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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

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KPR Mill

Higher garment and sugar volumes to drive growth in FY25

RESULT UPDATE

Sector: Textile **Rating:** BUY
CMP: Rs 824 **Target Price:** Rs 971

Stock Info

Sensex/Nifty	73,388/22,271
Bloomberg	KPR IN
Equity shares (mn)	341.9
52-wk High/Low	Rs 928/ Rs 551
Face value	Rs 1
M-Cap	Rs 292bn/ USD 3.5bn
3-m Avg traded value	USD 3mn

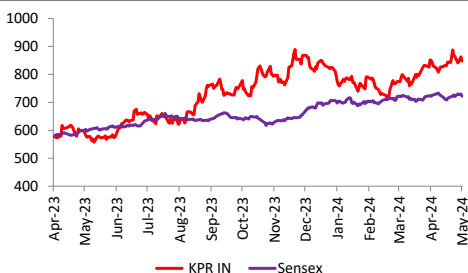
Financial Snapshot (Rs mn)

Y/E March (Rs mn)	FY24	FY25E	FY26E
Net sales	60,597	68,368	78,142
EBITDA	12,367	15,391	19,131
PAT	8,054	10,395	13,284
EPS adj. (Rs)	23.6	30.4	38.9
PE (x)	35.0	27.1	21.2
EV/EBITDA (x)	23.6	18.8	15.0
P/B (x)	6.5	5.4	4.5
RoE (%)	20.0	21.8	23.2
RoCE (%)	19.4	22.3	25.0
D/E (x)	0.3	0.2	0.1
OPM (%)	20.4	22.5	24.5
Dividend yield (%)	0.3	0.7	0.9
Dividend payout (%)	20	20	20

Shareholding pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	73.8	73.8	73.8
–Pledged	-	-	-
FII	4.6	4.3	4.2
DII	14.8	15.1	15.0
Others	6.8	6.8	7.0

Stock Performance (1-year)



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KPR Mill's (KPR IN) 4Q was a mixed bag, with revenue missing estimate, operating performance in line and EBITDA margin surpassing estimate. Net sales fell 13% YoY to Rs 17bn (6% lower than our estimate); the ~50% YoY drop in sugar and ethanol revenues, marginally offset by 3% YoY growth in textile revenue, led to the variance. Gross margin expanded 541bps YoY to 38.8% (vs. our estimate of 40%), boosted by soft raw material (RM) prices. EBITDA rose 5% YoY and 23% QoQ to Rs 3.3bn, in line with our estimate. EBITDA margin expanded 332bps YoY, but contracted 213bps QoQ to 19.7% (we estimated 19.1%). PBT grew 6% YoY and 18% QoQ to Rs 2.8bn but was 6% lower than our estimate. Higher effective tax rate of 23.1% vs 19.8% in 4QFY23, led to the tempered 2% YoY growth in PAT at Rs 2.1bn (9% below estimate). KPR currently has an order book of ~Rs 10bn. Management expects to complete its brownfield garment expansion of 30mn pieces by 1HFY25, enhancing its total capacity to ~177mn pieces. Post expansion, management expects quarterly garment production volumes to touch ~45mn pieces from 3QFY25. It expects subdued cotton prices and gradual recovery in exports to aid profitability, in the event of challenging market conditions. Near term, KPR would focus on investing in the textiles division, considering the uncertainty and restrictions imposed on the use of sugar syrup/juice to produce ethanol. We have raised FY25E/FY26E revenue by 8%/4% to factor in expected higher volume growth in garments and sugar, which explains the 9%/5% increase in EPS. Reiterating BUY with a target price of Rs 971 (earlier Rs 923), based on 25x FY26E earnings. Key risks: Lower: a) garment realization, b) export demand, and d) sugar production.

Textile division – Muted demand; All round miss in estimates

KPR's 4Q textile revenue of Rs 13.9bn was up by 3% YoY and 39% QoQ growth, but 6% lower than estimate. We attribute the growth to 6% YoY rise in garment revenue, partly offset by 3% YoY decline in yarn and fabrics revenues. The 33% YoY rise in garment sales volume at 49mn pieces was countered by 20% YoY decline in net sales realization (NSR) of Rs 158/piece (calculated). Yarn & Fabric revenue slipped 3% YoY to Rs 5.6bn, owing to 3% drop in NSR to Rs 262/kg (calculated), while sale volume was flat YoY at 21.5k tonnes. Textiles EBIT rose 21% YoY and 28% QoQ to Rs 2.2bn (14% below our estimate). EBIT margin expanded 236bps YoY, but contracted 144bps QoQ to 15.5%.

Sugar & Ethanol division – Weak performance on lower sugar sales quota

4Q revenue nosedived 50% YoY to Rs 2.8bn (23% above estimate), as sugar volumes fell 79% YoY to 21.5k tonnes, partially offset by 4% YoY rise in ethanol volumes at 24.8mn litres. Lower sugar quota allocation (4QFY23 includes ~37K tonnes of export volumes) and restrictions on the use of sugar syrup/juice to produce ethanol led to lower volumes. Average sugar realization rose 7% YoY to Rs 34.4/kg, while average ethanol realization fell by 6% YoY to Rs 60.9/litre. EBIT fell 28% YoY to Rs 687mn (59% above estimate), with EBIT margin expanding 759bps YoY to 24.6% (above our estimate of 19%).

Valuation: Maintain BUY; TP raised to Rs 971

FY24 posed several challenges for the textile industry, such as a) lower yarn realizations caused by fluctuations in cotton prices, b) subdued demand from downstream companies, c) surge in energy costs, d) piling up of inventories, and e) intense competition from China, Bangladesh, and Vietnam. The company's efforts to modernize the spinning division, expand vortex spinning, strengthen renewable power resources by installing rooftop solar power plants and expand the garments division should support growth ahead, in our view. Management expects demand for yarn and garments to rebound in FY25. With sugar inventory of 150k tonnes, management expects higher sugar sales quota in the upcoming months along with firm realisation. We reiterate BUY with a revised target price of Rs 971 (Rs 923 earlier), based on 25x FY26E (unchanged) P/E.

Key highlights from the concall

Textiles

- **Subdued demand for yarn and garments:** Yarn margins have been continuously on a downfall from 17-18% in 4QFY22 to ~12% currently, owing to lower demand from downstream garment industries. Demand from Europe has declined owing to geopolitical concerns, but the situation seems to be improving. Management expects overall demand to pick up in FY25 which will subsequently aid in enhancing margins.
- **Cotton prices to trade at levels similar to last year:** Currently, international cotton prices are trading 3-4% lower than domestic prices. During 1HFY25, management expects domestic cotton prices to trade at levels similar levels to those seen in 1HFY24 i.e. (within the range of ~58,000 to 65,000/candy)
- **Garment sales volume rise but realizations slip:** During 4Q, while garment sales volumes surged 33% YoY on higher inventory liquidation, realizations fell 20% YoY due to lower cotton prices. Garment realization hovered at an average Rs 170/piece during FY24, which management believes should hold steady in the near term but is wary that cotton prices could fluctuate.
- **4Q yarn & fabric:** The company sold 19K tonnes of yarn (flat YoY) at Rs 4.9bn (down 1% YoY due to drop in realisations) and 2K tonnes of fabric (flat YoY) at Rs 560mn (down 30% YoY due to drop in realisations).
- **EBITDA margins lower in the yarn & fabric and garments divisions:** During 4Q, the company recorded ~12% (vs. 16% in 3QFY24 and 10% in 4QFY23) EBITDA margin in the yarn & fabric division due to fluctuating cotton prices and lower demand for yarn. The garments division too saw a decline at ~24% (vs. 27% in 3QFY24 and 25% in 4QFY23) due to high inventory costs. Management expects margins in the garment division to stay steady at 22-24% in future.
- **Inventory:** As of 31st March 2024, the company carried 1 month of garment inventory and ~3 months of cotton inventory.
- **Customer additions:** The company added few US customers, with some more in the pipeline.
- **EBITDA/piece at sustainable levels:** EBITDA/piece improved to sustainable levels of ~Rs 40 due to increasing contribution from value-added products (fabric printing, garment printing, embroidery, etc)
- **Order book:** At ~Rs 10bn as of 31st March 2024.
- **India-UK free trade agreement (FTA):** Management anticipates 5-10% increase in its UK addressable market if India-UK FTA comes through.
- **Impact of Red Sea issue:** The company's exports (mainly garments) are on FOB (free on board) basis, and so far, it has not faced any increase in shipping days and logistics costs.
- **FASO:** The company plans to scale up its FASO brand in South India and aims to generate ~Rs 1bn revenue over the next 3 years from Rs 250mn in FY24.

Sugar & Ethanol

- **EBITDA margin:** Overall sugar & ethanol EBITDA margin for 4QFY24 stood at ~28% vs 20% in 4QFY23
- **Production volume guidance:** The company expects volumes in sugar to surpass those of ethanol in FY25. In FY24, the company produced 0.18mn tonnes of sugar and 90mn litres of ethanol. For FY25, it is looking to produce 0.2mn tonnes of sugar and 60-70mn litres of ethanol.
- **Sugar inventory** as of 31st March 2024 was 150K tonnes
- **Co-gen production:** Generated ~320mn units in FY24, of which, ~120mn units were used captively for the sugar division.

Capacity expansion

- **Brownfield expansion in garments:** The company expects to complete its brownfield expansion capacity of 30mn garments by the end of 1HFY25, with total garment production volumes at ~45mn pieces/quarter for 2HFY25; it is targeting optimum utilization by FY26. Post expansion, it would have a total capacity of ~177mn pieces.
- **Focused domestic expansion:** Management indicated that it intends to expand only within India and is not considering any expansion overseas.
- **Processing capacity expansion:** Expected to be completed by FY26.

FY24 export mix:

- **Europe:** 59.5% (60.8% in FY23); **North America:** 18.8% (19.5% in FY23); **Australia:** 16% (13.9% in FY23); **Asia:** 4.3% (4.5% in FY23) and **others:** 1.4% (1.3% in FY23). Its export demand outlook is stable.

Changes in estimates

We have raised our revenue estimate by 8%/4% for FY25E/FY26E to factor in higher volumes for garments and sugar, and also increased EPS by 9%/5%, respectively, to factor in the higher revenue growth. We have cut EBITDA margin by 10bps for FY25E, while maintaining it for FY26. We reiterate BUY rating on the stock, with a revised target price of Rs 971 (Rs 923 earlier), based on 25x FY26E P/E (unchanged).

Exhibit 1: Change in estimates

Particulars (Rs mn)	Old Estimates		New Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	63,461	75,081	68,368	78,142	8	4
EBITDA	14,370	18,420	15,391	19,131	7	4
EBITDA Margin (%)	22.6	24.5	22.5	24.5	-13bp	-5bp
Adjusted PAT	9,557	12,622	10,395	13,284	9	5
EPS (INR)	28.0	36.9	30.4	38.9	9	5
Target Price		923		971		5

Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly financial statement

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Net Sales	16,967	19,497	(13.0)	12,413	36.7	60,597	61,859	(2.0)
RM cost	10,377	12,980	(20.0)	6,605	57.1	36,072	37,529	(3.9)
Staff cost	1,522	1,429	6.6	1,536	(0.9)	6,006	5,486	9.5
Other Expenses	1,717	1,885	(8.9)	1,556	10.3	6,152	6,100	0.9
Operating Expenses	13,617	16,294	(16.4)	9,698	40.4	48,230	49,115	(1.8)
% of Sales	80	84	(332.0)	78	213bp	80	79	19bp
EBITDA	3,351	3,203	4.6	2,716	23.4	12,367	12,744	(3.0)
EBITDA Margins (%)	19.7	16.4	332.0	21.9	-213bp	20.4	20.6	-19bp
Other Income (OI)	119	84	42.1	280	(57.5)	673	623	7.9
Finance Cost	197	213	(7.6)	149	32.0	744	789	(5.7)
Depreciation	494	461	7.1	486	1.5	1,892	1,737	8.9
PBT	2,779	2,613	6.4	2,360	17.8	10,404	10,841	(4.0)
Tax	643	517	24.3	490	31.4	2,350	2,701	(13.0)
Effective Tax Rate (%)	23	20	334bp	21	240bp	23	25	-232bp
Reported PAT	2,136	2,096	1.9	1,871	14.2	8,054	8,141	(1.1)
NPM (%)	12.6	10.7	184bp	15.1	-248bp	13.3	13.2	13bp
Adjusted PAT	2,124	2,085	1.9	1,856	14.4	8,054	8,141	(1.1)
No. of equity shares	342	342		342		342	342	
Adj. EPS (Rs)	6	6	1.9	5	14.4	24	24	(1.1)

Source: Company, Systematix Institutional Research

Exhibit 3: Ratios

Key Ratios (% of revenues)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Raw Material Cost	61	67	-541bp	53	795bp	60	61	-114bp
Staff Costs	9	7	164bp	12	-340bp	10	9	104bp
Other Expenses	10	10	45bp	13	-242bp	10	10	29bp
Effective Tax rate	23	20	334bp	21	240bp	23	25	-232bp
Gross Margin	38.8	33.4	541bp	46.8	-795bp	40.5	39.3	114bp
OPM	19.7	16.4	332bp	21.9	-213bp	20.4	20.6	-19bp
NPM	12.6	10.7	184bp	15.1	-248bp	13.3	13.2	13bp

Source: Company, Systematix Institutional Research

Exhibit 4: Segmental data

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
REVENUE	16,967	19,497	-13%	12,413	37%	60,597	61,859	-2%
Textile	13,940	13,551	3%	9,999	39%	47,138	48,932	-4%
Sugar and Ethanol	2,794	5,601	-50%	2,117	32%	12,262	11,795	4%
Other	233	345	-33%	297	-22%	1,197	1,132	6%
Net Revenues	16,967	19,497	-13%	12,413	37%	60,597	61,859	
Sales mix:								
Textile	82%	70%	1,266bp	81%	161bp	78%	79%	-131bp
Sugar and Ethanol	16%	29%	-1,226bp	17%	-59bp	20%	19%	117bp
Other	1%	2%	-40bp	2%	-102bp	2%	2%	15bp
EBIT								
Textile	2,160	1,780	21%	1,693	28%	7,528	9,020	-17%
Sugar & Ethanol	687	951	-28%	528	30%	2,908	1,935	50%
Other	10	11	-6%	8	31%	39	51	-25%
EBIT %								
Textile	15%	13%	236bp	17%	-144bp	16%	18%	-246bp
Sugar & Ethanol	25%	17%	759bp	25%	-39bp	24%	16%	731bp
Other	4%	3%	123bp	3%	176bp	3%	5%	-132bp

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues	48,225	61,859	60,597	68,368	78,142
Revenue growth (%)	36.6	28.3	-2.0	12.8	14.3
- Op. expenses	36,038	49,115	48,230	52,977	59,011
EBITDA (Excl. OI)	12,187	12,744	12,367	15,391	19,131
EBITDA margins (%)	25.3	20.6	20.4	22.5	24.5
- Interest expenses	233	789	744	622	521
- Depreciation	1,411	1,737	1,892	2,099	2,317
+ Other income	872	623	673	759	867
- Tax	2,997	2,701	2,350	3,034	3,877
Effective tax rate (%)	26	25	23	23	23
Reported PAT	8,418	8,141	8,054	10,395	13,284
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	8,418	8,141	8,054	10,395	13,284
EPS adj. (Rs/share)	24.6	23.8	23.6	30.4	38.9

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	344	342	342	342	342
Reserves & Surplus	31,524	36,725	43,241	51,557	62,184
Networth	31,868	37,067	43,582	51,898	62,525
Minority interest	-	-	-	-	-
Total Debt	12,171	13,685	11,651	9,549	8,202
Def. tax liab. (net)	337	970	1,181	1,181	1,181
Capital employed	44,376	51,721	56,414	62,629	71,909
Net Fixed assets	20,556	23,931	25,468	27,169	30,402
Investments	3,107	1,287	335	5,320	6,320
Net Working capital	19,447	25,377	28,821	28,011	31,570
Cash and bank balance	1,266	1,127	1,790	2,127	3,616
Capital deployed	44,376	51,721	56,414	62,629	71,909
Net debt	10,905	12,558	9,861	7,422	4,586
WC (days)	113	129	148	148	148
DE (x)	0.38	0.37	0.27	0.18	0.13

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	8,418	8,141	8,054	10,395	13,284
+ Non cash items	1,455	2,370	2,104	2,099	2,317
Cash profit	9,873	10,510	10,157	12,494	15,601
- Incr/(Decr) in WC	4,995	5,930	3,444	-809	3,558
Operating cash flow	4,878	4,580	6,714	13,303	12,042
- Capex	9,125	5,112	3,430	3,800	5,550
Free cash flow	-4,247	-532	3,284	9,503	6,492
- Dividend	52	735	1,538	2,079	2,657
+ Equity raised	-0	-2	-	-	-
+ Debt raised	5,550	1,514	-2,034	-2,102	-1,347
- Buyback	-	-2,208	-	-	-
- Investments	758	-1,821	-951	4,985	1,000
- Misc. items	-	-3	-	-	-
Net cash flow	494	-139	663	337	1,488
+ Opening cash	773	1,266	1,127	1,790	2,127
Closing cash	1,266	1,127	1,790	2,127	3,616

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	25.3	24.2	35.0	27.1	21.2
P/BV (x)	6.7	5.3	6.5	5.4	4.5
EV/EBITDA (x)	18.4	16.4	23.6	18.8	15.0
RoE (%)	30.4	23.6	20.0	21.8	23.2
RoCE (%)	28.8	22.9	19.4	22.3	25.0
Fixed Asset turnover (x)	1.7	1.8	1.6	1.8	1.8
Dividend (%)	215	215	250	608	777
Dividend yield (%)	0.3	0.4	0.3	0.7	0.9
Dividend payout (%)	0.6	9.0	20.0	20.0	20.0
Debtors days	36	37	40	40	40
Creditor days	21	20	7	7	7
Inventory days	98	112	115	115	115
Revenue growth (%)	36.6	28.3	(2.0)	12.8	14.3
EBITDA growth (%)	46.9	4.6	-3.0	24.5	24.3
PAT growth (%)	63.4	-3.3	-1.1	29.1	27.8

Source: Company, Systematix Institutional Research

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