

Current	Previous
CMP : Rs. 686	
Rating : BUY	Rating : HOLD
Target : Rs.822	Target : Rs.750

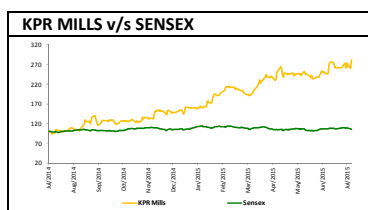
STOCK INFO	
BSE	532889
NSE	KPRMILL
Index	S&P BSE SMALL CAP
Bloomberg	KPR IN
Reuters	KPRM.BO
Sector	Textiles
Face Value (Rs)	10
Equity Capital (Rs mn)	377
Mkt Cap (Rs mn)	25,848
52w H/L (Rs) (Adj.)	694/225
3m Avg Daily Volume (BSE + NSE)	39597

SHAREHOLDING PATTERN (as on Jun. 2015)		%
Promoters		75.0
FII's		2.7
DII's		10.5
Public & Others		11.8

Source: BSE

STOCK PER. (%)	1m	3m	12m
KPR MILLS	14	21	182
SENSEX	-1	0	6

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

### Financial and operating leverage to continue; Maintain BUY with revised TP of Rs 822

KPR Mills Ltd (KML) reported consolidated results that outperformed our estimates on bottomline front. It would continue to focus on value added products and its vertically integrated facilities would enable better margins.

#### Net Sales impacted by de-growth in average realisation

Net sales stood at Rs 6002 mn in Q1FY16 against Rs 5780 mn in Q1FY15 (vs. INSPLEST: Rs 6102 mn). This was driven by textile segment which grew by 7% yoy to reach Rs 5046 mn in Q1FY16. Textile segment revenue was driven by garments and fabrics which grew 19% yoy and 22.9% yoy respectively. Revenue from yarn declined 10% yoy due to lower cotton prices. While yarn volume increased by 6.5% yoy its average realisation declined 15.5% yoy in Q1FY16. Fabric realisation also de-grew by 16.5% yoy in Q1FY16 while fabric volume growth stood at 47.2% yoy in Q1FY16. Garment realisation increased 2.4% yoy and volume growth stood at 16.5% yoy, resulting in garment sales growth of 19.3%. Sugar segment declined 19.8% yoy to reach Rs 650 mn.

Particulars	Q1FY16	Q4FY15	Q1FY15	QoQ(%)	YoY(%)
<b>Qty</b>					
Yarn (tons)	10631	14775	9982	-28.0	6.5
Fabric (tons)	6850	6953	4653	-1.5	47.2
Garment (Mn Pcs)	10.6	10.9	9.1	-2.8	16.5
<b>Value (Rs Mn)</b>					
Yarn	2060	2690	2290	-23.4	-10.0
Fabric	1340	1290	1090	3.9	22.9
Garments	1360	1270	1140	7.1	19.3
Sugar	650	566	810	14.8	-19.8
Others	590	723.75	450	-18.5	31.1
Total	6000	6539.75	5780	-8.3	3.8
<b>Avg Realisation</b>					
Yarn (Rs/kg)	193.8	182.1	229.4	6.4	-15.5
Fabric (Rs/kg)	195.6	185.5	234.3	5.4	-16.5
Garment (Rs/pc)	128.3	116.5	125.3	10.1	2.4
<b>Revenue Mix (%)</b>					
Yarn	34.3	41.1	39.6		
Fabric	22.3	19.7	18.9		
Garments	22.7	19.4	19.7		
Sugar	10.8	8.7	14.0		
Others	9.8	11.1	7.8		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

Source: Company, IndiaNivesh Research

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- EBITDA stood at Rs 993 mn in Q1FY16 against Rs 934 mn in Q1FY15, growth of 6.2% yoy. EBITDA margin improved to 16.5% in Q1FY16 from 16.2% in Q1FY15, an improvement of 37 bps yoy. EBITDA was positively impacted by lower raw material cost (62.5% of net sales in Q1FY16 vs 67.3% of net sales in Q1FY15) while it was offset by higher other expenses (12.5% vs 8.9%) and employee cost (8.4% vs. 7.6%).
- PAT grew 28.1% yoy to reach Rs 505 mn in Q1FY16 from Rs 394 mn in Q1FY15 (INSPL est: Rs 448 mn). This growth in PAT is on account of higher other operating income (48.1% yoy) and reduction in depreciation cost (-6% yoy) and interest cost (17.3% yoy). Adjusting for other income and other operating income, adjusted PAT stood at Rs 212 mn in Q1FY16 from Rs 173 mn in Q1FY15, signifying growth of 22% yoy. This illustrates the impact of lower interest and depreciation cost on the performance of the company.

We attended the conference call of the company and following are the key takeaways:

- Management focus would continue on garments business. The revenue mix would tilt towards garments with increasing garment capacities and higher captive consumption.
- Exports of the company stood at Rs 2040 mn.
- The share of compact yarn is likely to increase from 50% to 75% by end of FY16E. This would enable better profitability. Average realisation of compact yarn is generally better than basic yarn by Rs 5 per kg.
- Increase in power cost was the primary reason for increase in other expenses. The company incurred additional power cost of Rs 170 mn due to lower generation from wind power. Consequently, it had to purchase electricity from the grid. However, this is not a recurring phenomenon. Total power expenditure in Q1FY16 stood at Rs 470 mn.
- Total capex for FY16E is likely to be Rs 2250 mn of which Rs 1750 mn would be for the new garment facility and Rs 500 mn would be for modernisation and maintenance.
- Total debt at the end of the quarter stood at Rs 6120 mn of which term loan was Rs 3780 mn and working capital loan was Rs 2330 mn (reduced from Rs 4330 mn in Q4FY15). The company would repay term loan of Rs 900 mn. It would take additional Rs 1000 mn for the Greenfield garment facility under Technological Upgradation Funds Scheme (TUFS). Cash flows generated through existing capacities would be utilised for working capital. The management stated that the debt level of the company is likely to remain at current levels in FY16E.
- The company has more than 40 clients of which 2 are from the US. Top 20 clients contribute 70% to revenue.
- The company reduced inventory by Rs 1170 mn. The cost of cotton stood at Rs 100 per kg. The management stated that the cotton prices are likely to stabilise at current levels.
- The management stated that as a rule of thumb, for Rs 1000 mn revenue in garments, it would require 1000 people which would manufacture 8mn pcs, 500 sewing machines, capex of Rs 400-500 mn and working capital of 20% of sales.
- EBITDA margin in yarn is 18% while that in garments is 24%.
- Management guided for operating margin of 22%-24% (including other operating income) going forward. Operating margin (including other operating income) stood at 20.4% in Q1FY16. It also guided that the company may become debt-free eventually due to focus on low capital intensive garments business.

#### Revision in estimates

We maintain our revenue and EBITDA estimates, given the unpredictable nature of cotton prices. However, we have lowered debt assumption taking into consideration the company guidance to maintain it at current levels. Consequently, our net profit estimates are revised upwards by 2.7% /1% for FY16E / FY17E respectively.

Particulars (Rs Mn)	FY16E			FY17E		
	New	Earlier	% Chg	New	Earlier	% Chg
Sales	28422	28422	0.0	33379	33379	0.0
EBITDA	4491	4491	0.0	5646	5646	0.0
PAT	2395	2332	2.7	3315	3282	1.0
EPS	63.6	61.9	2.7	88.0	87.1	1.0
EBITDA Margin (%)	15.8	15.8	3 bps	16.9	16.2	77 bps
PAT Margin (%)	8.4	8.2	19 bps	9.9	9.3	60 bps

Source: Company, IndiaNivesh Research

### Valuation

At CMP of Rs 686, the stock trades at PE of 10.9x and 7.8x its FY16E and FY17E earnings of Rs 63.2 and Rs 88 per share respectively. We are positive on the strong business model of the company due to its vertically integrated capacities, focus on value added products, captive green power capacity and leadership position in knitwear segment of the industry. Its proximity to clients in Tirupur provides location advantages. Reducing debt and expected improvement in margin is likely to improve its ROE to 26.4% in FY17E from 19.7% in FY15. We maintain BUY rating on the stock with revised SOTP based target price of Rs 822. We have revised EV/EBITDA multiple of textile segment to 6.2x from 5.7x earlier due to expected improvement in margins and its better financial performance than peers like Vardhman Textiles, Arvind and Raymond. The key risk to our estimates would be steep volatility in cotton prices.

### SOTP based target price

Segment	EBITDA (FY17E)	Multiple	Rs Mn
Textiles	5,990	6.2	36921
Sugar	320	6	1918
EV			38839
Debt (FY15)			8169
Cash (FY15)			286
Market Cap			30956
<b>Target Price (Rs Per Share)</b>			<b>822</b>

Source: IndiaNivesh Research

### Textile Peers

Company	CMP	Sales (FY17E)	Sales CAGR (FY14-FY17E) (%)	EPS CAGR (FY14-FY17E) (%)	EBITDA Margin FY17E (%)	PAT Margin FY17E (%)	ROE (%) FY17E (%)	P/E FY17E (x)	EV/EBITDA FY17E (x)
Arvind	291	103074	14.8	27.8	13.7	5.5	16.8	13.5	7.7
Raymond	467	66480	11.7	38.0	9.7	3.4	11.4	13.3	6.8
Vardhman	758	78291	7.4	31.9	19.2	8.3	16.0	7.4	4.4
<b>Average</b>	-	<b>82615</b>	<b>11.3</b>	<b>32.6</b>	<b>14.2</b>	<b>5.7</b>	<b>14.7</b>	<b>11.4</b>	<b>6.3</b>
<b>KPR</b>	<b>686</b>	<b>33379</b>	<b>15.8</b>	<b>38.2</b>	<b>16.9</b>	<b>9.9</b>	<b>26.4</b>	<b>7.8</b>	<b>4.9</b>

Source: Company, Bloomberg, IndiaNivesh Research

## Financial Performance

Rs in mn	Q1FY16	Q4FY15	Q1FY15	QoQ (%)	YoY (%)
<b>Net sales</b>	<b>6,002</b>	<b>6,553</b>	<b>5,780</b>	-8.4	3.8
Raw Materials	3,753	4,375	3,891	-14.2	-3.5
Staff cost	507	468	437	8.3	15.9
Other expenditure	750	860	517	-12.8	44.9
Operating Expenses	5,009	5,702	4,845	-12.1	3.4
<b>EBITDA</b>	<b>993</b>	<b>851</b>	<b>934</b>	<b>16.7</b>	<b>6.2</b>
<i>EBITDA Margin (%)</i>	<i>16.5%</i>	<i>13.0%</i>	<i>16.2%</i>	<i>356 bps</i>	<i>37 bps</i>
Other Operating Income	231	215	156	7.5	48.1
Other Income	63	63	65	-0.9	-3.4
Depreciation	376	369	400	1.8	-6.0
Profit bef. Int. & Tax	910	759	755	19.9	20.5
Interest & finance ch.	181	213	218	-15.3	-17.3
Profit before tax	730	546	537	33.6	35.9
Total tax expenses	225	45	143	398.0	57.4
Add/Less: Extraordinary Items	0	0	0		
Net profit	505	501	394	0.8	28.1
PAT	505	501	394	<b>0.8</b>	<b>28.1</b>
<i>Effective tax rate</i>	<i>30.8%</i>	<i>8.3%</i>	<i>26.6%</i>		
<i>Adj. PAT Margins (%)</i>	<i>8.4%</i>	<i>7.6%</i>	<i>6.8%</i>	<i>76 bps</i>	<i>160 bps</i>
EPS	13.4	13.3	10.5	0.8	28.1

Source: Company, IndiaNivesh Research

## Segmental Performance

Rs in mn	Q1FY16	Q4FY15	Q1FY15	QoQ (%)	YoY (%)
<b>Revenue (Rs Mn)</b>					
Textile	5046	5532	4716	-8.8	7.0
Sugar	701	768	856	-8.8	-18.1
Others	308	252	253	22.2	21.8
<b>Total</b>	<b>6055</b>	<b>6553</b>	<b>5824</b>	<b>-7.6</b>	<b>4.0</b>
<b>EBIT (Rs Mn)</b>					
Textile	834	675	630	23.6	32.5
Sugar	5	5	47	-13.2	-90.1
Others	9	16	14	-43.1	-35.0
<b>Total</b>	<b>848</b>	<b>696</b>	<b>690</b>	<b>21.8</b>	<b>22.8</b>
<b>EBIT Margin (%)</b>					
Textile	16.5	12.2	13.3	432 bps	317 bps
Sugar	0.7	0.7	5.5	(3 bps)	(480 bps)
Others	3.0	6.4	5.5	(340 bps)	(258 bps)

Source: Company, IndiaNivesh Research

## Consolidated Financial Statements

## Income statement

Y E March (Rs m)	FY 13	FY 14	FY 15P	FY 16E	FY 17E
<b>Net sales</b>	<b>16259</b>	<b>23105</b>	<b>24885</b>	<b>28422</b>	<b>33379</b>
Growth %	35.1	42.1	7.7	14.2	17.4
<b>Expenditure</b>	<b>12774</b>	<b>19488</b>	<b>21285</b>	<b>23931</b>	<b>27732</b>
Raw Material	9938	15867	16740	18729	21541
Power and Fuel	646	713	1070	1279	1502
Employee	1167	1510	1827	2217	2770
Others	1024	1398	1648	1705	1919
<b>EBITDA</b>	<b>3486</b>	<b>3617</b>	<b>3600</b>	<b>4491</b>	<b>5646</b>
Growth %	195.2	3.8	-0.5	24.8	25.7
EBITDA Margin %	21.4	15.7	14.5	15.8	16.9
Other Income	445	915	1,013	1,141	1,243
Depreciation and amortisation	1509	1567	1540	1595	1664
<b>EBIT</b>	<b>2421</b>	<b>2966</b>	<b>3073</b>	<b>4038</b>	<b>5226</b>
EBIT Margin %	14.9	12.8	12.3	14.2	15.7
Interest	980	1045	839	637	490
Exceptional/Extraordinary item	0	0	0	0	0
<b>PBT</b>	<b>1441</b>	<b>1921</b>	<b>2234</b>	<b>3401</b>	<b>4735</b>
PBT Margin %	8.9	8.3	9.0	12.0	14.2
Tax	411	504	498	1020	1421
Effective tax rate %	29	26	22	30	30
<b>PAT</b>	<b>1030</b>	<b>1417</b>	<b>1736</b>	<b>2381</b>	<b>3315</b>
Adj. PAT	<b>1030</b>	<b>1417</b>	<b>1736</b>	<b>2381</b>	<b>3315</b>
Growth%	214.2	37.5	22.5	37.2	39.2
Adj. PAT Margin %	6.3	6.1	7.0	8.4	9.9

## Cash Flow

Y E March (Rs m)	FY 13	FY 14	FY 15P	FY 16E	FY 17E
<b>PBT</b>	<b>1441</b>	<b>1921</b>	<b>2234</b>	<b>3401</b>	<b>4735</b>
<b>Adjustment for:</b>					
Depreciation	1509	1567	1540	1595	1664
Others	926	995	738	531	379
<b>Changes in working capital</b>	<b>-1476</b>	<b>450</b>	<b>-1721</b>	<b>-595</b>	<b>-1862</b>
<b>Tax expenses</b>	<b>-255</b>	<b>-412</b>	<b>-498</b>	<b>-1020</b>	<b>-1421</b>
<b>Cash flow from operations</b>	<b>2145</b>	<b>4520</b>	<b>2294</b>	<b>3911</b>	<b>3495</b>
Capital expenditure	-2535	-2240	-990	-1555	-606
<b>Free Cash Flow</b>	<b>-389</b>	<b>2281</b>	<b>1304</b>	<b>2356</b>	<b>2890</b>
Others	36	100	97	102	107
<b>Cash flow from investments</b>	<b>-2499</b>	<b>-2140</b>	<b>-893</b>	<b>-1453</b>	<b>-499</b>
Interest	-883	-1101	-672	-510	-392
Loans availed or (repaid)	2063	-462	-1451	-1799	-1466
Proceeds from Issue of shares (incl share premium)	0	0	0	0	0
Dividend paid (incl tax)	-363	-321	-399	-399	-399
<b>Cash flow from Financing</b>	<b>817</b>	<b>-1883</b>	<b>-2521</b>	<b>-2708</b>	<b>-2257</b>
Net change in cash	463	497	-1121	-250	739
Cash at the beginning of the year	446	910	1406	286	36
Cash at the end of the year	910	1406	286	36	774
Reconciliation with other balances	-149	-415	0	0	0
Cash as per Balance Sheet	761	992	286	36	774

## Balance sheet

Y E March (Rs m)	FY 13	FY 14	FY 15P	FY 16E	FY 17E
Equity Share Capital	377	377	377	377	377
Preference Capital and others	150	150	150	150	150
Reserves & Surplus	6536	7619	8925	10649	13421
<b>Net Worth</b>	<b>7063</b>	<b>8145</b>	<b>9452</b>	<b>11176</b>	<b>13947</b>
Total debt	10082	9620	8169	6370	4904
Net deferred tax liability	624	601	600	600	600
<b>Total Liabilities</b>	<b>17768</b>	<b>18366</b>	<b>18222</b>	<b>18146</b>	<b>19452</b>
Gross Fixed Assets	19508	20190	21208	22740	23340
Less Depreciation	6123	7638	9178	10852	12516
Capital Work in Progress	0	60	50	55	61
Net Fixed Assets	13385	12611	12080	11942	10884
Goodwill on Consolidation	7	7	7	7	7
Investments	665	627	615	615	615
<b>Current Assets</b>	<b>6844</b>	<b>8399</b>	<b>9497</b>	<b>9842</b>	<b>13239</b>
Inventories	3576	4053	5164	5400	7176
Sundry Debtors	1611	2380	2818	3126	3839
Cash & Bank Balance	761	992	286	36	774
Loans & advances	704	508	823	853	1001
Other Current assets	193	467	407	427	449
Current Liabilities & provisions	3132	3278	3978	4260	5293
<b>Net Current Assets</b>	<b>3712</b>	<b>5121</b>	<b>5520</b>	<b>5582</b>	<b>7946</b>
Mis Exp not written off	0	0	0	0	0
<b>Total assets</b>	<b>17768</b>	<b>18366</b>	<b>18222</b>	<b>18146</b>	<b>19452</b>

## Key ratios

Y E March	FY 13	FY 14	FY 15P	FY 16E	FY 17E
Adj. EPS (Rs)	27.3	37.6	46.1	63.2	88.0
Cash EPS (Rs)	67.4	79.2	86.9	105.5	145.3
BVPS	187.4	216.2	250.9	296.6	407.2
DPS (Rs)	6.0	7.0	9.0	9.0	9.0
Adj. P/E (x)	25.1	18.2	14.9	10.9	7.8
P/CEPS (x)	10.2	8.7	7.9	6.5	4.7
P/BV (x)	3.7	3.2	2.7	2.3	1.7
EV/EBITDA(x)	10.1	9.5	9.4	7.2	4.9
M cap/sales (x)	1.6	1.1	1.0	0.9	0.7
ROCE	15.4	17.0	17.4	23.0	28.7
ROE	15.5	18.6	19.7	23.1	26.4
Inventory (days)	61.1	60.3	67.6	67.8	68.8
Debtors (days)	33.7	31.5	38.1	38.2	38.1
Trade Payables (days)	17.0	31.1	41.1	36.3	35.6
Total Asset Turnover (x)	0.9	1.1	1.1	1.3	1.4
Fixed Asset Turnover (x)	1.3	1.8	2.0	2.4	2.9
Debt/equity (x)	1.4	1.2	0.9	0.6	0.4
Debt/ebitda (x)	2.9	2.7	2.3	1.4	0.9
Interest Coverage (x)	2.5	2.8	3.7	6.3	10.7
Dividend Yield %	0.9	1.0	1.3	1.3	1.3

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter:

Disclosure of Interest Statement		
1	Details of business activity of IndiaNivesh Securities Private Limited (INSPL)	INSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSPL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSPL is a Registered Portfolio Manager and is registered with SEBI.
2	Details of Disciplinary History of INSPL	No disciplinary action is / was running / initiated against INSPL
3	Details of Associates of INSPL	Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (Investment Research Section - <a href="http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10">http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10</a> link). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. INSPL and its affiliates may have investment positions in the stocks recommended in this report.
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**Definitions of ratings**

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

**Other definitions**

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSPL

CS = Coverage Suspended. INSPL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSPL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

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Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at [www.nseindia.com](http://www.nseindia.com) and [www.economicstimes.indiatimes.com/markets/stocks/stock-quotes](http://www.economicstimes.indiatimes.com/markets/stocks/stock-quotes). (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)



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