn/fabric products. Volumes are likely to pick up from Q4FY2024 and would see good pick-up from Q1FY2025. Realisations are expected to remain lower in FY2024 (down by 30% in H1FY2024). EBIDTA margins of yarn & fabric business stood at 7-8% in H1FY2024 which is likely to improve to mid-teens by end of FY2024.

Correction in cotton prices over the past few months

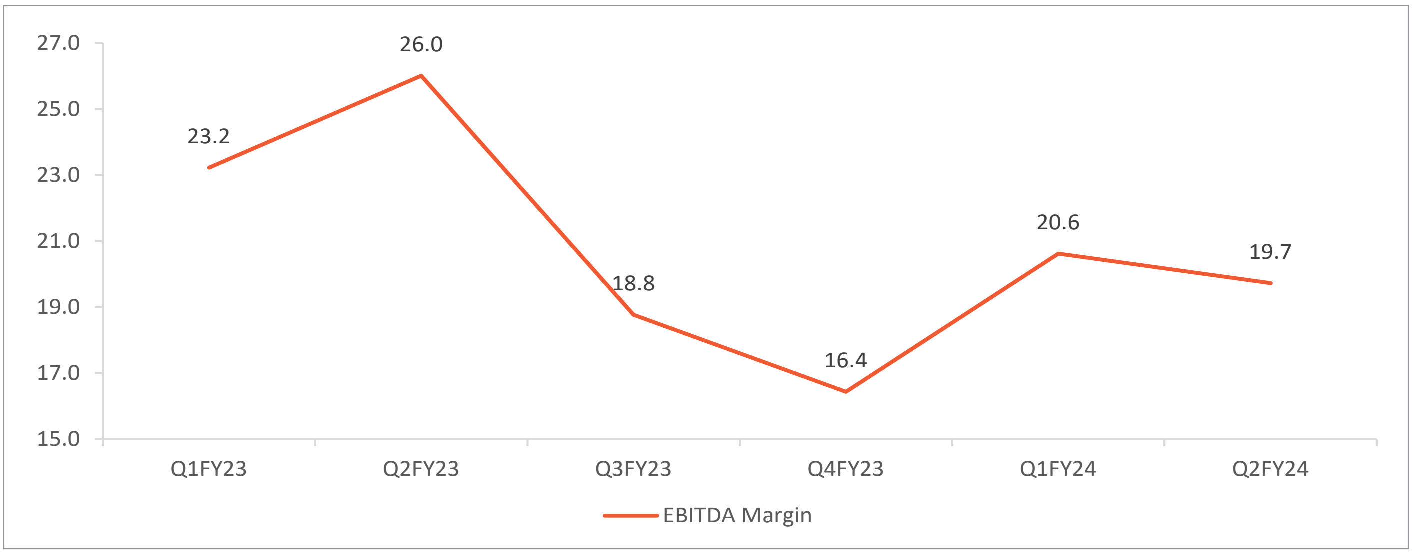


Source: Company, Sharekhan Research

EBIDTA margin expected to improve going ahead

H2FY2024 EBITDA margins are expected to be better compared to H1FY2024 aided by expected recovery in the EBIDTA margins of the yarn & fabric business, decline in the input prices and improved capacity utilization in the garment business. In the near-medium term, overall EBITDA margin is expected to consistently improve with garment margins expected to be ~22-25%, sugar EBIDTA margins at ~25% and strong recovery in the profitability of yarn & fabric business. We expect EBIDTA margins to inch closer to 23% by FY2026.

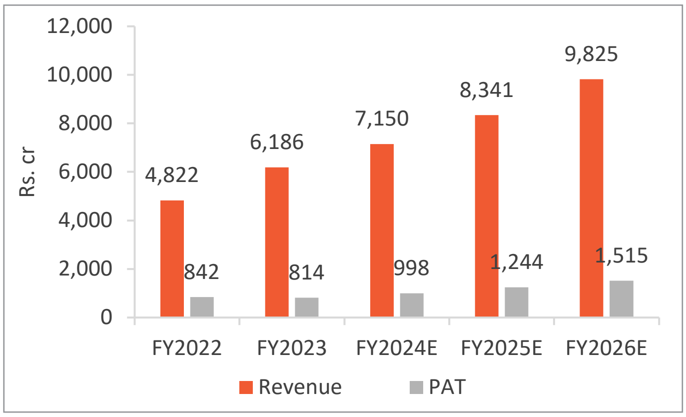
Quarterly movement in EBITDA margin



Source: Company, Sharekhan Research

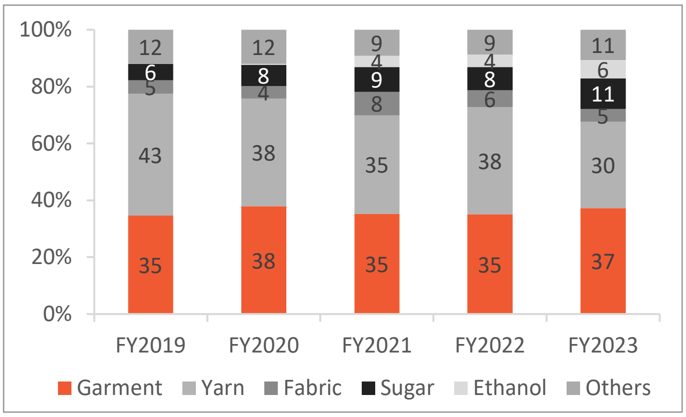
Financials in charts

Steady rise in revenue and PAT



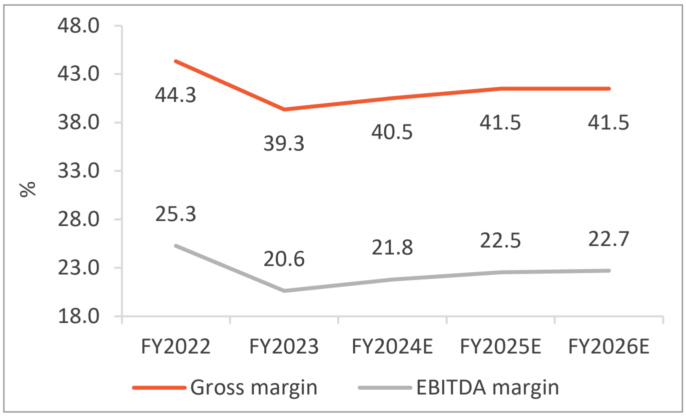
Source: Company, Sharekhan Research

Diversified product mix



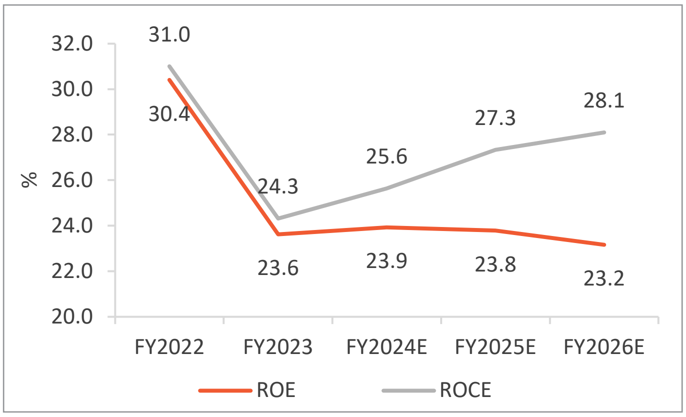
Source: Company, Sharekhan Research

Margins to improve from FY23 level



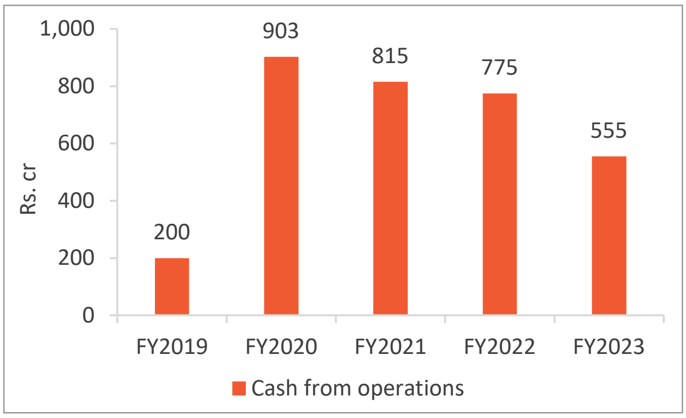
Source: Company, Sharekhan Research

Trend in return ratios



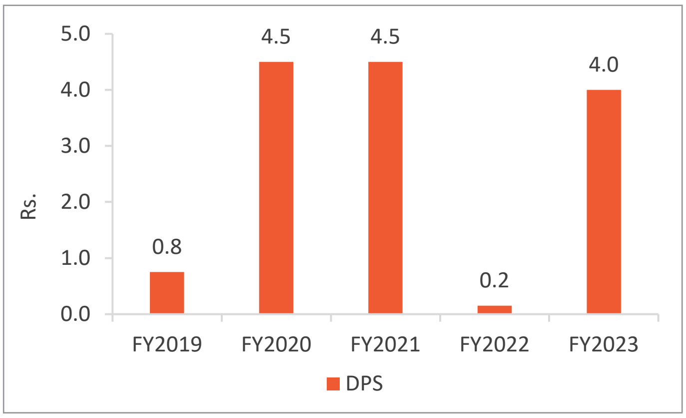
Source: Company, Sharekhan Research

Trend in operating cash flow generation



Source: Company, Sharekhan Research

Historical trend in dividend per share



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Gradual recovery on cards; long-term growth prospects intact

In the past few quarters, inflation, rising interest rates and geopolitical disturbances dented exports of textile companies. However, with an improvement in export demand, textile companies are likely to see a gradual recovery. In the long term, growth prospects of the Indian textile industry are strong, aided by augmentation of capacity with value-added products, the China + 1 factor, the government entering into a trade agreement with various countries, incremental benefits from the PLI scheme, and market share gains in export markets. Textile companies would benefit and report higher profitability with the government extending the RoSCTL scheme until March 2024 and keeping rates unchanged. Margins to improve in the quarters ahead due to lower raw-material prices and supply cost.

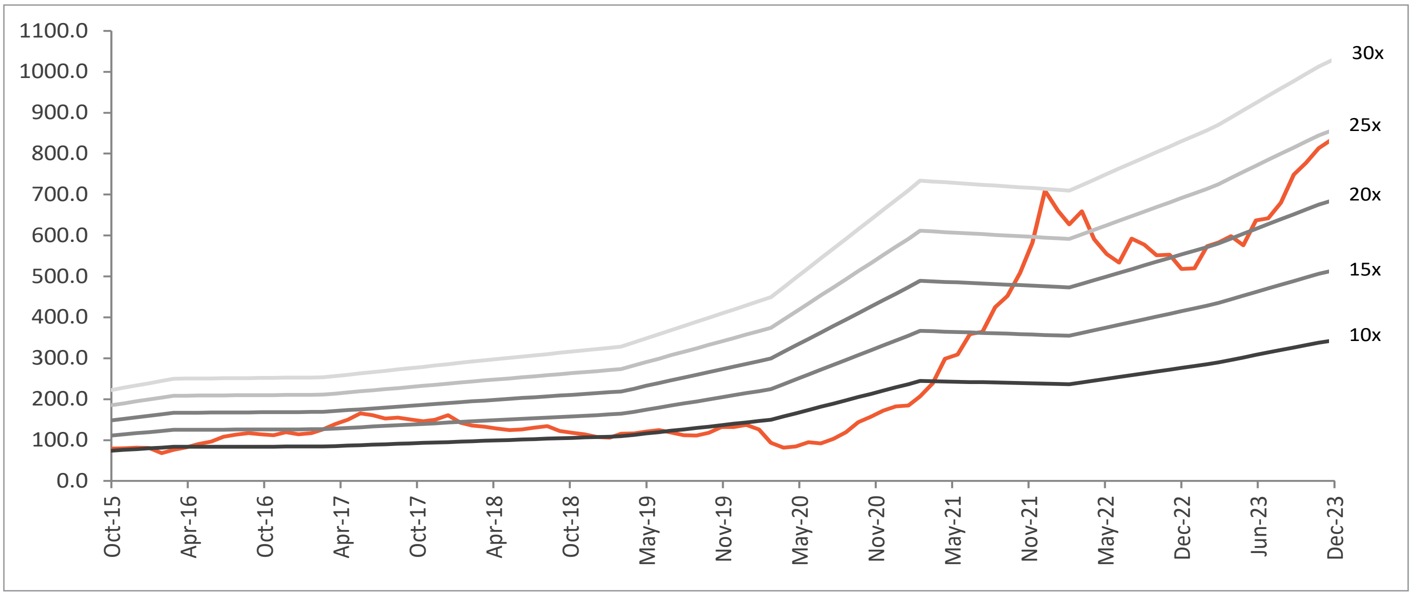
■ Company outlook - Near-term outlook weak; Long-term prospects intact

H1FY2024 numbers were mixed, with revenues growing by 11.3% y-o-y to Rs. 3,122 crore, while 425 bps y-o-y EBITDA margin contraction to 20.2% led to a 5.9% y-o-y decline in PAT to Rs. 405 crore. We expect the company to reap benefits of expanded garment capacity with a recovery in export demand (likely in H2FY2024). The decline in cotton/yarn prices will provide some relief to margins. We expect revenue and PAT to clock a CAGR of 17% and 23%, respectively, over FY2023-2026E.

■ Valuation - Retain Buy with a revised PT of Rs. 962

In the medium-to-long term, the China + 1 factor, a likely signing of free trade agreement (FTA) with the UK and rising opportunities in the US provide scope for consistent growth for KPR's high-margin garment business (~40% of total revenues). Further, the integrated business model along with strong capacity expansion plan in the sugar & textile businesses would aid a faster recovery for KPR, once demand improves. Higher free cash flow generation will aid future capacity expansions, while higher ethanol blending could be an additional growth lever. The stock trades at 29x/23x/19x its FY2024E/25E/26E EPS and 19x/15x/13x its FY2024E/25E/26E EV/EBITDA. We maintain a Buy on the stock with a revised price target (PT) of Rs. 962.

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	18.4	16.5	12.4	9.5	8.3	6.6	8.1	8.8	10.6
KPR Mill	35.7	29.1	23.4	23.7	19.1	15.4	24.3	25.6	27.3

Source: Company; Sharekhan Research

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; 25,000 MT of fabric per annum; and 157 million readymade knitted apparel per annum and a 15,000 MT fabric printing 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

K P Ramasamy	Chairman
KPD Sigamani	Managing Director
P L Murugappan	Chief Financial Officer
P Nataraj	Executive Director, Chief Executive Officer & Managing Director
P Kandaswamy	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	4.69
2	L&T Mutual Fund Trustee Ltd	2.05
3	DSP Value Fund	1.57
4	Nippon Life India Asset Management	1.48
5	FIL Ltd	1.04
6	Vanguard Group Inc	0.96
7	Axis Asset Management Co Ltd	0.92
8	Franklin Resources Inc	0.78
9	DSP Investment Managers Pvt Ltd	0.64
10	Aditya Birla Sun Life AMC Ltd	0.54

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200 / 022-69920600