

SHORT RESEARCH NOTE



KPR Mill

‘Buy & Add on dips’



April 10, 2018

- KPR Mill Ltd.** is a vertically integrated apparel manufacturing company in India, which produces Yarn, Knitted Fabric, Readymade Garments and Wind Power with its production facilities in Tamil Nadu, India. The company has 1,200 regular domestic clients for yarn and fabric and around 50 leading international brands for garments.
- Key exports markets of the company are Asia, Europe and USA.
- It has four wholly owned subsidiaries :
 - Quantum Knits Pvt. Ltd- deals in readymade garments.
 - KPR Sugar Mill Ltd- produces sugar along with green energy viz., Co Gen Power.
 - Galaxy Knits Ltd- has not commenced any major business activity.
 - Jahnvi Motor private Limited- authorized dealer of AUDI cars in Coimbatore region and Madurai Region.

Company Synopsis:

- The Board of Directors of the Company will buyback 13,35,000 fully paid up equity shares at the rate of Rs.810 per equity share of face value Rs.5 payable in cash on or before 12th April, 2018. The total paid up capital will reduce to Rs.3628lac from Rs.3695lac. The effect of the same is projected in FY19 estimates.
- The entire yarn capacity has been upgraded to value added yarn (Compact, Melange, Color Melange & P.C.Yarn).

Quarter 3 Result:

- The consolidated revenue for Q3 stood at Rs.7145.1mn, registering a growth of 16.5% (YoY) over the corresponding quarter of the previous year of Rs.6134.6mn.
- EBIDTA fell by 4.6% (YoY) in Q3FY18 to Rs.1311.5mn from Rs.1375.2mn in Q3FY17 due to increase in cost of materials and employee benefit expenses. Also, overall EBITDA margin fell from 22.4% to 18.4% (YoY) in the third quarter.
- The net profit for Q3FY18 stood at Rs.706.8mn down by 0.3% (YoY) as against Rs.709.0mn for the same quarter. The profit margin stood at 9.9% in Q3FY18 as against 11.6% in Q3FY17.
- For the financial years 2013-2017, the top line of the company is growing at a CAGR of 14.1%, EBIDTA is growing at a CAGR of 9.8% whereas the bottom line is growing at a CAGR of 29.2%.
- For 9MFY18, the domestic sales accounted for 62% of the revenue whereas exports accounted for 38% of the revenue.

Outlook:

- The Indian Textile Industry is currently worth \$150bn (approx. \$110bn domestic market and \$40bn export market). Holding tremendous growth potential, the industry is expected to touch \$250bn in the next two years.
- The strategic expansion implemented in Garment and Processing segments, self-sufficiency in power, focus on value added products (Compact, Melange, PC & Colour Melange Yarn), comfortable cash flow, the company is poised to reap benefits from the future prospects, subsequently placing KPR in a lucrative position. Coupled with ramp up in volumes and ability to control power cost through investment in Green Power (60% of Textile power requirement is met through wind power), we anticipate the company to generate higher revenues.

Valuation:

We are positive on the company backed by the investments made by the company for capacity expansion and modernization and strong client base which will boost its revenue. At CMP of Rs.637, it is trading at a P/E multiple of 15.3x and 12.6x to its FY18E and FY19E earnings, respectively. On the basis of estimates, we arrive at a target price in range of Rs.760-800 per share. Thus, we assign a "Buy and add on dips" rating.

Financial Snapshot:

Particulars (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue from operations	25,657.50	26,005.20	28,166.00	30560	33141
EBITDA (Excl OI)	4,373.0	4,695.7	5,632.5	6020	6776
EBITDA Margin (%)	17.0%	18.1%	20.0%	19.7%	20.4%
PAT	1,735.7	2,107.1	2,868.2	3070	3661
NPM (%)	6.8%	8.1%	10.2%	10.0%	11.0%
ROE (%)	18.4%	19.1%	22.3%	20.6%	20.3%
P/E			16.3	15.3	12.6
EPS			38.8	41.5	50.4
EV/EBITDA			9.5	8.8	7.8
P/BV			3.6	3.1	2.6

*Impact of buyback given in FY19E

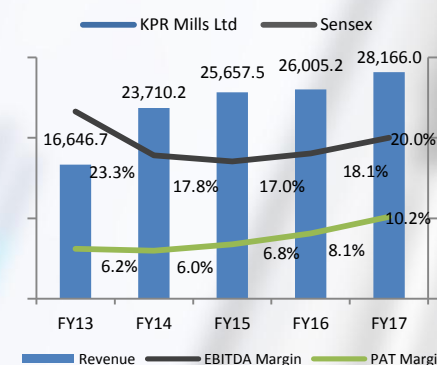
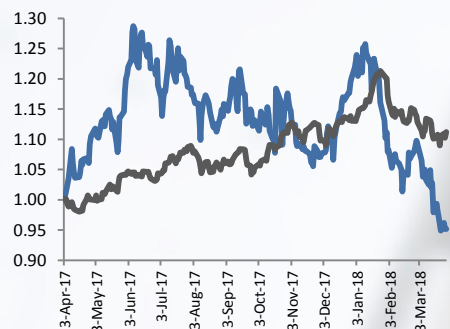
Rating Matrix

CMP	Rs.637
Rating	Buy and Add on Dips
Holding Period	12-18 months
Current Level	Investment
52 week H/L	Rs.882/620
Upside Potential	20-25%
Face value	Rs.5
Sector	Textiles
Category	Mid Cap
F&O Stock	No

Shareholding Pattern

Particulars	Dec'17	Sept'17	June'17
Promoter	74.9%	74.9%	74.9%
FPIs	2.9%	3.6%	3.5%
Insti.	12.2%	12.3%	12.2%
N. Insti.	10%	9.2%	9.4%

Relative Capital Market Strength



Quarterly Snapshot:

Particular (Rs. Mn)	Q3FY18	Q3FY17	Change (YoY)
Total Revenue	7145.1	6134.6	16.5%
EBITDA (Excl OI)	1311.5	1375.2	-4.6%
EBITDA Margin (%)	18.4%	22.4%	
PAT	706.8	709.0	-0.3%
NPM (%)	9.9%	11.6%	

Source: Choice Research/ Annual reports; Financial data-Ace equity, bloomberg



Peer Comparison (TTM):

Companies	CMP	ROE (%)	12MR(%)	M. Cap (Rs. Mn)	EPS	BVPS	EBIDTA Margin (%)	NPM (%)
Arvind Ltd	409.0	8.2%	3.0	105775.6	11.4	139.3	8.7%	2.9%
KPR Mill Ltd	637	22.5%	-6.6	47074.3	39.1	174.0	19.3%	9.9%
Kewal Kiran Clothing Ltd.	1650	24.5%	-5.9	20344.5	71.1	290.4	22.0%	18.6%
Kitex Garments Ltd	239.8	19.0%	-22.7	15946.7	13	68.5	28.1%	14.9%
Average		17.2%					19.6%	12.1%

Companies	P/E (x)	P/Bv (x)	P/Sales (x)	EV/EBIDTA (x)	D/E	PAT (Rs. Mn)	EBIDTA (Rs. Mn)	Sales (Rs. Mn)
Arvind Ltd	36.0	2.9	1.0	15.0	0.8	2,938.7	8,912.3	102,740.6
KPR Mill Ltd	16.3	3.7	1.6	9.1	0.4	2,891.3	5,638.1	29,159.9
Kewal Kiran Clothing Ltd.	23.2	5.7	4.3	19.4	0.1	877.1	1,038.9	4,714.5
Kitex Garments Ltd	18.4	3.5	2.7	8.9	0.0	866.9	1,637.8	5,825.9
Average	25.9	4	2.7	14.4	0.3			

Financial Snapshot:

Particulars	FY13	FY14	FY15	FY16	FY17
Revenue from operations	16,646.7	23,710.2	25,657.5	26,005.2	28,166
Gr (%)	31.6%	42.4%	8.2%	1.4%	8.3%
EBITDA (Excl OI)	3,873.0	4,222.3	4,373	4,695.7	5,632.5
EBITDA Margin (%)	23.3%	17.8%	17.0%	18.1%	20.0%
PAT	1,030.1	1,416.8	1,735.7	2,107.1	2,868.2
NPM (%)	6.2%	6.0%	6.8%	8.1%	10.2%
Net Worth	7,062.6	8,145.4	9,452.1	11,006.0	12,859.6
Total Assets	21,148.4	22,137.8	22,842.2	23,815.8	23,913.5
Total Debt	9,018.5	8,474.1	7,258.1	8,105.5	6,851.4
Cash flow from Operations	2,145.3	4,218.6	3,101.4	2,047.8	4,770.4
D/E (x)	1.3	1.0	0.8	0.7	0.5
Current Ratio (x)	1.0	1.1	1.1	1.1	1.3
Profitability ratios (%)					
ROCE (%)	16.8%	19.7%	20.6%	22.5%	25.5%
ROE (%)	14.6%	17.4%	18.4%	19.1%	22.3%
ROA (%)	4.9%	6.4%	7.6%	8.8%	12.0%
Efficiency ratios (x)					
Receivable days	34.8	36.6	40.1	58.9	44.2
Inventory days	59.7	58.7	65.6	71.7	67.3
Payable days	25.0	43.1	39.9	35.7	21.5



Highlights:

- KPR Mills has the ability to control power cost through investment in Green Power (Wind Power Projects & Co-gen plant for captive consumption) which is available throughout the year. 60% of Textile power requirement is met through wind power.
- With the ramp up in volumes, we anticipate the company to generate higher revenues.
- The strategic expansion implemented in low capital intensive Garment and Processing segments, self-sufficiency in power, focus on value added products (Compact, Melange, PC & Colour Melange Yarn), comfortable cash flow are some of the major factors placing KPR in a lucrative position to reap the benefits from the bright prospects
- Asia has emerged as the largest manufacturer-supplier hub for textile and apparel products to the world.
- India stands a chance to gain a prominent market share because of growing demand from domestic and exports market, recognition of Indian goods at international market, economized cost of production, supporting government policies and a strong raw material base.

Segment Revenue	Q3FY18	Q3FY17	% Change (YoY)
Textile	6579.0	5644.7	16.6%
Sugar	360.3	222.9	61.6%
Others	205.8	267.0	-22.9%

Buy Back of Shares:

The company will buyback 13,35,000 fully paid up equity shares of face value Rs.5 each. The buyback will be offered at the rate of Rs.810 per equity share payable in cash, for an aggregate maximum amount of Rs.1,081mn. The buyback offer size represents 9.81% of the aggregate of the fully paid up equity share capital and free reserves as per the audited standalone financial statements of the company. The maximum number of equity shares proposed to be bought back represents 1.81% of the total number of equity shares in the paid up share capital of the company. The buyback will take place on or before 12th April, 2018.

Expansion:

The FY2016-17 has been a record year for KPR in augmenting its capacities in the value added segment. A brief about the expansion plans completed during the year is furnished below:

I. Garment:

KPR commissioned its large Green field Garment manufacturing facility with a capacity to produce 36mn garments per annum under one roof. Now with a total capacity of 95mn garments, the company is one of the largest garment manufacturers in India. New clients and new Markets are added. Order book positions, response from existing and prospective clients are promising.

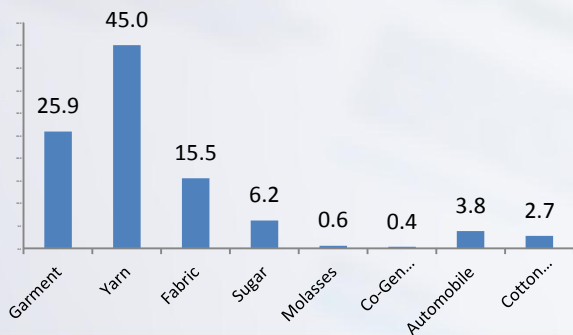
II Doubling of Processing Capacity:

The company also commenced operations in the 'State of the Art' Processing Unit II. The advanced technology of cold processing adopted therein reduces the water consumption by 30% and eliminates the usage of salt completely. This eco - friendly facility will economize the cost of production and enhance the Fabric quality with excellent colour uniformity. This new unit will further add value to the Garment Division.

III. New sophisticated Printing Division:

KPR established a new Printing Division with the Sophisticated Technology Printing Machines, imported from Austria. This advanced technology empowers the company to print sharp designs with high level of accuracy. Entire range of fabrics, such as light & heavy as well as delicate & sensitive fabrics can be printed in the same machine, without any friction. Its ability to print voluminous fabrics with high resolution is a salient feature. The sharpness & accuracy in printing the design and colour are its significant strengths. This new division shall cater to the Premium Brands' high-end garment requirements carrying higher revenue and margin.

Revenue from products in FY17 (%)



Segment Revenue by Geographic Location	FY17 (Rs.Mn)	FY16 (Rs.Mn)	% Change
Asia	3609.5	3654.2	-1.2%
Europe	5060.7	4360.8	16.0%
USA	271.7	201.1	35.1%
Others	1208.9	854.9	41.4%
India	16659.5	15660.5	6.4%
Total	26810.3	24731.5	8.4%

KPR's Manufacturing facilities :

Tamil Nadu	Sathyamangalam	Spinning		Yarn : 90,000 MT
	Karumathampatti	Spinning, Compact , P.C, Melange & Color Melange		Fabric : 27,000 MT
	Neelambur	Spinning & Knitting		Garments : 95 million Garments
	Arasur	Spinning, Knitting & Garmenting		Processing : 18,000 MT Fabric Printing : 7500 MT
	Tirupur	Garmenting		Windmills: 61.92 MW
	Perundurai	Processing & Fabric Printing		Co-gen & Sugar : 30 MW & 5,000 TCD
	Thekkalur	Garmenting		
	Tirunelveli, Tenkasi, Theni & Coimbatore	Windmills		
	Bijapur, Karnataka	Co-gen cum Sugar		



Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral.

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- Opportunities to invest in fundamentally strong stocks at a low arise only 2-3 times in a full year cycle.
- **Investors are advised to sell the stock if the recommended upside potential achieves.**
- **If recommended upside potential remains under-achieved, investors are advised to consider the update report on suggested stock.**



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