

27th October 2021

CMP – ₹465/-

View – Accumulate on dips

Company Background

Incorporated in 1984. In 1989, the group ventured into garment exports. Today KPR Mills is one of the largest vertically integrated apparel manufacturing companies in India. The company produces yarn, knitted fabric, readymade garments, sugar, ethanol and power. It has state-of-the-art yarn, fabric and garment production facilities in Tamil Nadu (except for 10 mn pieces garment facility in Ethiopia). Sugar Mill is in Karnataka.

Important Statistics

MCAP (₹bn)	₹147.25
52 Week H/L (₹)	503.60/130.00
NSE Code	KPRMILL
BSE Code	532889

Investment Thesis

- Vertically integrated with strong fundamentals and presence in entire textile value chain
- Ethanol business segment a major growth driver
- Product mix skewed towards garments business
- Healthy balance sheet with strong return ratios provides comfort
- Strong financial track record – Rev/EBITDA/PAT grew at a CAGR of 12%/13%/22% in last decade

Vertically integrated textile player with presence in entire value chain

- Company is vertically integrated textile company with rich exposure in the textile and apparel industry and presence in entire textile value chain.
- Company has been consistently performing and successful in keeping its EBITDA margin around ~18-22%.
- Since 2011, Revenue, EBITDA and PAT of KPR registered CAGR growth of 12%, 13% and 22% respectively.
- Growth of company was on the back of garment business, which has better and stable margins compared to yarn & fabrics. In addition, quality and reliability of garment manufacturer lead to "stickiness" of order books eventually helping performance of company.

Sugar/Ethanol a major business growth driver

- Currently, the company has a sugar mill of 10,000 TCD, Ethanol capacity of 130 KLPD and co-gen power of 40 MW.
- In addition, KPR is setting up a new facility with sugar capacity of 10,000 TCD, ethanol capacity of 230 KLPD and Co-gen power of 47.5 MW which will be operational by Nov'21/Dec'21.
- In FY21, the segment contributed ₹5,000mn (14% of total revenue) and by FY24, when both the capacities are fully operational, expected to contribute >₹10,000 mn as per management.
- Rising revenue contribution from ethanol through B-heavy molasses and sugarcane juice -which are more profitable than the traditional one using C-heavy molasses, will sweeten profitability of the distillery business of integrated players such as KPR.

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Revenue skewed towards garments business

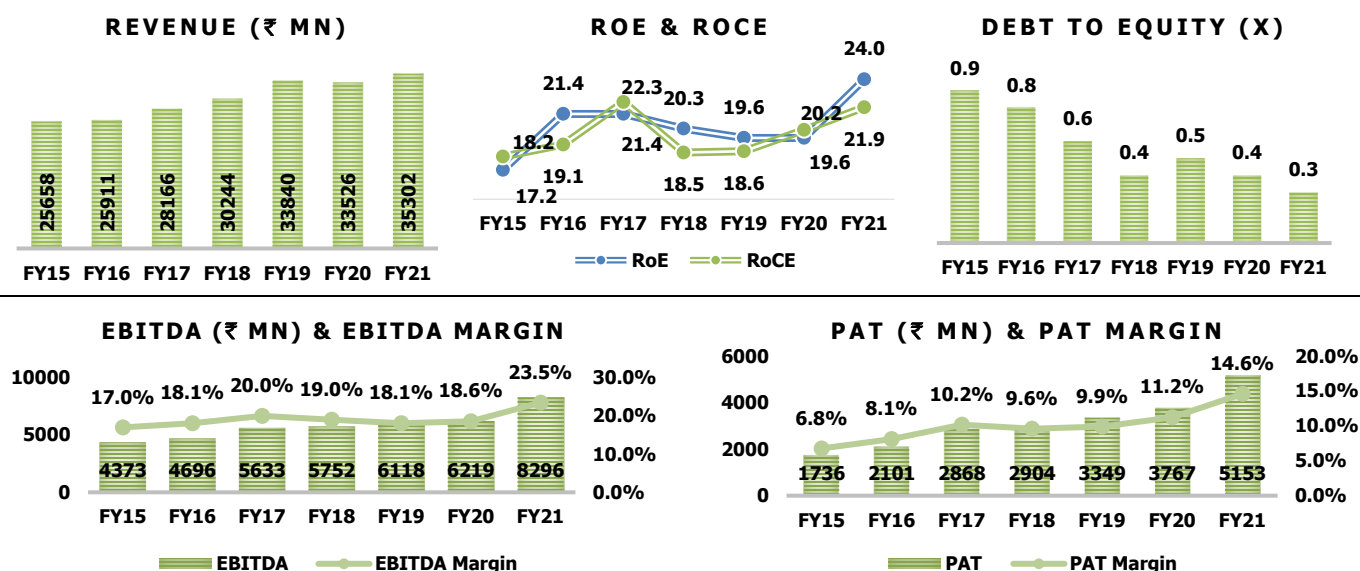
- Over FY13-21, KPR's garment segment registered a revenue CAGR of 24% to clock ₹13,000mn in FY21.
- Contribution from garment segment has consequently increased from 16% in FY13 to 39% in FY21.
- KPR is in the process of increasing the garment capacity by 42mn pieces p.a. which is expected to be operational by Q3FY22, driving company's profitability.

Healthy balance sheet and superior return ratios comforts us

- Company's successful performance over the years helped keep debt lower over FY15-FY21.
- Along with healthy EBITDA margins, KPR also has industry leading return ratios which are fairly consistent which have improved over the years. Company's ROE increased from 18% in FY15 to 24% in FY21 while ROCE grew from 18% in FY15 to 22% in FY21.

Weakening dominance of China; opportunity for India

- Apart from China, no other country, except India, is possessing such end to end capability (from farm to fashion) in textile value chain.
- Weakening dominance of China in global T&A trade driven by re-alignment of global supply chain in search for "China + 1" strategy and geopolitical issues (like US trade war with China) presents India with huge opportunities in exports markets. This coupled with strong domestic market growth driven by favourable macros (rising urbanization, increasing disposable income of middle class etc.) presents a structural growth runway for the industry.
- Abundance of raw material with global leadership in cotton, availability of cheap labor presents wide opportunities for country like India.



Source – Company, Way2Wealth Research

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Key Concerns

- Yarn segment of the company which contributes ~38% of the total revenue has been seeing EBITDA margin in the range of 24-29% whereas it usually had been in the range of 15-18%. Margin compression of Yarn may depress the overall margin.
- Any decline in the export revenues due to lower demand from international clients would hamper profitability of company
- Any volatility of key raw materials such as cotton prices can affect profitability of the company

View

Company is largest vertically integrated textile players in India with presence across the entire value chain - from "fibre to fashion". Over FY11-21 company registered Revenue/PAT CAGR of 12%/22%. The growth has been primarily driven by garment segment which grew at CAGR of 24% over same period. Contribution from garment segment increased from 16% in FY13 to 39% in FY21. To cater to increasing demand, KPR is in the process of increasing the garment capacity by 42mn pieces p.a. which is expected to be operational by Q3FY22, driving segment's growth. Company delivered strong performance in Q1FY22 with revenue growing at 67.1% YoY backed by strong growth in the textile business (growth of 85% YoY) and OPM expanding by 265bps YoY a positive trigger. Company's superior return ratio profile, healthy balance sheet, further comforts us. **At CMP of ₹465, stock is trading at ~28x P/E on FY21 EPS which seems justified given its past performance and future growth plans, hence we are positive on the stock and recommend investors to ACCUMULATE the stock on dips.**

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Financial Highlights

(₹ mn)

Profit & Loss A/c	FY20	FY21
Net Revenue	33,526	35,302
Op. Expenses	27,307	27,006
EBITDA	6,219	8,296
Depreciation	1,371	1,467
EBIT	4,849	6,829
Other Income	365	388
Interest Exp.	497	328
Reported PBT	4,717	6,889
Tax	949.9	1,736.0
Reported PAT	3,767	5,153
Net Profit	3,767	5,153

Source: Company Data, Way2Wealth Research

Margins	FY20	FY21
EBITA Margin (%)	18.55	23.50
EBIT Margin (%)	14.46	19.34
PAT margin (%)	11.11	14.44

Financial Ratios	FY20	FY21
RoE (%)	20.61	24.44
RoCE (%)	23.37	29.33
Asset/T.O (x)	1.26	1.30
Net Debt/Equity (x)	0.31	0.13
EBIT/Interest (x)	9.77	20.79

Valuation (x)	FY20	FY21
P/E	34.44	25.18
P/BV	6.95	5.52
EV/EBITDA	21.79	16.00
EV/Sales	4.04	3.76

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Disclosure of Interest Statement KPR Mill Ltd. as on 27th October, 2021

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
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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