

Company Update

K.P.R. Mill Ltd

Bloomberg Code: KPR IN

India Research - Stock Broking

HOLD

Subdued Sector Outlook Weighing Down on Valuations

Decision to cancel buyback post the announcement of taxation for the same in the budget and lower pickup in the garment business has resulted in correction in valuations. As reported by ICRA, the industry is in a 'slow recovery mode' with domestic apparel exports struggling in the last few quarters, and the outlook continues to be bleak.

On the business front, while the mix continues to skew towards garments division, we believe the utilization levels continue to be low (in Ethiopia) and will take a few quarters before further ramp up. With no clarification on the utilization levels / regarding launch of domestic innerwear business, we lower our revenue growth for FY20 (to 7.2% - lowest in the last 3 fiscals), but expect marginal improvement in margins on the back of increasing garment share in the mix (+20 bps). We retain our '**HOLD**' recommendation with a lowered target price of Rs.629.

Muted topline growth but margins expand in Q1FY19: Cons. revenue (Rs. 9009 Mn) growth remained muted but a marginal improvement in the textile segment at 3.9% on YoY basis. The margin improvement of 190 bps (and EBITDA growth of 10.9%) on YoY basis was on account of 74% internal consumption of fabric leading to higher garment sales. Yarn and fabric sales degrew by ~18% to Rs. 361 Cr. while garment sales grew by 25% to 294 lakh units vs 235 lakh units leading to a revenue growth of 35.3% YoY at Rs. 441 Cr. This has led to bottomline growth of 13.5% and a profit margin improvement of 121bps. Exports (garment sales) contribute 46% of the revenue, which is a historic high for the company. The focus will continue to be on increasing the utilization levels of the domestic as well as the plant in Ethiopia for the garment division and gaining market share in the large US market for the same.

Valuation and Risks

Currently, the stock trades at 1 year fwd P/E of 11x and we value the stock at the same, a 15% discount to the average of the last 5 years (12.3x) on FY21E EPS of Rs. 59. Positive triggers could be higher orders for the Ethiopian plant and a successful launch of innerwear business in the domestic market. Additionally, more info regarding the current risks to the call are difficulty in penetration into the US market and delay and slow penetration in the domestic innerwear market.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	28166	30245	33840	34681	39275
EBITDA	5633	5753	6118	6485	7423
EBITDA Margin (%)	20.0	19.0	18.1	18.7	18.9
Net Profit	2868	2925	3374	3530	4229
EPS (Rs.)	38.1	39.6	45.7	47.8	57.2
RoE (%)	17.7	20.1	20.1	18.4	19.3
PE (x)	17.2	16.0	12.6	12.0	10.0

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

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Recommendation (Rs.)

CMP (as on Jul 31, 2019)	573
Target Price	629
Previous Target Price	645
Upside (%)	10

Stock Information

Mkt Cap (Rs.bn/US\$ bn)	41552 / 604
52-wk High/Low (Rs.)	713 / 511
3M Avg. daily value (Rs. mn)	21.2
Beta (x)	0.9
Sensex/Nifty	37481 / 11118
O/S Shares(mn)	72.6
Face Value (Rs.)	5.0

Shareholding Pattern (%)

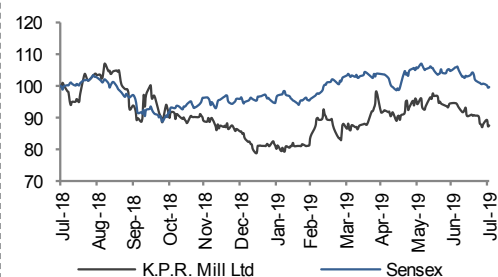
Promoters	75.0
FIIIs	1.2
DIIIs	17.0
Others	6.8

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(7)	(5)	9	(13)
Relative to Sensex	(3)	(1)	6	(12)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY20E	FY21E
Sales (%)	↓ (12.1)	↓ (8.4)
EBITDA (%)	↓ (11.2)	↓ (8.9)
PAT (%)	↓ (14.6)	↓ (11.2)

Source: Karvy Research

Analyst Contact

Thomas V Abraham

040 - 3321 6323

thomas.abraham@karvy.com

Exhibit 2: Q1FY20

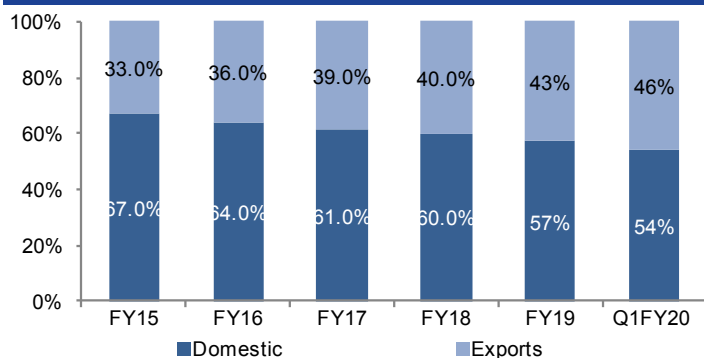
YE Mar (Rs. Mn)	Q1FY20	Q4FY20	QoQ %	Q1FY19	YoY %
Turnover	9009	9517	(5.3)	9005	0.0
Expenditure	7248	7913	(8.4)	7416	(2.3)
EBITDA	1761	1603	9.8	1589	10.9
Depreciation	328	324	1.2	324	1.1
Interest	144	136	6.2	146	(1.4)
PBT	1289	1144	12.7	1119	15.3
Other Income	85	66	27.3	13	530.6
Tax	452	351	28.7	319	41.5
PAT	922	859	7.3	813	13.5
EBITDA Margin (%)	19.5	16.8	270	17.6	191
EBIT Margin (%)	15.9	13.4	247	14.0	187
Net Profit Margin (%)	10.2	9.0	121	9.0	121

Source: Company, Karvy Research

Exhibit 3: Segmental Financials

YE Mar (Rs. Mn)	Q1FY20	Q4FY20	QoQ %	Q1FY19	YoY %
Segment-wise revenues					
Textile	8195	8635	(5.1)	7890	3.9
Sugar	584	649	(10.0)	891	(34.4)
Others	230	233	(1.2)	224	2.6
Segment-wise EBIT					
Textile	1361	1130	20.4	1294	5.2
Sugar	57	138	(58.6)	(43)	(231.8)
Others	15	12	31.9	14	7.0
Segment-wise EBIT Margin (%)					
Textile	16.6	13.1	352 bps	16.4	21 bps
Sugar	9.8	21.3	(1147) bps	(4.9)	1466 bps
Others	6.7	5.0	167 bps	6.4	27 bps

Source: Company, Karvy Research

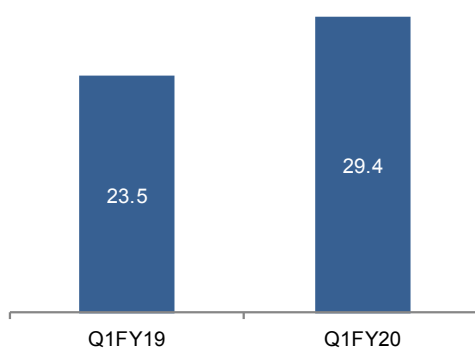
Exhibit 4: Historic trend of geographical split of revenue


Source: Company, Karvy Research

Continuous increase in higher realization and value products (garment exports) have aided the company to perform better than the peers in the sector. The company plans to further increase the exports and also is looking at the possibility of entering into high value products in the domestic market.

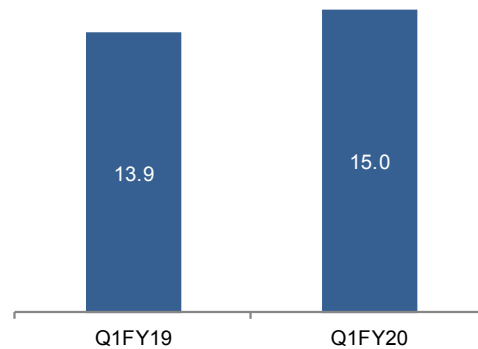
Garment division

Exhibit 5: Volume (Mn)



Source: Company, Karvy Research

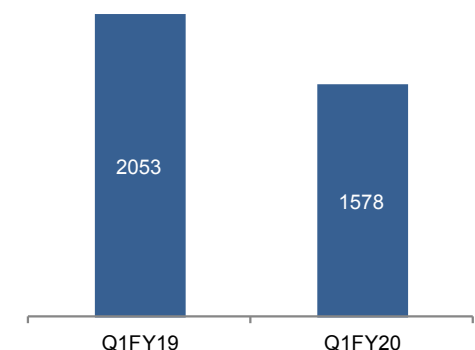
Exhibit 6: Realization (Rs. Mn)



Source: Company, Karvy Research

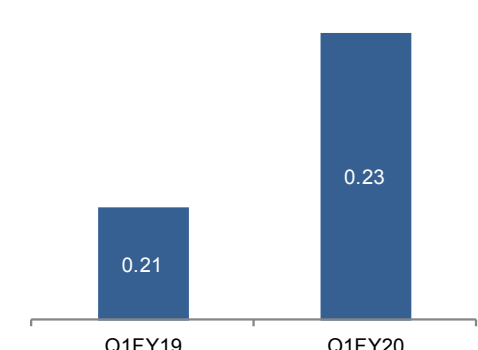
Yarn and Fabric

Exhibit 7: Volume (MT)



Source: Company, Karvy Research

Exhibit 8: Realization (Mn/MT)



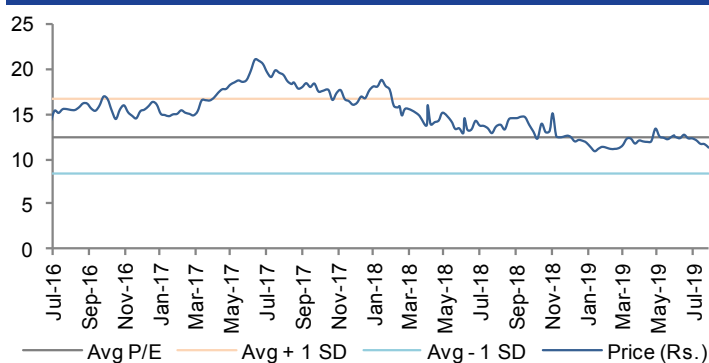
Source: Company, Karvy Research

Exhibit 9: Change in Earnings Estimates

YE Mar Standalone (Rs. Mn)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	39460	34681	(12.1)	42889	39275	(8.4)	Garment division to be the growth driver but the weak outlook for the domestic exports is a cause of concern as we are losing business to other countries.
EBITDA	7300	6485	(11.2)	8149	7423	(8.9)	
EBITDA Margin (%)	18.5	18.7	20 bps	19.0	18.9	(10) bps	
Adj. PAT	4134	3530	(14.6)	4764	4229	(11.2)	
EPS (Rs.)	55.9	47.8	(14.5)	64.5	57.2	(11.3)	

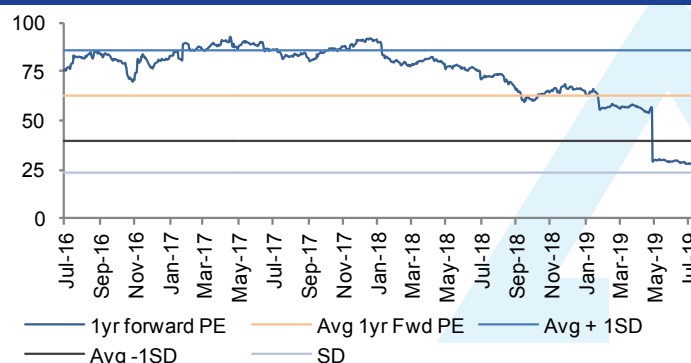
Source: Karvy Research

Exhibit 10: PE Band - KPR Mill Ltd



Source: Company, Karvy Research

Exhibit 11: PE Band - Nifty Consumption Index



Source: Bloomberg, Karvy Research

Financials

Exhibit 12: Income Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	28166	30245	33840	34681	39275
Growth (%)	8.3	7.4	11.9	2.5	13.2
Operating Expenses	22534	24492	27723	28196	31852
EBITDA	5633	5753	6118	6485	7423
Growth (%)	20.0	2.1	6.3	6.0	14.5
Depreciation & Amortization	1494	1399	1311	1417	1446
EBIT	4139	4354	4806	5068	5977
Other Income	275	142	369	173	196
Interest Expenses	645	516	489	338	301
PBT	3769	3981	4686	4903	5873
Tax	901	1056	1312	1373	1644
Adjusted PAT	2868	2925	3374	3530	4229
Growth (%)	36.1	2.0	15.4	4.6	19.8

Source: Company, Karvy Research

Exhibit 13: Balance Sheet

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & Cash Equivalents	707	643	641	2237	3867
Sundry Debtors	3407	4196	5280	4659	5276
Inventory	5330	6404	10064	7114	8057
Other assets	1407	2053	2395	2389	2642
Net Block	13062	12226	11359	14174	14458
Total Assets	23914	25522	29739	30575	34299
Current Liabilities & Provisions	1660	2550	2337	2960	3352
Debt	6851	6190	8213	4167	4251
Other Liabilities	2536	1082	1286	3073	3362
Total Liabilities	11047	9822	11836	10200	10965
Shareholders Equity	376	370	363	363	363
Reserves & Surplus	12490	15331	17541	20012	22972
Total Networkth	12866	15701	17904	20375	23335
Total Networkth and Liabilities	23914	25522	29739	30575	34300

Source: Company, Karvy Research

Exhibit 14: Cash Flow Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	3769	3981	4686	4903	5873
Depreciation	1494	1399	1311	1417	1446
Interest	625	500	120	165	104
Tax Paid	(964)	(1051)	(1337)	(1373)	(1644)
Inc/dec in Net WC	(160)	(2568)	(4738)	3259	(1383)
Cash flow from operating activities	4764	2261	43	8371	4395
Inc/dec in capital expenditure	(1992)	(433)	(756)	(4234)	(1729)
Others	15	(110)	(343)	71	(23)
Cash flow from investing activities	(1977)	(542)	(1099)	(4162)	(1752)
Inc/dec in borrowings	(987)	(1446)	2126	(2568)	359
Issuance of equity	(44)	(55)	(75)	(1059)	(1269)
Dividend paid	(446)	(306)	(489)	(338)	(301)
Interest paid	(978)	(16)	369	281	196
Cash flow from financing activities	(2455)	(1823)	1931	(3684)	(1014)
Net change in cash	333	(104)	875	525	1629

Source: Company, Karvy Research

Exhibit 15: Key Ratios

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin (%)	20.0	19.0	18.1	18.7	18.9
EBIT Margin (%)	15.7	14.9	15.3	15.1	15.7
Net Profit Margin (%)	10.2	9.7	10.0	10.2	10.8
Dividend Payout Ratio (%)	1.8	2.2	2.2	30.0	30.0
Net Debt/Equity (x)	0.5	0.4	0.5	0.1	0.0
RoE (%)	17.7	20.1	20.1	18.4	19.3
RoCE (%)	17.6	21.2	18.7	20.4	20.1

Source: Company, Karvy Research

Exhibit 16: Valuation Parameters

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs.)	38.1	39.6	45.7	47.8	57.2
DPS (Rs.)	0.7	0.9	1.0	14.3	17.2
BVPS (Rs.)	171.1	212.4	242.2	275.7	315.7
PE (x)	17.2	16.0	12.6	12.0	10.0
P/BV (x)	3.8	3.0	2.4	2.1	1.8
EV/EBITDA (x)	9.9	9.1	8.2	6.8	5.8
EV/Sales (x)	2.0	1.7	1.5	1.3	1.1

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India

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