IndiaNivesh
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Initiating Coverage
December 5, 2014

KPR Mills Ltd.

Taking advantage of complete integration....

Current	Previous
CMP : Rs.370	Rating : BUY
Rating : BUY	Target : Rs.352 Achieved
Target : Rs.570	

STOCK INFO	
BSE	532889
NSE	KPRMILL
Bloomberg	KPR IN
Reuters	KPRM.BO
Sector	Textile
Face Value (Rs)	10
Equity Capital (Rs mn)	377
Mkt Cap (Rs mn)	13,942
52w H/L (Rs) (Adj.)	384.6/105
3m Avg Daily Volume (BSE + NSE)	192,627

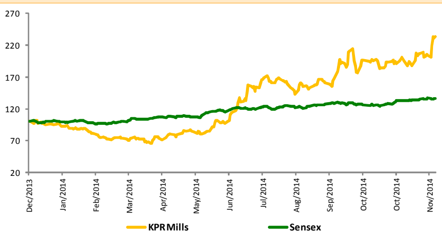
SHAREHOLDING PATTERN	%
(as on Sep. 2014)	
Promoters	75.0
FIIs	1.2
DIIs	8.4
Public & Others	15.4

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
KPR MILLS	16	39	133
SENSEX	2	5	36

Source: Capitaline, IndiaNivesh Research

KPR MILLS v/s SENSEX



Source: Capitaline, IndiaNivesh Research

KPR Mills is amongst the largest companies in the knitted garment segment. Completely vertically integrated unit from yarn to garments, the company would be in a sweet spot to benefit from lower cotton prices. We expect EPS of the company to grow at CAGR of 30.5% over FY14-FY16E driven by higher EBITDA margin, lower debt and focus on value added products. We opine that KPR Mills would be in a strong position to leverage the improving global economic condition including India. We recommend BUY rating on the stock with target price of Rs 570 per share.

We had recommended the stock in our monthly report on 1st October 2014 at Rs 312 with target price of Rs 352, which has been achieved.

Investment Rationale

Indian textile industry poised for growth: Indian textile and apparel industry is estimated to reach USD 221 bn in 2021 from USD 89 bn in 2011, signifying CAGR of 9.5% over the period. This includes domestic as well as exports segment. Domestic industry growth can be attributed to higher economic growth, rising consumer purchasing power and favourable demographic profile. Exports growth is likely to be on account of increasing competitiveness against other exporting countries. Rising Chinese domestic consumption, labour issues in China and Bangladesh, increasing power cost and depreciating Rupee vis-a-vis other exporting countries are turning favourable for Indian exports.

Self – sufficiency in power – key advantage: Spinning, weaving and processing are highly power intensive processes. The company has been focussing on green energy to reduce its dependence on grid power. It set up wind mills with a capacity of 61.9MW & Co-gen power plant of 30MW to achieve self sufficiency in green power requirement throughout the year. We believe power cost is a key advantage for KPR Mills as other players have relatively high power cost, which provides better margins and price competitiveness to the company.

Focus on value added products to help maintain EBITDA margins: EBITDA margin is likely to improve 51 bps to 16.2% in FY16E from 15.7% in FY14 due to higher share of value added products in the revenue mix and relatively lower cotton prices. EBITDA is likely to grow at a CAGR of 17.8% over FY14-FY16E to reach Rs 5020 mn in FY16E.

EPS likely to grow at 30.5% CAGR over FY14-16E: We expect the debt equity of the company to reach 0.6x in FY16E from 1.2x in FY14. Net profit margin is likely to reach 8.1% in FY16E from 6.1% in FY14. Accordingly, EPS is likely to reach Rs 64.1 per share in FY16E from Rs 37.6 per share in FY14, signifying 30.5% CAGR. We expect the company to attain ROE of 19.8% and 23.2% in FY15E and FY16E from 18.6% in FY14.

Valuation

At CMP of Rs 370, the stock trades at PE of 8x and 5.8x its FY15E and FY16E earnings of Rs 46.1 and Rs 64.1 per share respectively. We value the stock on SOTP basis taking into consideration its presence in unrelated business of textile and sugar. We value textile business at EV/EBITDA multiple of 4.7x its FY16E EBITDA and sugar business at EV/EBITDA multiple of 7.4x its FY16E EBITDA to arrive at target price of Rs 570 per share.

Key Risk: Steep Volatility in cotton price.

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Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS(Rs)	RoCE(%)	RoE(%)	Adj. P/E(x)	EV/EBITDA(x)
FY13	16259	3486	1030	27.3	15.4	15.5	13.5	6.7
FY14	23105	3617	1417	37.6	17.0	18.6	9.8	6.2
FY15E	26255	4142	1735	46.1	19.7	19.8	8.0	5.0
FY16E	31061	5020	2414	64.1	24.7	23.2	5.8	3.7

Source: Company, IndiaNivesh Research

Company Background

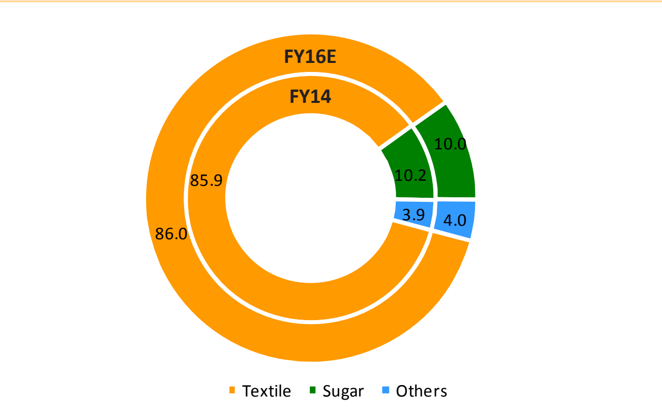
KPR Mills, incorporated in 1984, is amongst the largest company in knitted garments sector. It is a vertically integrated company with presence in yarn to garments. The company also manufactures value added yarn like melange yarn and compact yarn. It has marquee clients in its portfolio including about 1000 regular domestic clients for yarn and fabric. For garments, the company has approximately 40 international brands including Marks and Spencers, Tesco, Decathlon, Carrefour, among others. It has a sugar manufacturing capacity of 5000 tones crushed per day and co-gen power of 30MW. Its textile manufacturing facilities are situated at 8 locations in Tamil Nadu and its sugar producing facility is located in Karnataka.

Business Model

KPR Mills Ltd.	
Textile	**Sugar**
FY14	**FY14**
Revenue – Rs 19842 mn	Revenue – Rs 2357 mn
EBIT Margin – 12.6%	EBIT Margin – 3.8%
ROCE – 25.7%	ROCE – 3.0%
FY16E	**FY16E**
Revenue – Rs 27816 mn	Revenue – Rs 3245 mn
EBIT Margin – 14.0%	EBIT Margin – 6%
ROCE – 34.7%	ROCE – 5.4%

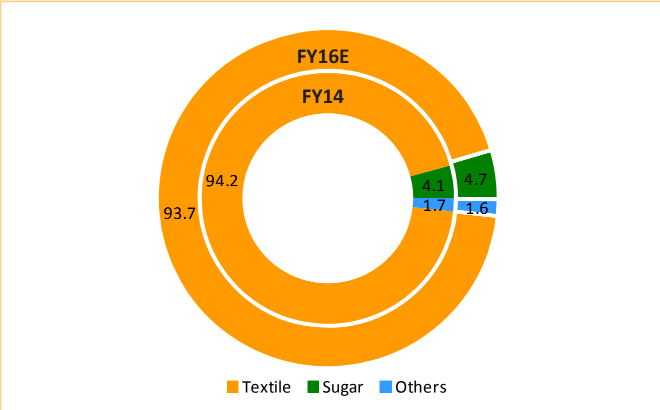
Source: Company, IndiaNivesh Research

Segmentwise Revenue Mix (%)



Source: Company, IndiaNivesh Research

Segmentwise EBIT Mix (%)



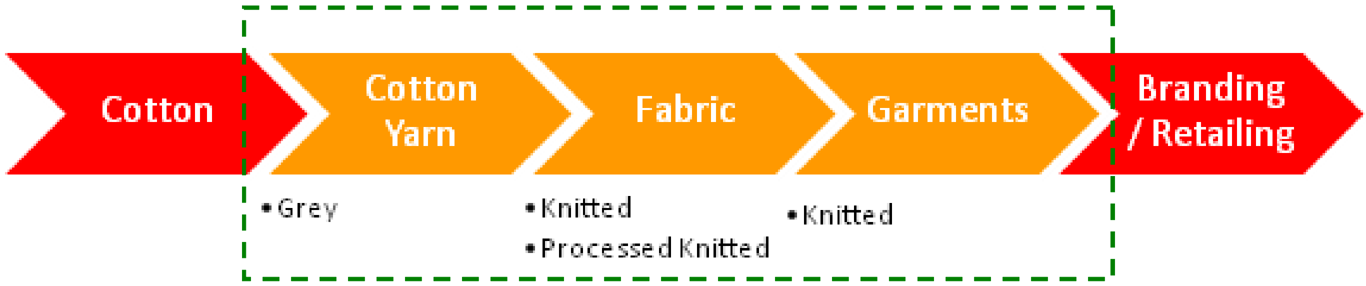
Source: Company, IndiaNivesh Research

Investment Rationale

Vertically integrated capacities guards small fluctuations in raw material

KPR Mills is a vertically integrated company having presence from yarn to garments. The company manufactures cotton yarn including grey yarn and value added yarn like Melange Yarn and Compact Yarn. Value-added yarn constitutes ~45% of the total yarn manufacturing capacity of 90000 tons per annum (tpa). It manufactures knitted fabric capacity of 30000 tpa. Its processing unit can process 9000 tpa of knitted fabric. It currently has a garment manufacturing capacity of 40 mn pcs per annum which is likely to be enhanced to 52 mn pcs per annum by end of FY15E. Captive consumption of products enables the company to manage their raw material efficiently and guard their margins against small fluctuations in prices.

KPR Operations



Source: IndiaNivesh Research

Capacity expansion fuelling growth; garments to be the next growth engine

KPR Mills Ltd has been expanding its capacities to cater to the growing demand in textiles sector. It has incurred a capex of approximately Rs 10 bn over the last five years to drive growth and attain self-sufficiency in captive power. It expanded its yarn capacity to 90000 tons in FY13 from 54000 tons in FY10. Most of the capacity added was in value added yarn like Melange Yarn and Compact Yarn. It set up wind mills with a capacity of 61.9 MW. It also established sugar manufacturing capacity of 5000 tons crushing per day (tcd) and a co-gen power plant of 30 MW. Recently, the company commissioned the Brownfield garment expansion of 10 mn pcs per annum (single shift basis) taking the capacity to 40 mn pcs per day. The company invested Rs 200 mn in this brownfield expansion and it became operational in Q1FY15. KPR is also undertaking Greenfield capacity expansion of garments which will increase the capacity by 12 mn pcs per annum taking the total capacity to 52 mn pcs per annum. This Greenfield capacity is likely to cost Rs 550 mn and is likely to become operational in Q4FY15E. Both the garment expansions have been funded internally. We expect garments to be the next growth driver of the company with its share in total revenues increasing to 22.8% in FY16E from 16.5% in FY14.

Capacity Expansion over FY10-FY16E

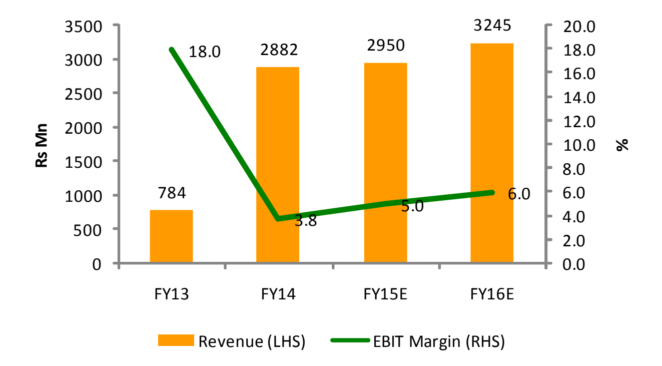
Capacity	Measure	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Yarn	Tons	54000	56200	82710	90000	90000	90000	90000
Fabric	Tons	21000	21000	21000	21000	21000	27000	27000
Processing	Tons	9000	9000	9000	9000	9000	9000	9000
Garment	Mn Pcs	30	30	30	30	30	40	52
Sugar	TCD	-	-	-	5000	5000	5000	5000
Wind Mill	MW	39.8	61.1	61.9	61.9	61.9	61.9	61.9
Co-gen Power	MW	0	0	0	30	30	30	30

Source: Company, IndiaNivesh Research

Sugar – strategic investment for reducing power cost

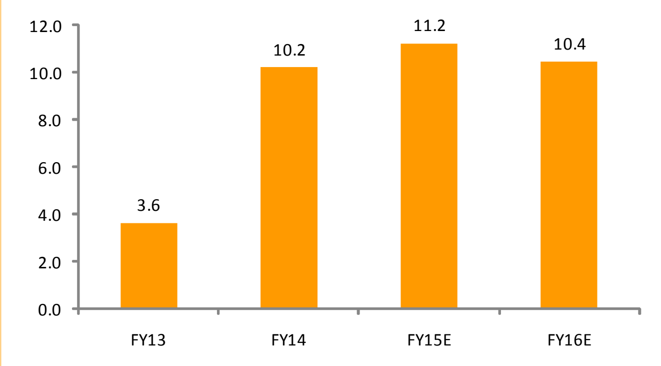
The company forayed into sugar business in FY13 with an aim of diversifying its business and generating green power. The company invested Rs 3.25 bn to set up a capacity of 5000 tones crushed per day and co-gen capacity of 30 MW. With the setting up of this facility, it became self sufficient in power cost and it has surplus power capacity to cater to additional expansion in textiles business. We do not expect any major capex in this business. We expect sugar segment to grow at a CAGR of 6.1% over FY14-FY16E to reach Rs 3245 mn in FY16E with EBIT margin of 6%. We expect sugar to contribute 10.4% to the topline of the company in FY16E.

Sugar Segment Performance



Source: Company, IndiaNivesh Research

Sugar segment contribution to revenue (%)

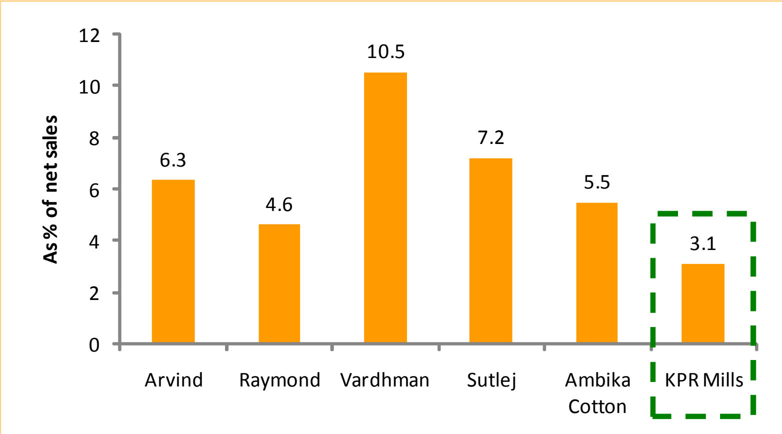


Source: Company, IndiaNivesh Research

Self – sufficiency in power – key advantage

Spinning, weaving and processing are highly power intensive processes. The consumption of power for yarn and processing is ~2.5 units per kg and 1.2 units per kg respectively, while garments consume ~0.25 units per piece. Since yarn and fabric constitute ~64% of FY14 sales, power is one of the major input cost for the company. Moreover, all its facilities are located in Tamil Nadu, a power deficit state, which has been facing power shortages over the last few years. The company has been focussing on green energy to reduce its dependence on grid power. It set up wind mills with a capacity of 61.9MW at the cost of Rs 1280 mn. However, this fulfils approximately 75% of the total requirement. In FY13, the company invested in Co-gen power plant of 30MW to achieve self sufficiency in green power requirement throughout the year. Wind power season is April to September and Co-gen power season is October to March. We expect power cost as percentage to sales to remain in the range of 3% of net sales going forward. We believe power cost is a key advantage for KPR Mills as other players have relatively high power cost, which provides better margins and price competitiveness to the company.

Power cost of KPR vs. other players (FY14)

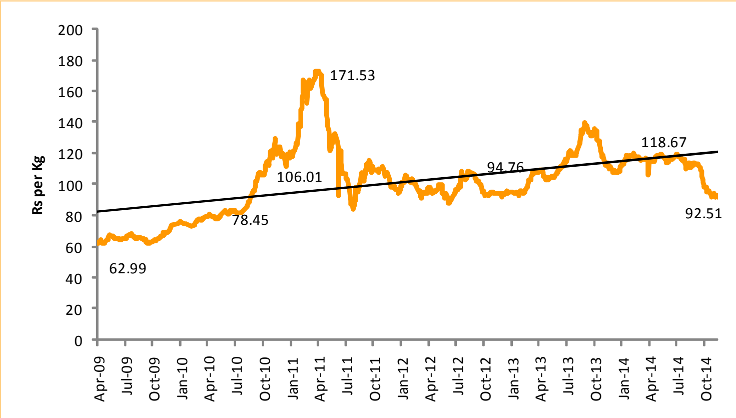


Source: Company, IndiaNivesh Research

Decline in cotton prices is a positive in near term

KPR Mills uses Shankar-6 variety of cotton, which is the best quality cotton available in India. Cotton prices have been declining over the last one year. Due to change in China cotton and cotton yarn procurement policy, the prices have been under pressure. Such decline in cotton prices is positive in near to mid term as it enables the company to garner better margins from value added products. However, sustenance of these lower prices may impact realisation over long term impacting the growth to some extent. In our opinion, the cotton prices are not likely to remain at lower levels due to expected buying in the commencing cotton season in October and improving demand in developed countries. Thus, KPR Mills is in a better situation to achieve higher profitability from lower cotton prices due to its vertically integrated facilities.

Cotton Prices in India

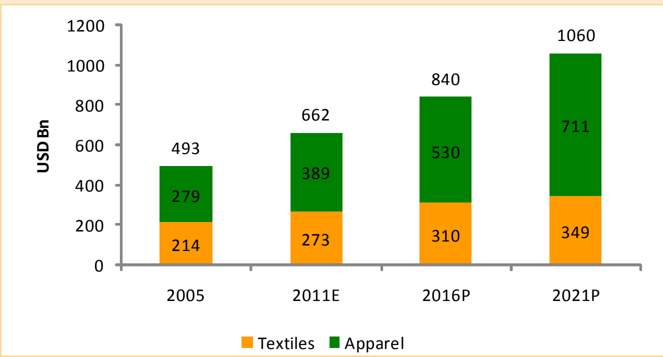


Source: Bloomberg, IndiaNivesh Research

Indian textile industry poised for growth

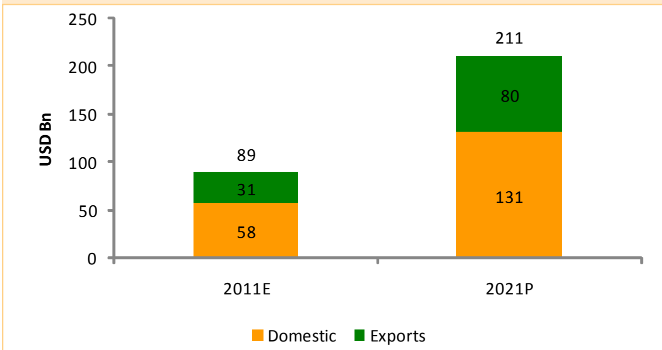
Global textile and apparel sector is likely to reach USD 1,060 bn by 2021 from USD 662 bn in 2011, as per Technopak analysis. Indian textile and apparel industry is estimated to reach USD 221 bn in 2021 from USD 89 bn in 2011, signifying CAGR of 9.5% over the period. This includes domestic as well as exports segment. Domestic industry worth USD 58 bn in 2011 is likely to grow at a CAGR of 8.5% over 2011-2021 to reach USD 131 bn by 2021. This is on account of higher economic growth, rising consumer purchasing power and favourable demographic profile. Indian textile and apparel exports, worth USD 31 bn in 2011, are likely to reach USD 80 bn by 2021 bn, signifying growth of 9.9% CAGR. This is on account of increasing competitiveness against other exporting countries. Rising Chinese domestic consumption, labour issues in China and Bangladesh, increasing power cost and depreciating Rupee vis-a-vis other exporting countries are turning favourable for Indian exports.

Global Trade in Textiles and Apparel



Source: Technopak Report June 2012, IndiaNivesh Research

Indian textile and apparel sector to grow at CAGR of 9.5%

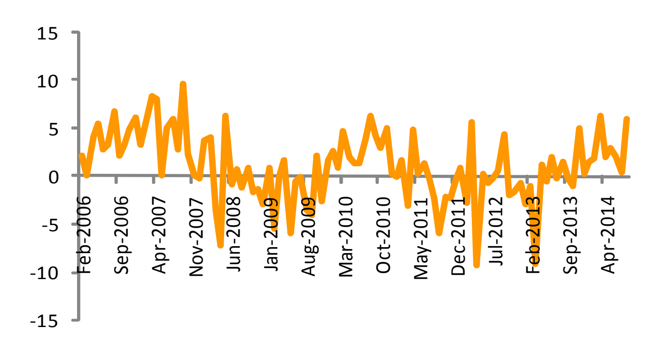


Source: Technopak Report June 2012, IndiaNivesh Research

Consumer confidence and retail sales improving in key markets

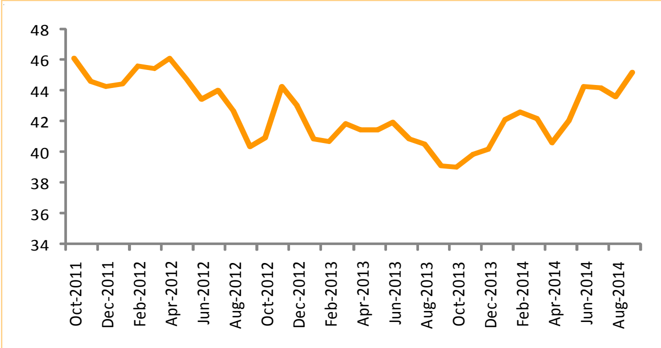
KPR Mills caters to Asian and European markets for its exports (which constitutes 25% of its total sales). We observe that the consumer confidence index in Asian markets are stabilising and improving from their lows. India Consumer Confidence Index is also showing significant improvement since October 2013 while Master Card Asia-Pacific Consumer Index also appears to improve since September 2009, implying better demand for textile products. An improving consumer confidence would imply better demand scenario for these regions. European Union apparel, footwear and leather goods retail sales growth is also improving since February 2013 and is showing positive growth. We are optimistic on the demand scenario for key regions of KPR Mills' operations.

EU apparel, footwear and leather goods retail sales growth YoY (%)



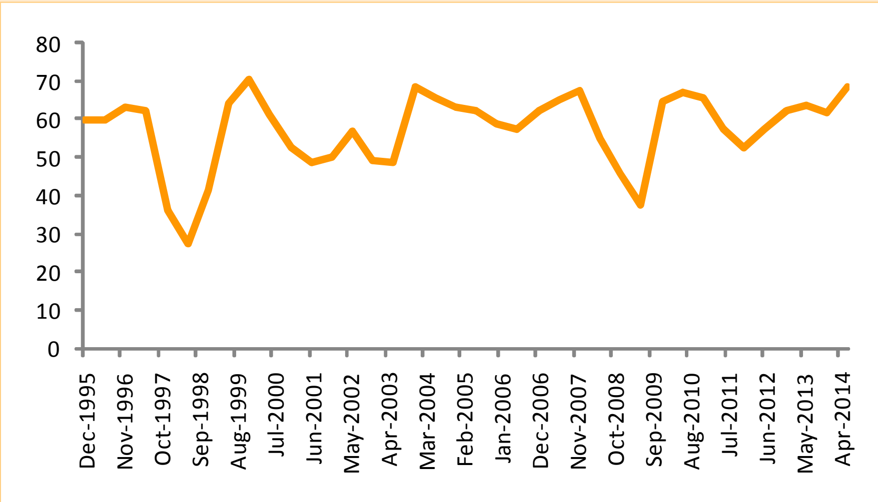
Source: Bloomberg, IndiaNivesh Research

India Consumer Confidence Index



Source: Bloomberg, IndiaNivesh Research

Asia Pacific Consumer Confidence Index



Source: Bloomberg, IndiaNivesh Research

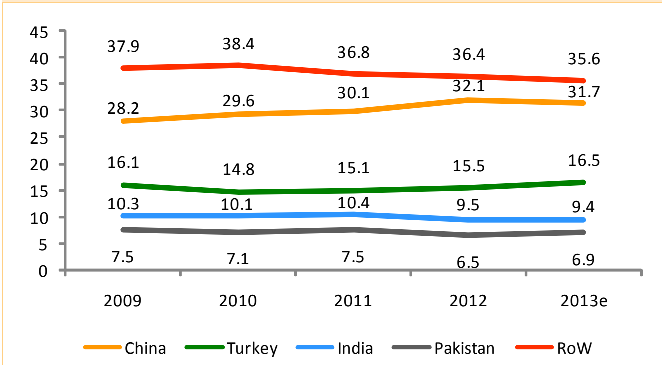
Likely FTA with EU would boost Indian apparel exports

There has been conjecture that negotiations for free trade agreement (FTA) between European Union and India are likely to resume. In the event of signing this agreement, Indian apparel sector would be at level playing field vis-a-vis competitors like Bangladesh and China. Currently Indian apparel exporters have to pay 11% duty to EU countries against China and Bangladesh paying 7% and 0% duty respectively. Scrapping of duty would thereby increase Indian apparel exports to EU. In 2013e, Indian exports accounted for 9.4% of EU textile imports and 6.1% of EU clothing imports, as per data published by Euratex (The European Apparel and Textile Confederation). This has been declining from 10.3% and 7.1% in 2009 for textiles and clothing respectively.

Extra-EU imports

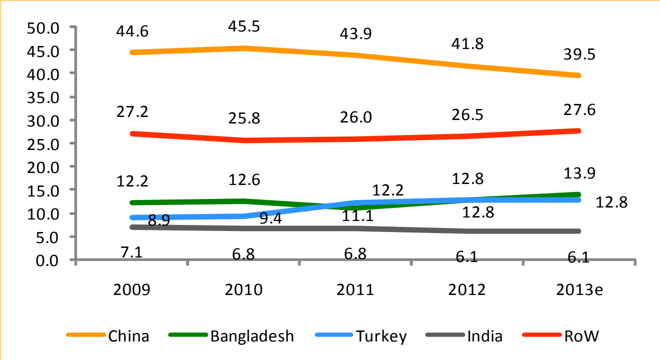
Source: Euratex, Eurostat, IndiaNivesh Research

Extra-EU textile imports market share (%)



Source: Euratex, Eurostat, IndiaNivesh Research

Extra-EU clothing imports market share (%)



Source: Euratex, Eurostat, IndiaNivesh Research

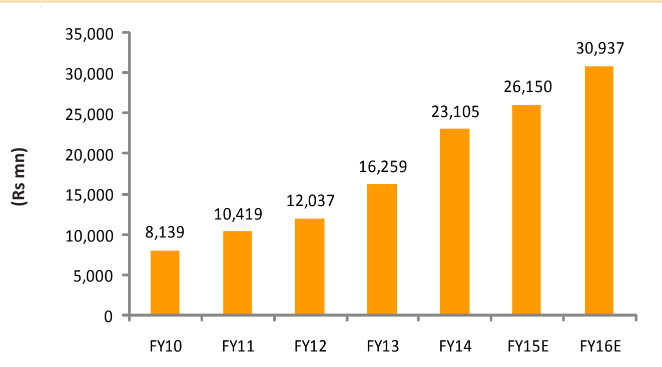
Note: Extra-EU refers to trade with all countries outside of the EU: the rest of the world except for the European Union (EU).

Financial Performance

Capacity expansion to drive Net Sales growth of 16.6% CAGR over FY14-16E

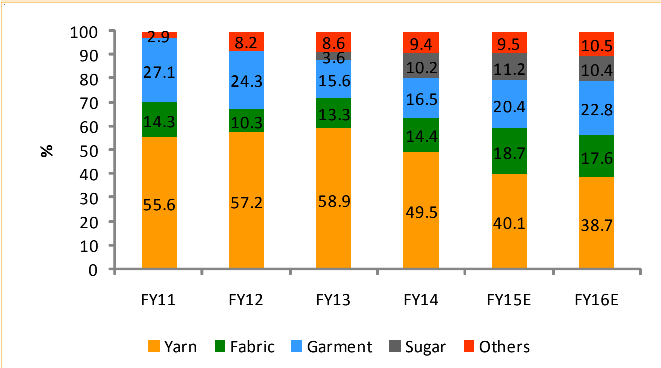
Net sales of the company have grown at a CAGR of 30.4% over FY11-FY14 to reach Rs 23105 mn in FY14. This growth has been driven by capacity additions and higher utilisation. Average realisation has also increased in the range of 6% - 13% over the same period, driven by higher value added products. We expect this trend to continue going forward. We expect net sales of the company to grow at a CAGR of 16.6% over FY14-16E to reach Rs 30937 mn, driven by garments and higher capacity utilisation in other products.

Net sales to grow at 16.6% CAGR



Source: Company, IndiaNivesh Research

Revenue Mix

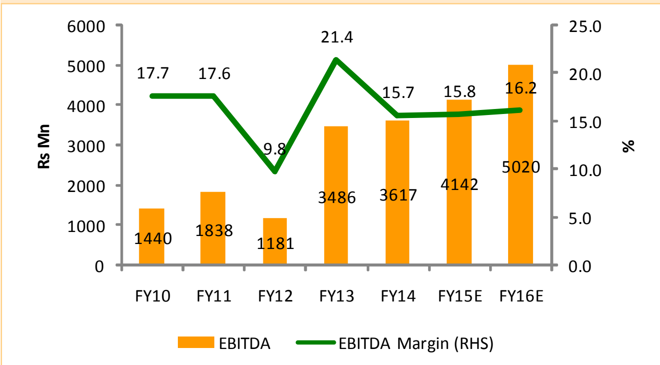


Source: Company, IndiaNivesh Research

Focus on value added products to help maintain EBITDA margins

EBITDA of the company grew at a CAGR of 25.9% over FY10-FY14 to reach Rs 3617 mn in FY14 from Rs 1440 mn in FY10. This was driven by higher share of value added products in the revenue mix. In yarns, the company added the capacity in compact yarn and melange yarn, which have higher profitability than grey cotton yarn. Garments have highest value addition in the textile chain resulting in better margins as compared to other products. The company has recently expanded its garments capacity by 10 mn pcs and is further expanding it by 12 mn pcs by the end of FY15E. EBITDA margin improved from 17.7% in FY10 to 21.4% in FY13. Steep volatility in cotton prices in FY12 and FY14 impacted the margins adversely. In our opinion, EBITDA margin is likely to improve 51 bps to 16.2% in FY16E from 15.7% in FY14 due to higher share of value added products and relatively lower cotton prices. However, steep volatility in cotton prices may impact the margins negatively and vice-versa. EBITDA is likely to grow at a CAGR of 17.8% over FY14-FY16E to reach Rs 5020 mn in FY16E.

EBITDA to grow at a CAGR of 17.8% over FY14-FY16E

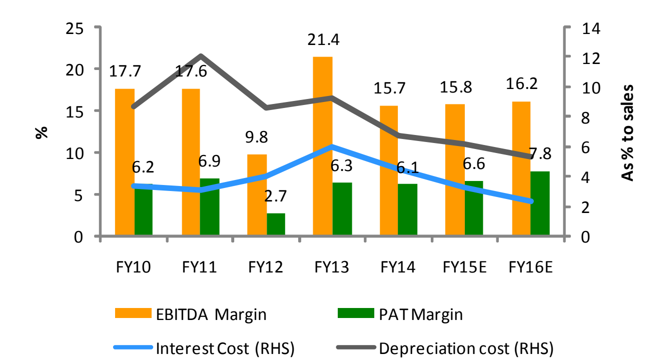


Source: Company, IndiaNivesh Research

EPS likely to grow at 30.5% CAGR over FY14-16E

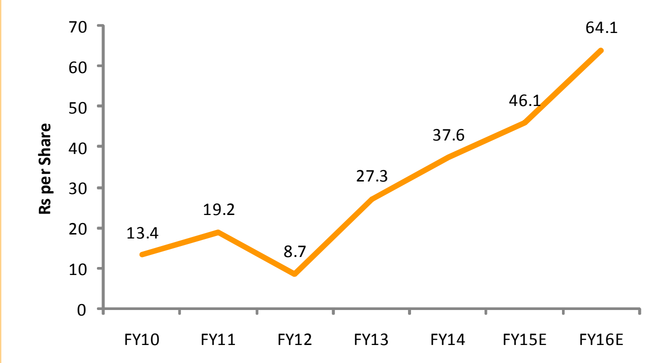
EPS of the company has grown at a CAGR of 25.2% over FY10-FY14, reaching Rs 37.6 per share in FY14. Going forward, higher EBITDA margin and lower than proportionate increase in fixed costs is likely to result in higher growth at net profit level. The company has been repaying its debt in absence of any major capacity expansion in near term leading to lower interest cost. We expect the debt equity of the company to reach 0.6x in FY16E from 1.2x in FY14. Net profit margin is likely to reach 8.1% in FY16E from 6.1% in FY14. Accordingly, EPS is likely to reach Rs 64.1 per share in FY16E from Rs 37.6 per share in FY14, signifying 30.5% CAGR.

Net Margin to reach 7.8% in FY16E



Source: Company, IndiaNivesh Research

EPS growth of 30.5% CAGR

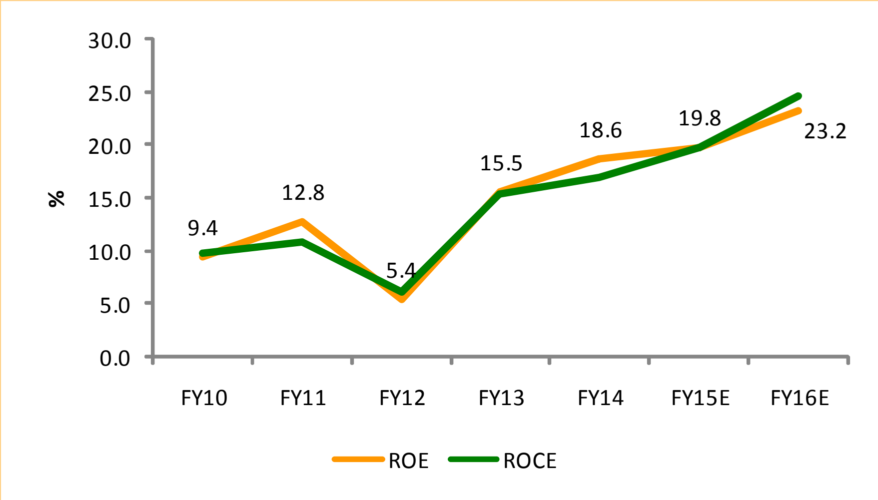


Source: Company, IndiaNivesh Research

No major capex plans, expect improvement in ROE

The company has already incurred a capex of Rs 10 bn over the last five years. Currently, it is expanding its garment capacity which is low capital intensive business, but higher value added product. It does not have any further capex plan in near term. Our interaction with the management indicated that it may incur further capex, but it is yet to firm up its plans. Lower capex and higher profitability is likely to improve its ROE going forward. We expect the company to attain ROE of 19.8% and 23.2% in FY15E and FY16E from 18.6% in FY14.

ROE likely to reach 23.2% in FY16E



Source: Company, IndiaNivesh Research

H1FY15 Consolidated financial Performance

Rs in mn	Q2FY15	Q1FY15	Q2 FY14	QoQ (%)	YoY (%)	H1FY15	H1FY14	Chg (%)
Net sales	**6,573**	**5,780**	**6,684**	*13.7*	*-1.7*	**12,353**	**11,422**	*8.1*
Raw Materials	4,717	3,859	4,884	*22.2*	*-3.4*	8,576	7,859	*9.1*
Staff cost	462	437	376	*5.7*	*22.7*	899	715	*25.7*
Other expenditure	448	549	420	*-18.3*	*6.7*	998	883	*13.0*
Operating Expenses	5,627	4,845	5,680	*16.1*	*-0.9*	10,472	9,457	*10.7*
EBITDA	**947**	**934**	**1,004**	***1.3***	***-5.7***	**1,881**	**1,966**	***-4.3***
EBITDA Margin (%)	*14.4%*	*16.2%*	*15.0%*	*(177 bps)*	*(62 bps)*	*15.2%*	*17.2%*	*(198 bps)*
Other Operating Income	197	156	153	*26.5*	*29.0*	352	255	*38.5*
Other Income	56	65	12	*-13.9*	*386.1*	121	33	*261.7*
Depreciation	396	400	399	*-1.1*	*-1.0*	795	795	*0.1*
Profit bef. Int. & Tax	804	755	769	*6.4*	*4.6*	1,559	1,459	*6.8*
Interest & finance ch.	235	218	262	*7.5*	*-10.5*	453	574	*-21.0*
Profit before tax	569	537	507	*6.0*	*12.3*	1,106	886	*24.9*
Total tax expenses	151	143	160	*5.5*	*-5.8*	293	256	*14.7*
Add/Less: Extraordinary Items	0	0	0			0	0	
Net profit	419	394	347	*6.2*	*20.7*	813	630	*29.0*
PAT	419	394	347	***6.2***	***20.7***	813	630	29.0
Effective tax rate	*26.4%*	*26.6%*	*31.5%*			*26.5%*	*28.9%*	
Adj. PAT Margins (%)	*6.4%*	*6.8%*	*5.2%*	*(45 bps)*	*(118 bps)*	*6.6%*	*5.5%*	*106 bps*
EPS	11.1	10.5	9.2	*6.2*	*20.7*	21.6	16.7	*29.0*

Source: Company, IndiaNivesh Research

In Q2FY15, net sales de-grew 1.7% yoy to reach Rs 6573 mn on account of 33.9% de-growth in sugar segment and muted growth of 6.6% in textiles segment. EBITDA de-grew 5.7% yoy to reach Rs 947 mn on account of lower profitability in the textiles segment. Despite de-growth in EBITDA, PAT grew 20.7% yoy to reach Rs 419 mn in Q2FY15 on account of higher other income and other operating income and reduction in depreciation and interest.

On segmental basis, textile segment reported 6.6% yoy sales growth to reach Rs 5379 mn in Q2FY15. EBIT margin of the segment contracted 317 bps yoy to reach 13.4% due to reinstating of textile stocks to the extent of Rs 190 mn resulting from decline in cotton prices. Adjusting for this, EBIT margin would be 16.9% for Q2FY15. Sugar segment reported 33.9% yoy sales de-growth to reach Rs 925 mn in Q2FY15. However, the segment turned profitable with Rs 14 mn profit in Q2FY15 against loss of Rs 88 mn in Q2FY14. Though marginal, sugar segment EBIT margin of reported 1.5% against loss of 6.3% in Q2FY14.

For H1FY15, KPR Mills Ltd reported 8.1% yoy growth at Rs 12353 mn driven by 6.9% yoy growth in textile segment and 5.9% yoy growth in sugar segment. EBITDA de-grew 4.3% yoy to reach Rs 1881 mn. Muted sales growth coupled with higher cost due to reinstating of textile stocks led to 198 bps yoy contraction in EBITDA margin. However, PAT grew 29% yoy to reach Rs 813 mn in H1FY15 on account of higher other income and other operating income, flat depreciation and reduction in interest cost.

Key Risks

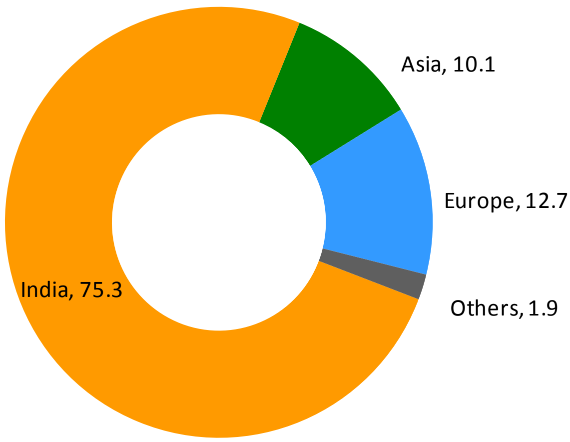
Steep fluctuations in cotton prices

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.

Increasing competition

Increasing global competition may keep profitability under check. The company exports ~25% of its sales competing with global players from countries like Pakistan, China, Bangladesh and Vietnam. Also, in domestic sales, it competes with organised and unorganised segment, though it has benefit of larger scale.

Geographical Revenue mix (%)



Source: Company, IndiaNivesh Research

Cyclical nature of sugar business may impact profitability; though marginally

Sugar is a cyclical business and its profitability is dependent on cane procurement prices and sugar prices; both are not in control of the company. Currently, sugar realisations are not in favour of the company. Hence, any deterioration in sugar business is likely to impact the profitability of the company, though marginally. Currently sugar contributes about 10% to topline and almost nothing at bottomline as the business is just breaking even at net profit level.

Valuation and Outlook

We are positive on the business model of KPR Mills Ltd. The vertically integrated facilities help create cushion for the company in the event of cotton price variability. Its green power sourcing provides an advantage over peers who are using grid as their source. Its proximity to clients in Tirupur textile hub also provides location advantage. Reducing debt, healthy cash flows going forward and expected improvement in margins due to focus on value added products are likely to drive the EPS CAGR of 30.5% over FY14-FY16E and thereby result in ROE of 23.2% in FY16E. With improvement in global as well as domestic economic climate, we expect KPR Mills to be in a sweet spot to exploit the unfolding opportunity.

At CMP of Rs 370, the stock trades at PE of 8x and 5.8x its FY15E and FY16E earnings of Rs 46.1 and Rs 64.1 per share respectively. This appears attractive when compared to its peers in textile segment. We value the stock on SOTP basis taking into consideration its presence in unrelated business of textile and sugar. We value textile business at EV/EBITDA multiple of 4.7x its FY16E EBITDA (30% discount to peer average on account of their presence of brands; though KPR Mills is financially stronger) and sugar business at EV/EBITDA multiple of 7.4x its FY16E EBITDA (30% discount to peer average due to its small size) to arrive at target price of Rs 570 per share. At our target price of Rs 570 per share, the stock would trade at PE of 8.9x and EV/EBITDA of 5.2x its FY16E estimates.

We had recommended the stock in our monthly report on 1st October 2014 at Rs 312 with target price of Rs 352, which has been achieved. We recommend BUY on the stock maintaining our positive stance on the company.

SOTP Based Target Price

Segment	EBITDA (FY16E)	Multiple	Rs Mn	Comments
Textiles	5,281	4.7	24821	30% discount on account of absence of brand
Sugar	454	7.4	3363	30% discount on account of smaller size
EV			28184	
Debt (H1FY15)			7500	
Cash (H1FY15)			776	
Market Cap			21459	
Target Price (Rs Per Share)			**570**	

Source: Company, IndiaNivesh Research

Textile Peer Valuation

Company	CMP	Sales (FY16E)	Sales CAGR (FY14-FY16E) (%)	EPS CAGR (FY14-FY16E) (%)	EBITDA Margin FY16E (%)	PAT Margin FY16E (%)	ROE (%) FY16E (%)	Debt/Equity FY16E (x)	P/E FY16E (x)	EV/EBITDA FY16E (x)
Arvind	291	92385	15.6	21.3	13.8	5.5	16.3	0.9	14.4	8.4
Raymond	564	57821	12.8	37.6	10.9	3.8	11.5	0.9	17.0	7.7
Vardhman	434	72437	8.4	-11.4	19.2	8.8	14.9	2.3	4.9	4.3
Average	**-**	**74214**	**12.2**	**15.8**	**14.6**	**6.0**	**14.2**	**1.3**	**12.1**	**6.8**
KPR	**370**	**31061**	**15.94**	**30.5**	**16.2**	**7.8**	**23.2**	**0.4**	**5.8**	**3.7**

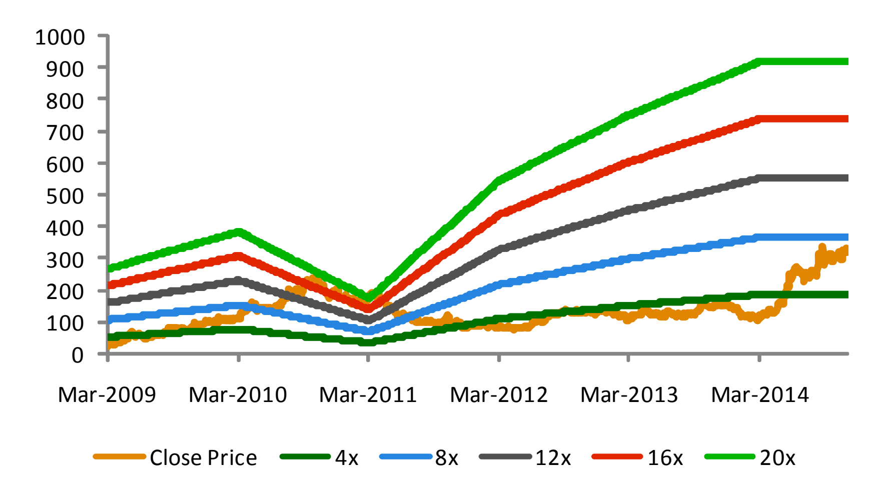
Source: Company, Bloomberg, IndiaNivesh Research
Note: Consolidated Financials

Sugar Peer Valuation

Company	CMP	Sales	EBITDA Margin	EV/EBITDA
Bajaj Hindusthan	20.15	49856	11.3	13.2
Balrampur Chini	57.80	30733	9.4	9.7
Shree Renuka Sugars	16.70	111732	11.1	8.9
Average		**64107**	**10.6**	**10.6**

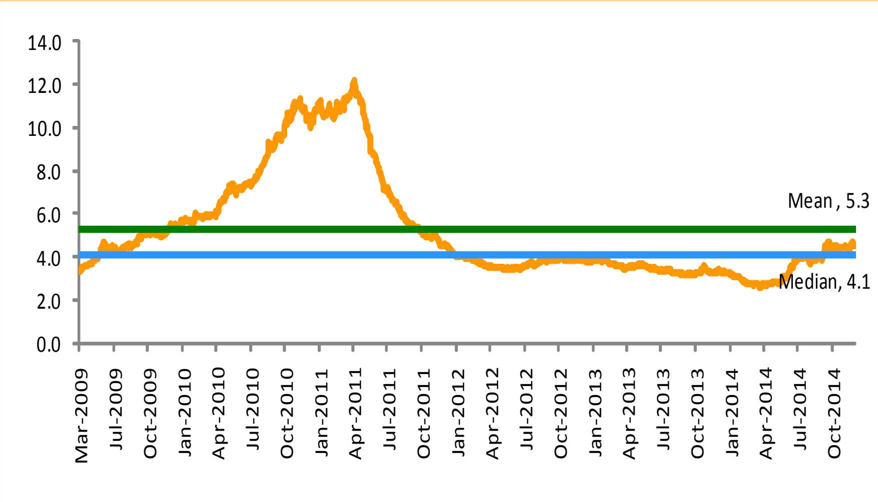
Source: Company, Bloomberg, IndiaNivesh Research
Note: Consolidated Financials

1-yr Forward PE



Source: Company, Capitaline, IndiaNivesh Research

1-yr Forward EV/EBITDA



Source: Company, Capitaline, IndiaNivesh Research

Consolidated Financial Statements

Income statement

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
Net sales	**12037**	**16259**	**23105**	**26255**	**31061**
Growth %	*15.5*	*35.1*	*42.1*	*13.6*	*18.3*
Expenditure	**10856**	**12774**	**19488**	**22113**	**26041**
Raw Material	8927	9938	15867	17926	21226
Power and Fuel	356	646	713	814	932
Employee	829	1167	1510	1759	2019
Others	744	1024	1398	1615	1864
EBITDA	**1181**	**3486**	**3617**	**4142**	**5020**
Growth %	*-35.8*	*195.2*	*3.8*	*14.5*	*21.2*
EBITDA Margin %	*9.8*	*21.4*	*15.7*	*15.8*	*16.2*
Other Income	687	445	915	915	960
Depreciation and amortisation	1036	1509	1567	1620	1658
EBIT	**831**	**2421**	**2966**	**3437**	**4322**
EBIT Margin %	*6.9*	*14.9*	*12.8*	*13.1*	*13.9*
Interest	482	980	1045	847	720
Exceptional/Extraordinary item	0	0	0	0	0
PBT	**350**	**1441**	**1921**	**2590**	**3603**
PBT Margin %	*2.9*	*8.9*	*8.3*	*9.9*	*11.6*
Tax	22	411	504	855	1189
Effective tax rate %	*6*	*29*	*26*	*33*	*33*
PAT	**328**	**1030**	**1417**	**1735**	**2414**
Adj. PAT	**328**	**1030**	**1417**	**1735**	**2414**
Growth%	*-54.6*	*214.2*	*37.5*	*22.5*	*39.1*
Adj. PAT Margin %	*2.7*	*6.3*	*6.1*	*6.6*	*7.8*

Balance sheet

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
Equity Share Capital	377	377	377	377	377
Preference Capital and others	179	150	150	150	150
Reserves & Surplus	5669	6536	7619	8900	10860
Net Worth	**6225**	**7063**	**8145**	**9427**	**11386**
Total debt	8019	10082	9620	7696	6541
Net defered tax liability	473	624	601	601	601
Total Liabilities	**14717**	**17768**	**18366**	**17724**	**18529**
Gross Fixed Assets	15507	19508	20190	21190	21690
Less Depreciation	4600	6123	7638	9258	10916
Capital Work in Progress	748	0	60	50	55
Net Fixed Assets	11656	13385	12611	11982	10829
Goodwill on Consolidation	7	7	7	7	7
Investments	0	665	627	627	627
Current Assets	**5444**	**6844**	**8399**	**8370**	**11029**
Inventories	1865	3576	4053	4201	4970
Sundry Debtors	1387	1611	2380	2363	3106
Cash & Bank Balance	593	761	992	739	1818
Loans & advances	1089	704	508	578	621
Other Current assets	509	193	467	490	515
Current Liabilities & provisions	2389	3132	3278	3263	3963
Net Current Assets	**3054**	**3712**	**5121**	**5108**	**7066**
Mis Exp not written off	0	0	0	0	0
Total assets	**14717**	**17768**	**18366**	**17724**	**18529**

Cash Flow

Y E March (Rs m)	FY 12	FY 13	FY 14	FY 15E	FY 16E
PBT	350	1441	1921	2590	3603
Adjustment for:					
Depreciation	1036	1509	1567	1620	1658
Others	419	926	995	651	514
Changes in working capital	1039	-1476	450	-293	-947
Tax expenses	-233	-255	-412	-855	-1189
Cash flow from operations	**2611**	**2145**	**4520**	**3713**	**3640**
Capital expenditure	-2465	-2535	-2240	-990	-505
Free Cash Flow	**146**	**-389**	**2281**	**2723**	**3135**
Others	194	-113	-315	119	142
Cash flow from investments	**-2272**	**-2648**	**-2555**	**-871**	**-363**
Interest	-471	-883	-1101	-847	-720
Loans availed or (repaid)	466	2063	-462	-1924	-1154
Proceeds from Issue of shares (incl share premium)	0	1	2	3	4
Dividend paid (incl tax)	-139	-363	-321	-324	-324
Cash flow from Financing	**-144**	**818**	**-1881**	**-3091**	**-2194**
Net change in cash	196	315	84	-250	1083
Cash at the beginning of the year	397	446	910	992	739
Cash at the end of the year	593	761	992	739	1818

Source: Company, IndiaNivesh Research

Key ratios

Y E March	FY 12	FY 13	FY 14	FY 15E	FY 16E
Adj. EPS (Rs)	8.7	27.3	37.6	46.1	64.1
Cash EPS (Rs)	36.2	67.4	79.2	89.0	108.1
BVPS	165.2	187.4	216.2	250.2	302.2
DPS (Rs)	5.0	6.0	7.0	7.0	7.0
Adj. P/E (x)	42.5	13.5	9.8	8.0	5.8
P/CEPS (x)	10.2	5.5	4.7	4.2	3.4
P/BV (x)	2.2	2.0	1.7	1.5	1.2
EV/EBITDA(x)	18.1	6.7	6.2	5.0	3.7
M cap/sales (x)	1.2	0.9	0.6	0.5	0.4
ROCE	6.1	15.4	17.0	19.7	24.7
ROE	5.4	15.5	18.6	19.8	23.2
Inventory (days)	72.9	61.1	60.3	57.4	53.9
Debtors (days)	40.0	33.7	31.5	33.0	32.1
Trade Payables (days)	14.1	17.0	31.1	38.6	36.3
Total Asset Turnover (x)	0.8	0.9	1.1	1.2	1.4
Fixed Asset Turnover (x)	1.3	1.3	1.8	2.1	2.7
Debt/equity (x)	1.3	1.4	1.2	0.8	0.6
Debt/ebitda (x)	6.8	2.9	2.7	1.9	1.3
Interest Coverage (x)	1.7	2.5	2.8	4.1	6.0
Dividend Yield %	1.4	1.6	1.9	1.9	1.9

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