Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KPR Mill Ltd

Soft Q1; long-term growth prospects intact

Textiles		Sharekhan code: KPRMILL		
Reco/View: Buy	↔	CMP: **Rs. 642**	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		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 16.86
Updated Jul 08, 2023

Low Risk

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

Source: Morningstar

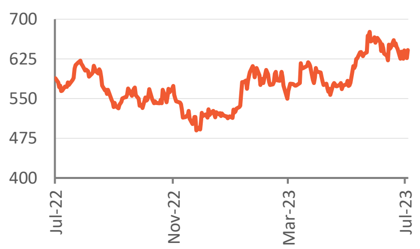
Company details

Market cap:	Rs. 21,931 cr
52-week high/low:	Rs. 685 / 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	14.7
Others	7.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	11.4	20.9	13.7
Relative to Sensex	-2.1	3.8	12.8	0.9

Sharekhan Research, Bloomberg

Summary

- KPR Mill (KPR) posted soft numbers in Q1FY2024 with revenues rising by just 1.6% y-o-y, gross and EBITDA margins lower by 139 bps and 261 bps y-o-y leading to a 10.5% y-o-y decline in PAT.
- As expected, textile business had a weak quarter with 5.3% y-o-y decline due to lower realisations in the fabric & yarn segments (down 31.5% y-o-y). Higher ethanol volumes (up by 2.7x y-o-y) aided 28.8% y-o-y growth in sugar business.
- The management expects export demand for garments to recover in H2FY2024. This along with higher realisations and strong growth in sugar business will aid double-digit revenue growth (16% CAGR over FY23-25E). EBIDTA margins would improve with a correction in input prices.
- Stock trades at 22x/17x its FY2024E/FY2025E EPS and 14x/11x its FY2024E/FY2025E EV/EBITDA. We maintain a Buy on the stock with an unchanged price target (PT) of Rs. 800.

KPR posted soft numbers in Q1FY2024 as muted revenue growth and contraction in margins led to double-digit decline in PAT. Revenue growth at 1.6% y-o-y to Rs. 1,610.7 crore missed estimates due to a poor show by the textile business (75% of total revenues), which declined by 5.3% y-o-y. Within the textiles business, fabric & yarn segment dragged the performance as the segment's revenues declined by 14.8% y-o-y affected by lower realisations (down 31.5% y-o-y). Textile business' EBIT margins fell by 718 bps y-o-y to 15.6%. Sugar business revenue grew by 28.8% y-o-y driven by higher ethanol sales (up by 2.7x y-o-y), while sugar volumes came in lower by 28.9% y-o-y. Sugar business' EBIT margin improved to 26.6% from 9.7% in Q1FY2023. Consolidated gross/ EBIDTA margins decreased by 139 bps/261 bps y-o-y to 39.1%/20.6%, respectively. However, margins improved by 564 bps/419 bps, q-o-q respectively aided by correction in the raw material prices. EBIDTA declined by 9.8% y-o-y to Rs. 332.1 crore and adjusted PAT declined by 10.5% y-o-y to Rs. 202.8 crore.

Key positives

- Garment production rose by 5.6% y-o-y; sales up by 2.7% y-o-y.
- Fabric & yarn sales increased by 24.5% y-o-y.
- Sugar business grew by 28.8% y-o-y; EBIT margins rose to 26.6% from 9.7% in Q1FY2023.
- Ethanol sales increased by 2.7x y-o-y.

Key negatives

- Fabric & yarn revenues declined by 14.8% y-o-y; realisation fell by 31.5% y-o-y
- Gross/EBITDA margins fell by 139 bps/261 bps y-o-y to 39.1%/20.6%, respectively affected by lower textile volumes.
- Textile business' EBIT margin fell by 718 bps y-o-y to 15.6%.

Management Commentary

- Export demand is sluggish due to higher inflation, unstable cotton prices, pile-up of inventory and higher geopolitical tensions, while domestic demand is resilient. KPR expects demand to improve hereon, with significant improvement in H2.
- In Q1FY2024, yarn volumes stood at 14,600 tonnes with revenue at Rs. 391 crore, while fabric volumes came in at 2,000 tonnes with revenues of Rs. 69 crore. Margin for the yarn & fabric segment stood at 12%.
- Garment order book is steady at Rs. 1,000 crore. Average realisation is Rs. 180 per piece. Management targets production of 150 million pieces for FY2024.
- Post capacity expansion, sugar business' capacity would rise to 2 lakh tonnes and ethanol capacity would improve to 12 crore litres. The management is expecting incremental revenue from sugar business going ahead.
- Capacity expansion across businesses is on track. Out of the Rs. 500 crore capex planned, Rs. 200 crore is already spent. Management is cautious about expansion in textile business, will gauge demand situation and then consider textile capex.

Revision in earnings estimates: We have reduced our earnings estimates for FY2024 by 4% to factor in lower-than-expected realisation growth in the garment/yarn business and lower EBIDTA margins. We have broadly maintained our earnings estimates for FY2025. We will keenly monitor the performance in the quarters ahead.

Our Call

View: Retain Buy with an unchanged PT of Rs. 800: KPR's Q1FY2024 was soft owing to weak performance by the textiles business. However, in the medium-long term, 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 (40% of total revenue). Further, integrated business model along with strong capacity expansion plan in the sugar & textile businesses would aid to faster recovery for KPR, once demand improves. Higher free cash flow generation will aid to future capacity expansions, while higher ethanol blending could be an additional growth lever. The stock trades at 22x/17x its FY2024E/FY2025E EPS and 14x/11x its FY2024E/FY2025E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged 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.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	4,822	6,186	7,096	8,325
EBITDA Margin (%)	25.3	20.6	22.4	23.4
Adjusted PAT	842	814	1,004	1,303
% Y-o-Y growth	63.4	-3.3	23.3	29.8
Adjusted EPS (Rs.)	24.5	23.7	29.2	37.9
P/E (x)	26.2	26.9	21.9	16.8
P/B (x)	6.9	5.9	4.7	3.7
EV/EBIDTA (x)	18.7	18.1	14.2	11.2
RoNW (%)	30.4	23.6	24.0	24.8
RoCE (%)	31.0	24.3	25.7	28.4

Source: Company; Sharekhan estimates

Soft Q1 - Revenues rise 2% y-o-y; EBITDA margin down by 261 bps y-o-y

KPR Mill's (KPR's) performance missed estimates due to soft performance by the textile business. Revenue grew by 1.6% y-o-y to Rs. 1,610.7 crore, with textile business revenues declining by 5.3% y-o-y to Rs. 1,208.5 crore, while sugar business revenues grew by 28.8% y-o-y to Rs. 365.9 crore. Within the textile business, garment revenue slightly grew by 1% y-o-y to Rs. 699 crore, while fabric & yarn revenue declined by 14.8% y-o-y to Rs. 461 crore. Gross/EBIDTA margins decreased by 139 bps/261 bps y-o-y to 39.1%/20.6%, respectively affected by lower textile volumes. However, the margins improved sequentially by 564 bps/419 bps, respectively aided by correction in the raw material prices. Textile business' EBIT margin fell by 718 bps y-o-y to 15.6%, while sugar business EBIT margin improved to 26.6% from 9.7% in Q1FY2023. EBIDTA declined by 9.8% y-o-y to Rs. 332.1 crore. In line with a decline in EBITDA, adjusted PAT declined by 10.5% y-o-y to Rs. 202.8 crore.

Weak quarter for textile business

Revenues declined by 5.3% y-o-y to Rs. 1,208.5 crore impacted by lower realisation in the fabrics & yarn segment. Within the textile business, garment revenues slightly grew by 1% y-o-y to Rs. 699 crore, while fabric & yarn revenue declined by 14.8% y-o-y to Rs. 461 crore. The garments segment posted 2.7% y-o-y growth in the volume, while realisation declined by 1.6% y-o-y. In the fabrics & yarn segment, volumes grew by 24.5% y-o-y while realisation declined by 31.5% y-o-y. Margin of the textile business contracted by 718 bps y-o-y to 26.6%.

Garment and fabric and yarn volumes and realisation

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Garment					
Production (mn pieces)	35.4	33.5	5.6	36.0	-1.7
Sales (mn pieces)	37.7	36.7	2.7	36.8	2.4
Realisation (Rs./piece)	185.6	188.7	-1.6	197.9	-6.3
Fabric & yarn					
Sales (MT)	16,936	13,606	24.5	21,510	-21.3
Realisation (Rs./tonne)	272.2	397.6	-31.5	269.6	0.9

Source: Company; Sharekhan Research

Double-digit revenue growth and sharp margin expansion in the sugar business

Sugar business revenues grew by 28.8% y-o-y to Rs. 365.9 crore driven by higher ethanol sales (up by 2.7x y-o-y), while sugar volumes fell by 28.9% y-o-y. Realisation in ethanol and sugar segments improved by 2.9% and 5% y-o-y. EBIT margins of sugar business improved to 26.6% from 9.7% in Q1FY2023.

Sugar and ethanol volumes and realisation

Particulars	Q1FY24	Q1FY23	Y-o-Y %
Sugar			
Sales (MT)	45,421	63,907	-28.9
Realisation (Rs./tonne)	33.7	32.1	5.0
Ethanol			
Sales (lakh litres)	290	108	169.2
Realisation (Rs./litre)	62.2	60.4	2.9

Source: Company; Sharekhan Research

Capacity expansion across businesses on track

KPR has planned a capex across businesses with total outlay of Rs. 500 crore. Of this, vortex spinning mill with outlay of Rs. 100 crore is completed in the current quarter, expansion of the processing & printing facility at an investment of Rs. 50 crore is expected to be over in current quarter, solar plant (Rs. 50 crore investment) has been commissioned already, ethanol capacity expansion with outlay of Rs. 150 crore will be commissioned before coming season, while modernising of spinning facility with investment of Rs. 150 crore would be operational in H2FY2024. Management expects ethanol capacity expansion to generate incremental revenue of Rs. 100 crore, while spinning facility is likely to generate additional revenue of Rs. 140-150 crore. Management is cautious about expansion in textile, will gauge demand situation and then consider textile capex.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Total Revenue	**1,610.7**	**1,584.8**	**1.6**	**1,949.7**	**-17.4**
Raw material cost	981.5	943.7	4.0	1,298.0	-24.4
Employee cost	146.7	133.6	9.8	142.9	2.7
Other expenses	150.4	139.5	7.9	188.5	-20.2
Total operating cost	1,278.7	1,216.8	5.1	1,629.4	-21.5
EBITDA	**332.1**	**368.1**	**-9.8**	**320.3**	**3.7**
Other income	5.3	20.2	-73.9	8.4	-37.2
Interest & other financial cost	21.7	16.8	28.9	21.3	1.6
Depreciation	45.2	48.6	-6.9	46.1	-1.9
Profit Before Tax	**270.5**	**322.8**	**-16.2**	**261.3**	**3.5**
Tax	67.6	96.1	-29.7	51.7	30.7
Reported PAT	**202.8**	**226.7**	**-10.5**	**209.6**	**-3.2**
Adjusted EPS (Rs.)	5.9	6.6	-9.9	6.1	-3.2
			bps		**bps**
GPM (%)	39.1	40.5	-139	33.4	564
EBITDA Margin (%)	20.6	23.2	-261	16.4	419
NPM (%)	12.6	14.3	-171	10.7	185
Tax rate (%)	25.0	29.8	-478	19.8	521

Source: Company; Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Revenues (Rs. crore)					
Textile	1,208.5	1,276.3	-5.3	1,355.1	-10.8
% contribution to total revenue	*75.0*	*80.5*		*69.5*	
....Garment	699.0	692.0	1.0	728.0	-4.0
....Fabric & yarn	461.0	541.0	-14.8	580.0	-20.5
--Other textile	48.5	43.3	12.2	47.1	3.1
Sugar	365.9	284.2	28.8	560.1	-34.7
% contribution to total revenue	*22.7*	*17.9*		*28.7*	
Others	36.3	24.4	48.9	34.5	5.2
Total revenues	**1,610.7**	**1,584.8**	**1.6**	**1,949.7**	**-17.4**
PBIT (Rs. crore)					
Textile	188.5	290.7	-35.2	178.0	5.9
Sugar	97.2	27.6	-	95.1	2.2
PBIT margin (%)			**bps**		**bps**
Textile	15.6	22.8	-718	13.1	246
Sugar	26.6	9.7	-	17.0	959

Source: Company; Sharekhan Research

Outlook and Valuation

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

In the past few quarters, inflation, rising interest rates and geopolitical disturbances impacted export demand and led to inventory pile-up at the retailers' end. However, textile companies are expected to gain momentum from Q2FY2024, with global retail shelves getting empty. In the long term, growth prospects of the Indian textile industry are strong, aided by augmentation of capacity with value-added products, China + 1 factor, the government entering into a trade agreement in 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 are expected to improve in the quarters ahead due to lower raw-material prices and supply cost.

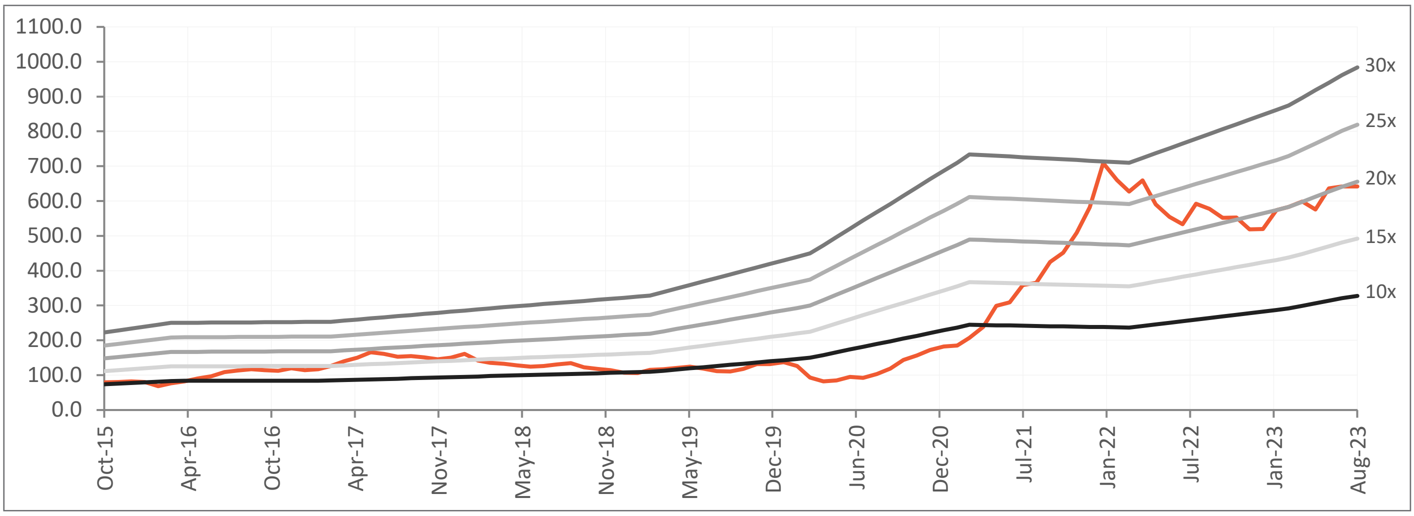
■ Company Outlook – Near-term outlook weak; Long-term growth prospects intact

KPR's Q1FY2024 numbers were soft, impacted by weak performance by the textile business with revenue growth muted at 1.6% y-o-y; EBITDA margin lower by 261 bps y-o-y and PAT declining by 10.5% y-o-y. We expect the company to reap benefits of expanded garment capacity with recovery in export demand (likely in H2FY2024). 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 16% and 27%, respectively, over FY2023-2025E.

■ Valuation – Retain Buy with an unchanged PT of Rs. 800

KPR's Q1FY2024 was soft owing to weak performance by the textiles business. However, in the medium-long term, 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 (40% of total revenue). Further, integrated business model along with strong capacity expansion plan in the sugar & textile businesses would aid to faster recovery for KPR, once demand improves. Higher free cash flow generation will aid to future capacity expansions, while higher ethanol blending could be an additional growth lever. The stock trades at 22x/17x its FY2024E/FY2025E EPS and 14x/11x its FY2024E/FY2025E EV/EBITDA. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 800.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Arvind	9.9	8.8	6.5	5.9	5.0	3.7	8.1	8.8	10.8
KPR Mill	26.9	21.9	16.8	18.1	14.2	11.2	24.3	25.7	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; 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	4.55
2	L & T Mutual Fund Trustee Ltd	2.08
3	DSP Value Fund	1.57
4	DSP Investment Managers	1.43
5	Nippon Life India Asset Management Company	1.33
6	Axis AMC	1.00
7	Vanguard Group Inc	0.79
8	Franklin Resources Inc	0.60
9	IDFC Mutual Fund	0.45
10	Aditya Birla Sun Life AMC	0.44

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

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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.

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