Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

KPR Mill Ltd

Mixed bag Q4

Textiles	Sharekhan code: KPRMILL
Reco/View: Buy ↔	CMP: **Rs. 839**	Price Target: **Rs. 965** ↑

↑ 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		↔	

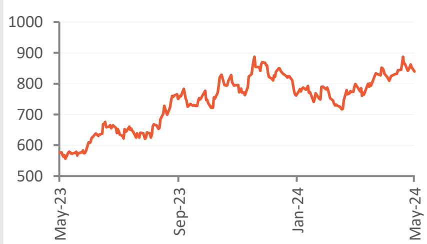
Company details

Market cap:	Rs. 28,683 cr
52-week high/low:	Rs. 927 / 552
NSE volume: (No of shares)	3.1 lakh
BSE code:	532889
NSE code:	KPRMILL
Free float: (No of shares)	9.0 cr

Shareholding (%)

Promoters	73.8
FII	5.0
DII	14.8
Others	6.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.8	6.5	5.5	45.8
Relative to Sensex	1.3	4.1	-8.2	24.7

Sharekhan Research, Bloomberg

Summary

- KPR Mills' (KPR's) Q4FY2024 numbers were a mixed bag as revenues fell by 13% y-o-y, while EBITDA margin improved by 332 bps y-o-y to 19.7%; PAT grew by 1.9% y-o-y.
- Garment order book is at Rs. 1,000 crore; with capacity addition expected to be completed by H1FY2025, KPR expects to produce 40 million pieces per quarter in H1FY2025 and 45 million pieces per quarter in H2FY2025. Garment segment's margin likely to be at 22-24%.
- In FY2025, sugar production is expected to be higher at 2 lakh tonnes versus 1.76 lakh in FY2024, while it plans to produce 6-7 crore litres of ethanol in FY2025 versus 9 crore litres produced in FY2024.
- Stock trades at 30x/24x its FY2025E/FY2026E EPS and 20x/16x its FY2025E/FY2026E EV/EBITDA. We maintain Buy with a revised price target (PT) of Rs. 965.

KPR Mills' (KPR's) Q4FY2024 performance was mixed with revenue declining in double-digits while EBITDA margins rose y-o-y leading to low single-digit growth in PAT. Revenue fell by 13% y-o-y to Rs. 1,697 crore. Within segments, textiles grew 2.9% y-o-y to Rs. 1,394 crore, while sugar business declined by 50.1% y-o-y to Rs. 279 crore. Lower raw material costs aided in a 541 bps and 332 bps y-o-y rise in gross margins and EBITDA margins to 38.8% and 19.7%, respectively. The textile and sugar business EBIT margins rose 236 bps and 759 bps y-o-y to 15.5% and 24.6%, respectively. EBIDTA grew by 4.6% y-o-y to Rs. 335 crore and PAT grew by 1.9% y-o-y to Rs. 214 crore. In FY2024, revenues fell by 2% y-o-y to Rs. 6,060 crore, EBITDA margin stood largely flat y-o-y at 20.4%, and PAT declined by 1.1% y-o-y to Rs. 805 crore.

Key positives

- Garment volume grew 33.2% y-o-y to 49 million pieces.
- Gross/EBIDTA margins rose 541 bps/332 bps y-o-y to 38.8%/19.7%, respectively, led by softening of input costs.
- EBIT margins of the textiles and sugar businesses rose 366 bps and 759 bps y-o-y to 15.5% and 24.6%, respectively.

Key negatives

- Garment realisation declined by 20.1% y-o-y to Rs. 158 per piece.
- Sugar volume declined 78.7% y-o-y to 21,503 MT largely due to a lower quota.

Management Commentary

- Multiple factors such as cotton price fluctuation (which led to lower yarn realisation), reduced demand from apparel companies (which led to pile-up of inventory), higher energy costs and intense competition impacted textile companies in FY2024.
- The management indicated that demand is improving and is expected to be back to normal in the coming months. KPR added few customers in US during Q4FY2024 and there are a few more customers in the pipeline. KPR's current garment order book is over Rs. 1,000 crore.
- KPR expects the brownfield capacity addition of 30 million pieces to be competed in H1FY2025. It expects to produce 40 million pieces per quarter in H1FY2025 and 45 million pieces per quarter in H2FY2025. With the benefit of value addition already achieved in FY2024, the management expects price realisation to be at similar level in FY2025. Garment margin guidance is at 22-24%.
- KPR currently has ~1.5 lakh tonnes of sugar inventory. Sugar volumes were lower in FY2024 due to lower quota. In FY2025, sugar sales are expected to be higher than ethanol sales.
- In FY2025, the company plans to achieve sugar production of 2 lakh tonnes versus 1.76 lakh in FY2024. For ethanol, it plans to produce 6-7 crore litres of ethanol in FY2025 versus 9 crore litres produced in FY2024.
- Demand for yarn has come down leading to a lower realisation. Thus, the management has guided that margin pressure on the yarn front is leading to overall margin pressure.

Revision in estimates – We have reduced our earnings estimates for FY2025 and FY2026 to factor in lower realization in the textile business and moderation in the ethanol volumes.

Our Call

View – Retain Buy with a revised PT of Rs. 965: KPR's Q4FY2024 numbers were a mixed bag, as revenue declined in double-digits, while margin expansion led to low single-digit PAT growth. In the medium-long term, the China + 1 factor, a likely signing of the free trade agreement (FTA) with the UK and increasing opportunities in the US market, provides scope for consistent growth in its high-margin garment business (~40% of the total revenue). Further, an integrated business model along with a strong capacity expansion plan in the textile businesses would aid in faster recovery for KPR, once demand improves. The stock trades at 30x/24x its FY2025E/FY2026E EPS and 20x/16x its FY2025E/FY2026E EV/EBITDA. We maintain a Buy on the stock with a revised price target (PT) of Rs. 965.

Key Risks

Any sudden slowdown in the global export market or any significant increase in input prices would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	6,186	6,060	7,001	8,147
EBITDA Margin (%)	20.6	20.4	21.2	21.8
Adjusted PAT	814	805	959	1,184
% Y-o-Y growth	-3.3	-1.1	19.0	23.5
Adjusted EPS (Rs.)	23.7	23.4	27.9	34.4
P/E (x)	35.2	35.6	29.9	24.2
P/B (x)	7.7	6.6	5.5	4.5
EV/EBIDTA (x)	23.4	24.0	19.5	15.8
RoNW (%)	23.6	20.0	20.0	20.4
RoCE (%)	24.3	20.7	22.6	24.3

Source: Company; Sharekhan estimates

Stock Update

Result Update

Mixed Q4 – Revenue fell 13% y-o-y; EBITDA margin expanded 332 bps y-o-y

KPR's revenue declined 13% y-o-y to Rs. 1,697 crore, with textile business revenue growing by 2.9% y-o-y to Rs. 1,394 crore, while sugar business revenue fell by 50.1% y-o-y to Rs. 279 crore. Lower raw material costs aided in a 541 bps y-o-y rise in gross margin to 38.8%. However, expansion in EBITDA margin was restricted to 332 bps y-o-y to 19.7% due to negative operating leverage. EBIT margins of the textile and sugar business rose 236 bps and 759 bps y-o-y to 15.5% and 24.6%, respectively. EBIDTA grew by 4.6% y-o-y to Rs. 335 crore, while PAT grew at a lower rate of 1.9% y-o-y to Rs. 214 crore, due to higher tax expenses. In FY2024, revenue declined by 2% y-o-y to Rs. 6,060 crore, EBITDA margin stood largely flat y-o-y at 20.4%, and PAT fell by 1.1% y-o-y to Rs. 805 crore. The board has recommended a final dividend of Rs. 2.5 per share for FY2024.

Textile business – Revenue grew by ~3% y-o-y; EBITD margin up by 236 bps y-o-y

- In Q4FY2024, revenues grew by 2.9% y-o-y to Rs. 1,394 crore, while for FY2024, revenue declined by 3.7% y-o-y to Rs. 4,714 crore.
- Garment revenues grew 6.5% y-o-y to Rs. 775 crore, while fabric and yarn revenue declined 3.1% y-o-y to Rs. 562 crore in Q4FY2024.
- The garment segment posted 33.2% y-o-y volume growth to 49 million pieces, while average realisations fell 20.1% y-o-y to Rs. 158.2 per piece. Garment production is up 12% y-o-y to 40.3 million garments.
- In the fabrics & yarn segment, volumes remained flat y-o-y at 21,463 MT, while realisation declined 2.9% y-o-y to Rs. 261.8 per tonne.
- EBIT margins rose 236 bps y-o-y to 15.5% in Q4FY2024, aided by softening of input costs. For FY2024, EBIT margins came in lower by 246 bps y-o-y at 16%.

Garment and fabric and yarn volumes and realisation

Particulars	Q4FY24	Q4FY23	y-o-y	Q3FY24	q-o-q
Garment					
Production (mn pieces)	40.3	36.0	12.0	37.8	6.6
Sales (mn pieces)	49.0	36.8	33.2	33.5	46.4
Realisation (Rs./piece)	158.2	197.9	-20.1	161.9	-2.3
Fabric & yarn					
Sales (MT)	21,463	21,510	-0.2	15,827	35.6
Realisation (Rs./tonne)	261.8	269.6	-2.9	261.6	0.1

Source: Company, Sharekhan Research

Sugar business – Revenue fell 50% y-o-y; EBIT margin rose 759 bps y-o-y

- Revenues fell 50.1% y-o-y to Rs. 279 crore in Q4FY2024, while for FY2024, revenue grew y 4% y-o-y to Rs. 1,226 crore.
- During Q4FY2024, sugar segment's revenues fell by 77.4% y-o-y to Rs. 74 crore, while the ethanol segment's revenue fell 3.2% y-o-y to Rs. 151 crore.
- In the sugar segment, volumes came in lower by 78.7% y-o-y to 21,503 MT, whereas realisation was up 6.3% y-o-y to Rs. 34.4 per kg.
- In the ethanol segment, volumes came in higher by 3.9% y-o-y to 248 lakh litre, whereas realisation was down 6.9% y-o-y to Rs. 60.9 per litres.
- In Q4FY2024 and FY2024, EBIT margin rose sharply by 760 bps and 730 bps y-o-y to 24.6% and 23.7%, respectively.

Sugar and ethanol volumes and realisation

Particulars	Q4FY24	Q4FY23	y-o-y	Q3FY24	q-o-q
Sugar					
Sales (MT)	21,503	1,00,975	-78.7	11,902	80.7
Realisation (Rs./kg)	34.4	32.4	6.3	36.1	-4.7
Ethanol					
Sales (lakh litres)	248	239	3.9	217	14.4
Realisation (Rs./litre)	60.9	65.3	-6.9	63.2	-3.7

Source: Company, Sharekhan Research

Key Conference call takeaways

- **Multiple headwinds for textiles in FY2024:** FY2024 was a challenging year for textiles due to 1. cotton price fluctuation, which led to lower yarn realisation, 2. reduced demand from apparel companies which led to pile-up of inventory; 3. increased energy cost and 4. higher competition.
- **Growth drivers for KPR in place:** The management has stated that expansion in vortex spinning, rooftop solar plant and modernisation of spinning division will drive growth for the company in the coming years.
- **Demand improving:** Demand is improving and the management expects it to be back to normal in the coming months. KPR added a few customers in the US during the quarter and there are a few more customers in the pipeline.
- **Garment capacity expansion to be completed in H1FY2025; margins to be at 22-24%:** KPR's current order book for garments is over Rs. 1,000 crore. Management indicated that the brownfield capacity addition of 30 million pieces to be competed in H1FY2025 and the new capacity is expected to run at optimum utilisation (45 million garments per quarter) in H2FY2025. KPR expects to produce 40 million pieces per quarter in H1FY2025 and 45 million pieces per quarter in H2FY2025. With the benefit of value addition already achieved in FY2024, management expects price realisation to be at similar level in FY2025. Garment margin guidance is at 22-24%.
- **Sugar volumes to be better in FY2025:** Management stated that the company currently has ~1.5 lakh tonnes sugar inventory. Sugar volumes were lower in FY2024 due to lower quota. In FY2025, sugar sales are expected to be higher than ethanol sales. In FY2025, company plans to achieve sugar production of 2 lakh tonnes versus 1.76 lakh in FY2024. For ethanol, it plans to produce 6-7 crore litre of ethanol in FY2025 versus 9 crore litres produced in FY2024.
- **Margins largely impacted due to yar division:** Demand for yarn has come down leading to lower realisation. Thus, the management guided that margin pressure on the yarn front is leading to overall margin pressure.
- **Gradual scale-up in FASO:** KPR is targeting Rs. 100 crore revenue from its retail brand – FASO in 3 years from ~Rs. 25 crore at present.

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)
Total Revenue	**1,696.7**	**1,949.7**	**-13.0**	**1,241.3**	**36.7**
Raw material cost	1,037.7	1,298.0	-20.0	660.5	57.1
Employee cost	152.2	142.9	6.6	153.6	-0.9
Other expenses	171.7	188.5	-8.9	155.6	10.3
Total operating cost	1,361.7	1,629.4	-16.4	969.8	40.4
EBITDA	**335.1**	**320.3**	**4.6**	**271.6**	**23.4**
Other income	11.9	8.4	42.1	28.0	-57.5
Interest & other financial cost	19.7	21.3	-7.6	14.9	32.0
Depreciation	49.4	46.1	7.1	48.6	1.5
Profit Before Tax	**277.9**	**261.3**	**6.4**	**236.0**	**17.8**
Tax	64.3	51.7	24.3	49.0	31.4
Reported PAT	**213.6**	**209.6**	**1.9**	**187.1**	**14.2**
Adjusted EPS (Rs.)	6.2	6.1	1.9	5.5	14.2
			Bps		**bps**
GPM (%)	38.8	33.4	541	46.8	-795
EBITDA Margin (%)	19.7	16.4	332	21.9	-213
NPM (%)	12.6	10.7	184	15.1	-248
Tax rate (%)	23.1	19.8	334	20.7	240

Source: Company, Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y %	Q3FY24	q-o-q %
Revenues (Rs. crore)					
Textile	**1,394.0**	**1,355.1**	**2.9**	**999.9**	**39.4**
% contribution to total revenue	82.2	69.5		80.5	
…..Garment	775.0	728.0	6.5	542.0	43.0
….Fabric & yarn	562.0	580.0	-3.1	414.0	35.7
….Other textile	57.0	47.1	21.1	43.9	29.9
Sugar	**279.4**	**560.1**	**-50.1**	**211.7**	**32.0**
% contribution to total revenue	16.5	28.7		17.1	
…..Sugar	74.0	327.0	-77.4	43.0	72.1
….Ethanol	151.0	156.0	-3.2	137.0	10.2
….Other sugar	54.4	77.1	-29.4	31.7	71.7
Others	**23.4**	**34.5**	**-32.2**	**29.8**	**-21.6**
Total revenues	**1,696.8**	**1,949.7**	**-13.0**	**1,241.4**	**36.7**
PBIT (Rs. crore)					
Textile	216.0	178.0	21.4	169.3	27.6
Sugar	68.7	95.1	-27.8	52.8	29.9
PBIT margin (%)			**bps**		**bps**
Textile	15.5	13.1	236	16.9	-144
Sugar	24.6	17.0	759	25.0	-39

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Global uncertainties would weigh on near-term growth; long-term prospects intact

In the past few quarters, inflation, rising interest rates, and geopolitical disturbances hit export demand and led to inventory pile-up at the retailers' end. Home textile companies have witnessed month-on-month improvement in order booking, while the garmenting business is yet to see a demand revival. However, recent unrest in the Red Sea will hold back the recovery, especially for garment players with large exports to Europe. The unavailability of the container or a long route to supply might lead to a delay in the supply of products. Further, the recent spike in freight rate will put pressure on the margins of the textile companies in the quarters ahead. 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.

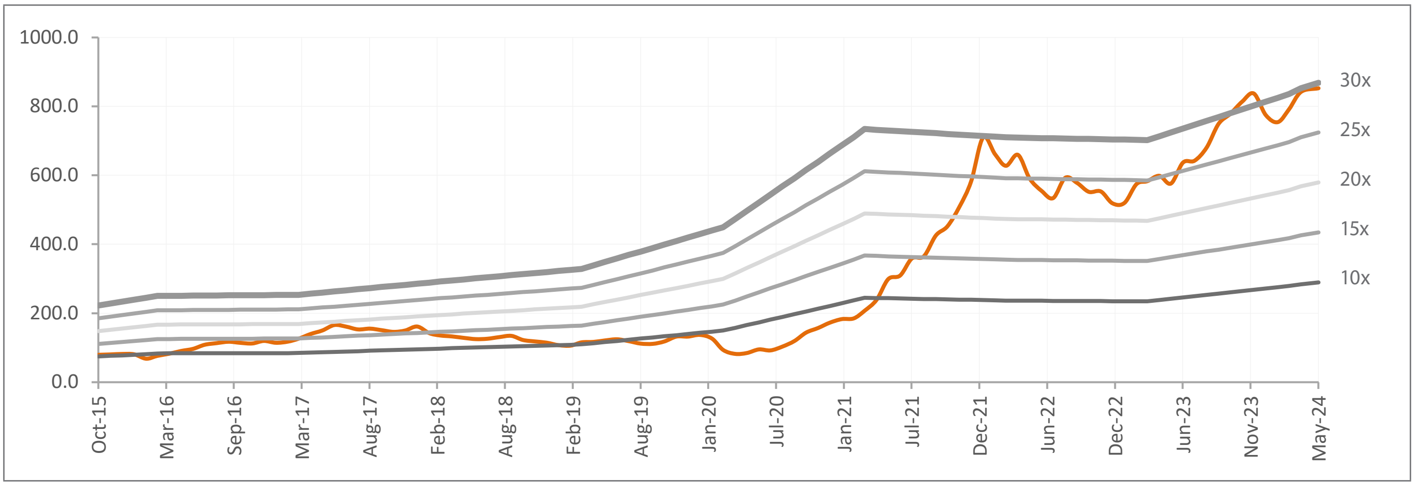
■ Company Outlook – Near-term outlook weak; long-term growth prospects intact

In FY2024, revenues declined by 2% y-o-y, EBITDA margin stood largely flat y-o-y at 20.4%, and PAT fell by 1.1% y-o-y. We expect the company to reap the benefits of expanded garment capacity with a recovery in export demand (likely in H2FY2024). The management expects expansion in vortex spinning, rooftop solar plant and modernisation of spinning division to drive growth for the company in the coming years. The decline in cotton/yarn prices will provide some relief to margins. We expect revenue and PAT to register a CAGR of 16% and 21%, respectively, over FY2024-2026E.

■ Valuation – Retain Buy with a revised PT of Rs. 965

KPR's Q4FY2024 numbers were a mixed bag, as revenue declined in double-digits, while margin expansion led to low single-digit PAT growth. In the medium-long term, the China + 1 factor, a likely signing of the free trade agreement (FTA) with the UK and increasing opportunities in the US market, provides scope for consistent growth in its high-margin garment business (~40% of the total revenue). Further, an integrated business model along with a strong capacity expansion plan in the textile businesses would aid in faster recovery for KPR, once demand improves. The stock trades at 30x/24x its FY2025E/FY2026E EPS and 20x/16x its FY2025E/FY2026E EV/EBITDA. We maintain a Buy on the stock with a revised price target (PT) of Rs. 965.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Gokaldas Exports	35.4	28.6	22.7	17.2	13.5	10.6	19.5	20.9	21.8
KPR Mill	35.6	29.9	24.2	24.0	19.5	15.8	20.7	22.6	24.3

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 has 12 technology-oriented manufacturing units with a capacity to produce 1,00,000 MT of yarn and 10,500 MT of Vortex Viscose 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 has recently forayed into the retail segment with FASO, a 100% organic innerwear, sportswear, and athleisure brand. The company also has a sugar business with sugar production capacity of 20,000 TCD, ethanol capacity of 500 KLPD, and power-generation capacity of 90 MW. The company exports to over 60 countries, including Europe, Australia, and the U.S.

Investment theme

KPR 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 a 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 consistent double-digit growth in garmenting business 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 and Managing Di-rector
P. Kandaswamy	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	4.87
2	L & T Mutual Fund Trustee Ltd	1.49
3	Nippon Life India Asset Management Compa-ny	1.45
4	FIL Ltd	1.15
5	Aditya Birla Sun Life AMC	1.03
6	Fidelity Funds - India Focus Fund	1.02
7	Vanguard Group Inc	0.96
8	Axis AMC	0.79
9	Franklin Resources Inc	0.78
10	Canara Robeco AMC	0.49

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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by BNP PARIBAS

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