

18th February 2022

CMP – ₹663.25/-

View – **ACCUMULATE** on Dips

Q3FY22 Performance

Revenue grew 36% Y-o-Y (4% Q-o-Q) to ₹12,605mn. Textile segment (82% of revenue) grew 30% Y-o-Y while sugar division (15% of revenues) grew 81% Y-o-Y. On a Q-o-Q basis, gross margins declined 338 bps to 43.8% as KPR carried low cost cotton inventory in the previous quarter. Yarn spreads continue to remain sturdy as they have moved in tandem with a sharp rise in cotton prices.

EBITDA grew 21% Y-o-Y to ₹3052mn in Q3FY22 however EBITDA margins declined 292 bps Y-o-Y and 485 bps Q-o-Q to 24.2% owing to higher other expenses.

PAT grew 35% Y-o-Y however dropped 12.5% Q-o-Q to ₹2118mn while PAT margins stood at 16.8% in Q3FY22.

In Q3FY22, company commissioned its garmenting facility (42 million pieces) and has robust order book of ₹10,000mn (vs. ₹750mn in last quarter).

KPR expects the ramp up of the new capacity by Sep`22 while the full impact on revenue would be visible in FY24E. On the utilization of expanded capacity, the management indicated that it would first increase volumes supplied to existing customers and later on supply to its newer customers.

Important Statics

| | |
|------------------------|--------------|
| Mcap (₹ mn) | ₹232,578 |
| 52 Week H/L (₹) | 771.8/177.02 |
| NSE Code | KPR MILL |
| BSE Code | 532889 |

| Shareholding pattern (%) | Dec'21 |
|---------------------------------|---------------|
| Promoter Holding | 74.72 |
| FII | 3.58 |
| DII | 12.99 |
| Public | 8.71 |

Key Con-Call Highlights

- Revenue for the quarter grew 36% Y-o-Y (4% Q-o-Q) to ₹12604 mn. Robust yarn realizations have aided the topline growth. While volume for yarn and fabric division de-grew 4.8% Y-o-Y to 21,500 MT, realizations inched 42% Y-o-Y (14% Q-o-Q) to ₹310/kg. Subsequently, revenue from yarn and fabric division grew 35% Y-o-Y to ₹5580mn.
- Company expects to maintain EBITDA margins at the current range of 20-22% in the yarn segment and on consolidated level is expected to stand at 22-23%.
- On the cotton procurement policy, the management indicated that considering the current scenario of elevated cotton prices the company has decided to hold only 2-3 months of cotton inventory and would assess the policy depending on the cotton demand supply situation, going ahead
- The garmenting division continued to register record high EBITDA margins of ~29% on the back of healthy realizations and sustained demand.
- The company has a current sugar capacity 90,000 MTPA, while the ethanol capacity is 4 crore litres. Post expansion the sugar capacity is expected to increase to 165,000 MTPA and the ethanol capacity is expected to increase to 10 crore litres and is expected to start from FY22 end.
- Company is gradually expanding the reach of its retail brand 'Faaso'. Currently, the brand is being distributed to ~3000 outlets in India. Initially, the company is aiming to enhance the distribution reach to ~ 10,000 outlets.
- Garmenting division continued to operate at optimum utilization levels on the back of a healthy order book and sustained demand.
- New sugar and ethanol plant is expected to be commissioned in Q4FY22. The company is targeting a revenue mix of 50:50 from ethanol and sugar division. With the new expanded capacity, the management is aiming at overall sugar revenues crossing ₹12,000-13,000mn in the next 2-3 years (from current ₹4,960mn in FY21) with EBITDA margins of +~20%.

Financials

| | (₹ mn) | |
|--------------------|-------------|-------------|
| Particulars | FY21 | FY20 |
| Revenues | 35300 | 33526 |
| EBITDA | 8300 | 6219 |
| EBITDA Margin (%) | 23.5% | 18.5% |
| Net Profit | 3770 | 5150 |
| EPS (₹) | 14.98 | 10.95 |
| RoE (%) | 24.44 | 20.61 |
| RoCE (%) | 29.33 | 23.37 |
| P/E (x) | 44.09 | 60.31 |
| EV/EBITDA (x) | 26.59 | 35.27 |

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Key Risks

- Slower than expected demand recovery in its key markets
- Delay in capex implementation could impact financials of company

View

Company reported strong numbers on topline and bottom-line front in Q3FY22, however margin pressure was seen as temporary bilip. We believe company's growth triggers such as capacity addition in garments and ethanol business, structural uptick on account of increased 'work-from-home' period, to drive company's performance. Export demand remains strong in the US and Europe, while free trade agreement (FTA) with European Union, are other potential growth drivers for the company. KPR's strong fundamentals such as 18%+ operating margins, superior return ratio profile, healthy balance sheet (D/E – 0.3x), boosts our confidence. **At CMP of ₹663.25, stock is trading at ~40x P/E on FY21 EPS and ~35x TTM P/E on 9MFY22 which seems justified given its past performance and future growth plans, hence we recommend investors to ACCUMULATE the stock on dips.**

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Consolidated Financial Highlights

| | Q3FY22 | Q2FY22 | Q3FY21 | Y-o-Y | Q-o-Q |
|-----------------------|--------------|--------------|--------------|------------------|--------------------|
| (₹ mn) | | | | | |
| Net Sales | 12,605 | 12,113 | 9,296 | 35.6% | 4.1% |
| Total Expenses | 9,553 | 8,593 | 6,774 | 41.0% | 11.2% |
| EBITDA | 3,052 | 3,521 | 2,523 | 21.0% | -13.3% |
| EBITDA Margins | 24.2% | 29.1% | 27.1% | (292 bps) | (485 bps) |
| Depreciation | 418 | 316 | 364 | 14.6% | 32.0% |
| EBIT | 2,634 | 3,204 | 2,159 | 22.0% | -17.8% |
| EBIT Margins | 20.9% | 26.5% | 23.2% | (235 bps) | (555.3 bps) |
| Interest | 56 | 67 | 75 | -25.5% | -16.0% |
| Other Income | 254 | 144 | 99 | 157.3% | 76.6% |
| PBT | 2832 | 3281 | 2182 | 29.8% | -13.7% |
| Total Tax | 715 | 861 | 620 | 15.4% | -17.0% |
| PAT | 2,118 | 2,421 | 1,563 | 35.5% | -12.5% |
| PAT Margin | 16.8% | 20.0% | 16.8% | (0.8 bps) | (318 bps) |
| EPS (₹) | 6.15 | 7.03 | 4.54 | 35.5% | -12.5% |

Source: Company Filing, Way2wealth Research

| | Q3FY22 | Q3FY21 | YoY% | 9MFY22 | 9MFY21 | YoY |
|----------------------------|---------|--------|-------|---------|---------|-------|
| (₹ Cr) | | | | | | |
| Revenue | 1285.88 | 939.51 | 36.9% | 3451.51 | 2438.11 | 41.6% |
| Raw Material | 708.56 | 466.05 | | 1828.31 | 1318.35 | |
| Employee Expenses | 112.01 | 111.28 | | 334.44 | 291.97 | |
| Other Expenses | 134.72 | 100.02 | | 330.34 | 239.79 | |
| EBITDA | 330.59 | 262.16 | 26.1% | 958.42 | 588.00 | 63.0% |
| EBITDA Margin | 25.7% | 27.9% | | 27.8% | 24.1% | |
| Interest & Finance Charges | 5.60 | 7.52 | | 17.61 | 23.93 | |
| Depreciation | 41.76 | 36.43 | | 104.76 | 113.38 | |
| PBT | 283.23 | 218.21 | | 836.05 | 450.69 | |
| Tax | 71.46 | 61.95 | | 213.99 | 121.59 | |
| PAT | 211.77 | 156.26 | 35.5% | 622.06 | 329.1 | 89.0% |
| PAT Margin | 16.5% | 16.6% | | 18.01% | 13.5% | |

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement KPR Mill Ltd. as on February 18th, 2022

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|--|---------------|
| Name of the Security | KPR Mill Ltd. |
| Name of the analyst | Yogita Desai |
| Analysts' ownership of any stock related to the information contained | NIL |
| Financial Interest | |
| Analyst : | No |
| Analyst's Relative : Yes / No | No |
| Analyst's Associate/Firm : Yes/No | No |
| Conflict of Interest | No |
| Receipt of Compensation | No |
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