

# KPR Mill

BSE SENSEX  
23,088

S&P CNX  
7,018.70

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

(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**

**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.

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## 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 &amp; 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         |
| <b>EBITDA</b>            | <b>415</b>  | <b>437</b>  | <b>476</b>  | <b>522</b>  | <b>590</b>  |
| 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          |
| <b>PBT</b>               | <b>192</b>  | <b>223</b>  | <b>282</b>  | <b>340</b>  | <b>407</b>  |
| Tax                      | 50          | 50          | 76          | 95          | 122         |
| Rate                     | 26%         | 22%         | 27.0%       | 28.0%       | 30.0%       |
| <b>Adjusted PAT</b>      | <b>142</b>  | <b>174</b>  | <b>206</b>  | <b>244</b>  | <b>285</b>  |
| Growth                   | 38%         | 22%         | 19%         | 19%         | 17%         |
| <b>PAT Margin</b>        | <b>6.3%</b> | <b>7.1%</b> | <b>8.4%</b> | <b>9.2%</b> | <b>9.9%</b> |

| RATIOS                    |             |             |             |             |             |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Y/E MARCH                 | FY14        | FY15        | FY16E       | FY17E       | FY18E       |
| <b>Adjusted EPS (INR)</b> | <b>37.7</b> | <b>46.1</b> | <b>54.7</b> | <b>64.9</b> | <b>75.6</b> |
| 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        |
| <b>Networth</b>             | <b>815</b>   | <b>945</b>   | <b>1,103</b> | <b>1,290</b> | <b>1,509</b> |
| Loans                       | 847          | 726          | 603          | 468          | 338          |
| Less Net Def. Tax Liab      | 60           | 60           | 60           | 60           | 60           |
| <b>SOURCES OF FUNDS</b>     | <b>1,722</b> | <b>1,731</b> | <b>1,766</b> | <b>1,818</b> | <b>1,907</b> |
| 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          |
| <b>Net Current Assets</b>   | <b>450</b>   | <b>460</b>   | <b>518</b>   | <b>583</b>   | <b>693</b>   |
| Other LT assets             | 11           | 62           | 62           | 62           | 62           |
| <b>APPLICATION OF FUNDS</b> | <b>1,722</b> | <b>1,731</b> | <b>1,766</b> | <b>1,818</b> | <b>1,907</b> |

| 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)        |
| <b>CF from Operations</b>     | <b>422</b>   | <b>310</b>   | <b>446</b>   | <b>440</b>   | <b>456</b>   |
| (Inc)/Dec in FA               | (208)        | (110)        | (151)        | (152)        | (152)        |
| Net investments               | 0            | (21)         | 0            | 0            | 0            |
| Others                        | 29           | 25           | 16           | 17           | 19           |
| <b>CF from Investing act.</b> | <b>(179)</b> | <b>(106)</b> | <b>(135)</b> | <b>(135)</b> | <b>(133)</b> |
| 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)         |
| <b>CF from Financing act.</b> | <b>(224)</b> | <b>(267)</b> | <b>(303)</b> | <b>(260)</b> | <b>(252)</b> |
| Inc/(Dec) in Cash             | 19           | (63)         | 8            | 45           | 70           |
| Add: Opening Balance          | 76           | 99           | 40           | 48           | 94           |
| <b>Closing Balance</b>        | <b>95</b>    | <b>36</b>    | <b>48</b>    | <b>94</b>    | <b>164</b>   |

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