MOTILAL OSWAL

MOSt mid - cap Research

25 FEBRUARY 2016

SECTOR: TEXTILES

KPR Mill

BSE SENSEX	S&P CNX
23,088	7,018.70

(INR CRORES)

Y/E MARCH	FY16E	FY17E	FY18E
Revenue	2,439	2,664	2,866
EBITDA	476	522	590
EBITDA Margin	19.5%	19.6%	20.6%
NP (Adj.)	206	244	285
EPS (Adj.)	54.7	64.9	75.6
EPS Growth	19%	19%	17%
BV/share	293	342	400
Core ROE (%)	20	20	20
Core ROCE (%)	18	20	22
P/E (x)	11.7	9.9	8.5
P/BV (x)	2.2	1.9	1.6

KEY FINANCIALS

Diluted Shares (cr)	3.8
Market Cap. (Rs cr)	2,412
Market Cap. (US$ m)	355
Past 3 yrs Sales Growth (%)	24%
Past 3 yrs NP Growth (%)	30%

STOCK DATA

52-W High/Low Range (INR)	923/456
Major Shareholders (as of 29nd September 2015)	
Promoter	75.0
Institutions	14.2
Public & Others	10.9
Average Daily Turnover(6 months)	
Volume	40,468
Value (Rs cr)	3.2
1/6/12 Month Rel. Performance (%)	(14)/(3)/55
1/6/12 Month Abs. Performance (%)	(16)/(16)/37

Maximum Buy Price :INR665

CMP: INR640 TP: INR910 (+42%) Buy

We recommend to BUY KPR Mill for a target of INR 910 - valuing the company at a 12.0x FY18E EPS.

Indian textile industry poised for 10% cagr: Indian textile and apparel industry is estimated to reach USD 221 bn in 2021 from USD 89 bn in 2011 (9.5% CAGR). Rising Chinese domestic consumption, labour issues in China and Bangladesh and increasing power cost are favourable for Indian export growth.

Value addition in yarn to raise profitability: KPR has a capacity of 90,000 MT and 27,000 MT in yarn and fabric segments, respectively. It is gradually converting part of the yarn capacity towards higher margin colored and mélange yarn. KPR is not looking at expanding yarn and fabric capacity. The fabric capacity is likely to be utilized internally given planned garment capacity expansion.

Garment expansion to aid growth: The garment capacity expansion to 5.9 cr pieces p.a. over the past 3 yrs is being followed-up by a further expansion of 3.6cr pieces to take capacity upto 9.5 cr pieces by Q1 FY17E. Garments is a export-oriented business with Europe contributing ~70% of revenues. KPR caters to ~40 major brands in Europe and new clients in the US will diversify its customer base. We expect this business to grow at 30% CAGR upto FY18E.

Self-sufficiency in power: Spinning, weaving and processing are highly power intensive processes. The company has wind power capacity of 61.9MW & Co-gen plant of 30MW. We believe power cost is a key advantage for KPR Mills as is continuous availability that is crucial to avoiding wastage in the spinning and weaving business.

Debt reduction to improve profitability: Strong cash flow generation has enabled KPR to reduce its long term debt from INR 313cr at FY15 end to INR 240cr in Q3 FY16. A rise in garment revenue share will reduce working capital requirement and help bring down the debt to revenue ratio. KPR plans to further reduce debt by repaying high cost debt of ~INR 100cr that should aid in reducing interest cost and improving profitability.

Valuations & View: Vertically integration and self sufficiency in power aid cost competitiveness, while the garment business is expected to drive revenues. Increasing utilization of the garment capacity, foray into valued added yarns along with reduction of debt will enhance profitability leading to a PAT CAGR of 18% over FY16-18E. We value KPR Mills at 12x FY 18E EPS of INR 75.6 providing for an upside of 42%. We recommend to BUY for a TP of INR910.

Ravi Shenoy (ravi.shenoy@MotilalOswal.com); Tel: +91 22 30896865

CONCERNS

Impact of fluctuation in raw materials: Sustained reduction in cotton prices may put the realisation under pressure. This may impact the growth of the company as it may have to pass on the reduction in raw material prices to clients. However, we do not expect reduction in margins due to increasing share of value added products in its revenue mix.

Global competition: Increasing global competition may keep profitability under check. The company exports 28% of its sales competing with global players from countries like Pakistan, China, Bangladesh and Vietnam. In India, it competes with organized and un-organised segment, though it has benefit of larger scale.

BACKGROUND

KPR Mills, incorporated in 1984, is amongst the largest company in knitted garments sector. It is vertically integrated company with presence in yarn to garments. It has marquee clients in its portfolio including about 1000 regular domestic clients for yarn and fabric. For garments, the company has approximately 20 international brands including Marks and Spencers, Tesco, Decathlon, Carrefour, among others. It has sugar manufacturing capacity of 5000 tonnes crushed per day and co-gen power of 30MW. Its textile manufacturing facilities are situated at 8 locations in Tamil Nadu and sugar producing facility is located in Karnataka. Textile forms ~80% of the total revenues of the company, with garments at 20.7%, yarn at 41.5%, and fabric at 18.7%.

INRCr	3QFY15	2QFY16	3QFY16	yoy	qoq
Total Income	619	608	640.0	3%	5%
Expenditure	511	487	524	3%	8%
EBITDA	107.3	121.2	115.8	8%	-4%
Other Income	6	5	5		
Interest	17	15	12	-31%	-18%
Depreciation	38	39	39	3%	0%
PBT	58.2	72.8	70.6	21%	-3%
Tax	16	21	18		
P\L of Associates	0	0	0		
Adj. PAT	42.2	52.2	53.0	25%	2%
EBITDA (%)	17.9%	20.6%	18.7%		
Tax rate (%)	27%	28%	25%		

3Q FY16

- KPR Mills 's total consolidated revenue for the quarter grew by 3% to INR 640.0 cr on account of strong growth in the sugar business.
- **Textile segment:** Textile revenue de-grew by 6.6% YoY to INR 507.4cr on account of de-growth of 47% in fabric. Textile EBIT margin expanded to 14.7% during Q3FY16 from 12.6% in Q3FY15 as contribution from garment and high value added yarn products rose.
- **Sugar segment:** Sugar business was strong and grew by 198.3% YoY to INR 87.0cr as the company liquidated around 30k MT of sugar inventory during the quarter.
- Interest cost declined 31% YoY on account of reduction in debt levels. Overall, PAT was up by 25% YoY.

KPR Mill Financials & Valuation

INCOME STATEMENT (INRCR)

Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Net sales	**2,265**	**2,457**	**2,439**	**2,664**	**2,866**
Growth	43%	8%	-1%	9%	8%
COGS	1,587	1,674	1,544	1,655	1,754
Employee Cost	151	183	220	253	272
Other Expenses	218	272	285	312	321
EBITDA	**415**	**437**	**476**	**522**	**590**
EBITDA Margin	18.3%	17.8%	19.5%	19.6%	20.6%
Depreciation	157	154	154	165	175
Other Income	31	24	21	26	28
Interest Cost	98	84	60	44	36
PBT	**192**	**223**	**282**	**340**	**407**
Tax	50	50	76	95	122
Rate	26%	22%	27.0%	28.0%	30.0%
Adjusted PAT	**142**	**174**	**206**	**244**	**285**
Growth	38%	22%	19%	19%	17%
PAT Margin	**6.3%**	**7.1%**	**8.4%**	**9.2%**	**9.9%**

RATIOS

Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Adjusted EPS (INR)	**37.7**	**46.1**	**54.7**	**64.9**	**75.6**
Book Value	216	251	293	342	400
Div Per Share	7.4	9.3	10.9	13.0	15.1
Dividend Payout	20%	20%	20%	20%	20%
Net Debt / Equity	0.9	0.7	0.5	0.3	0.1
P/E	17.0	13.9	11.7	9.9	8.5
P/BV	3.0	2.6	2.2	1.9	1.6
Dividend Yield	1.1%	1.5%	1.7%	2.0%	2.4%
ROCE	15%	16%	18%	20%	22%
ROE	19%	20%	20%	20%	20%
Debtor days	38	42	40	38	38
Inventory days	93	113	110	108	105
Creditor days	64	61	58	61	61
W.Cap cycle	67	93	92	85	82

BALANCE SHEET (INRCR)

Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
Share Capital	38	38	38	38	38
Share warrants	15	15	15	15	15
Reserves	762	893	1,050	1,238	1,456
Networth	**815**	**945**	**1,103**	**1,290**	**1,509**
Loans	847	726	603	468	338
Less Net Def. Tax Liab	60	60	60	60	60
SOURCES OF FUNDS	**1,722**	**1,731**	**1,766**	**1,818**	**1,907**
Net Fixed Assets	1,255	1,206	1,181	1,168	1,145
Capital WIP	6	2	5	6	7
Goodwill	1	1	1	1	1
Inventories	405	516	465	490	504
Debtors	238	282	267	277	298
Cash & Investments	99	40	48	94	164
Loans & Advances	40	24	24	27	29
Other Curr Assets	47	40	39	43	46
Current investments	63	58	70	84	100
Curr. Assets	892	961	914	1,013	1,142
Creditors and Prov.	442	501	396	431	449
Net Current Assets	**450**	**460**	**518**	**583**	**693**
Other LT assets	11	62	62	62	62
APPLICATION OF FUNDS	**1,722**	**1,731**	**1,766**	**1,818**	**1,907**

CASH FLOW (INRCR)

Y/E MARCH	FY14	FY15	FY16E	FY17E	FY18E
NI	192	223	282	340	407
Adjustments	230	246	220	201	194
(Inc)/Dec in W.Cap	(118)	(106)	20	(6)	(23)
Others	168	(4)	0	0	0
Pre Tax OCF	472	360	522	535	578
Tax Paid	(50)	(50)	(76)	(95)	(122)
CF from Operations	**422**	**310**	**446**	**440**	**456**
(Inc)/Dec in FA	(208)	(110)	(151)	(152)	(152)
Net investments	0	(21)	0	0	0
Others	29	25	16	17	19
CF from Investing act.	**(179)**	**(106)**	**(135)**	**(135)**	**(133)**
Equity issuance	0	0	0	0	0
Inc/(Dec) in Debt	(52)	(139)	(40)	(135)	(130)
Interest Paid	(79)	(98)	(82)	(54)	(38)
Divd Paid (incl Tax)	(32)	(42)	(48)	(57)	(67)
Others	(61)	12	(133)	(14)	(18)
CF from Financing act.	**(224)**	**(267)**	**(303)**	**(260)**	**(252)**
Inc/(Dec) in Cash	19	(63)	8	45	70
Add: Opening Balance	76	99	40	48	94
Closing Balance	**95**	**36**	**48**	**94**	**164**

Analyst Certification

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Disclosure of Interest Statement	KPR Mill
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

Regional Disclosures (outside India)

Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 6, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: (91-22) 30894200 Fax: (91-22) 22885038. E-mail: info@motilaloswal.com