KPR Sugar And Apparels Limited

October 04, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities@	630.54 (Reduced from 690.00)	CARE AA+ (CE); Stable [Double A Plus (Credit Enhancement); Outlook: Stable]	Revised from CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]
Total bank facilities	**630.54** **(₹ Six hundred thirty crore and fifty-four lakh only)**		

Details of instruments/facilities in Annexure-1.
@backed by credit enhancement in the form of an unconditional and irrevocable corporate guarantee from K.P.R. Mill Limited (rated 'CARE AA+; Stable/CARE A1+).

Unsupported rating	**CARE A+; Stable(Single A Plus; Outlook: Stable) [Revised from CARE BBB ; Stable outlook assigned]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers for the credit enhanced debt

The rating assigned to bank facilities of KPR Sugar And Apparels Limited (KPRSAL) factors in the credit enhancement (CE) in the form of an unconditional and irrevocable corporate guarantee (CG) provided by K.P.R. Mill Limited (KPR), rated 'CARE AA+; Stable/CARE A1+').

Detailed rationale and key rating drivers of KPR

The revision in the rating of the long-term bank facilities of KPR derives strength from the robust growth in the total operating income (TOI) along with the reporting of healthy profitability margins during FY18-FY22 and the comfortable financial risk profile, characterised by a comfortable capital structure as on March 31, 2022. The revision in the rating also factors in the commissioning of the greenfield sugar and apparel unit (undertaken in KPR's subsidiary, KPRSAL, with slight cost and time overruns and the availability of significant liquidity cushion in the form of cash and liquid funds along with low utilisation (less than 30%) of the working capital bank borrowings. The rating continues to derive strength from the vast experience of its promoters in the textile business coupled with its long-standing operational track record, deriving about 40% of its TOI from the export of apparel to reputed global brands, its ability to garner healthy profitability margins by virtue of being an integrated textile manufacturer having a presence across the textile value chain. CARE Ratings Limited (CARE Ratings) expects the overall performance of KPR to improve further with the commencement and ramping-up of its newly commissioned capacity in KPRSAL.

These strengths are partially offset by the exposure to the volatility in cotton prices and fluctuations in foreign exchange (forex) rates, working capital-intensive operations, the susceptibility to the slowdown in the end-user market, the competition in the apparel segment, and the cyclical nature of the industry.

Key rating drivers of KPRSAL

The Unsupported rating assigned to the bank facilities of KPRSAL derives strength from the commissioning of the greenfield sugar and apparel unit with slight cost and time overruns, the established track record of the KPR group in the sugar and garment businesses, and the revenue diversification of KPRSAL through the establishment of a fully-integrated sugar plant with co-generation, and an ethanol plant and a garment manufacturing unit. The revision in the rating also factors in KPRSAL being a wholly-owned subsidiary of KPR and the support extended by it by way of infusion of equity and preference shares to fund the project. Furthermore, the rating also factors in the support that exists by virtue of common promoters-cum-management, the existence of centralised treasury functions to manage its investments and debt finance. Additionally, the rating favourably

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

considers the location of the sugar project in a high sugar recovery region and the textiles unit near the Tirupur market, which is one of the largest apparel manufacturing clusters.

The rating is, however, constrained by agro-climatic risks, cyclicality and regulatory risks associated with the sugar business, and the exposure of the profitability in the sugar and garment export business.

Rating sensitivities for KPR

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of above 25% along with improvement in the scale of operations with geographical diversification of client base on a sustained basis.
- Successfully ramping up of additional facilities established in KPRSAL, resulting in a significant increase in revenue.
- Improvement in the overall gearing to below 0.10x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in the fund-based exposure to the subsidiaries beyond 75% of the company's net worth.
- Any large debt-funded capex leading to a moderation in the capital structure with an overall gearing above 0.8x.
- Prolonged downtrend in the sugar industry impacting the revenue and profitability, leading to a stretch in the liquidity position.

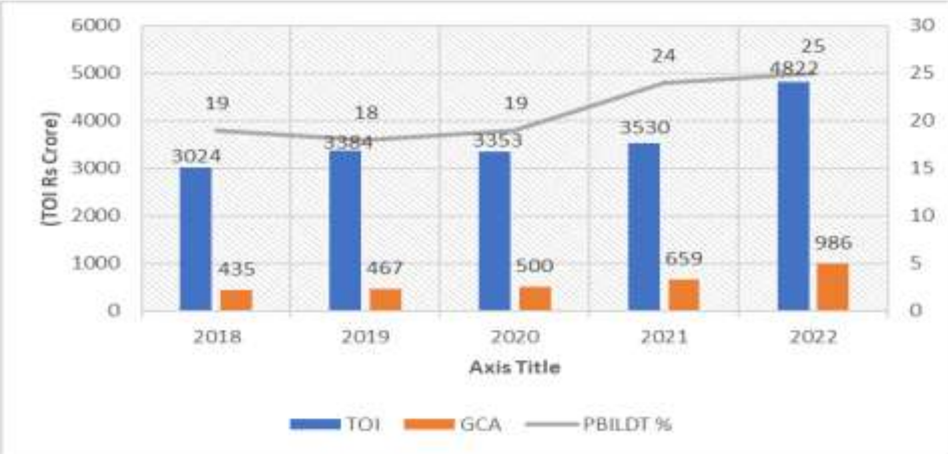
Detailed description of the key rating drivers of KPR

Key rating strengths

Experienced promoters and established track record of operations: KPR is promoted by three brothers – KP Ramasamy, KPD Sigamani, and P Natarajan. The promoters have over four decades of experience in the textiles sector, including hosiery, apparel, fabric, and yarn export business. KP Ramasamy ventured into the business as a small power loom cloth manufacturer in 1971 and with the assistance of his brothers, expanded consistently over the years, and at present, the KPR group has a presence in textile, sugar, power, automobiles, and also runs an engineering college and arts and science college under the trust 'KPR Charities'. KPR is one of the leading players supplying yarn to the Tirupur market, which is a major centre in the country for the export of cotton textiles. The company follows prudent strategies for the procurement of cotton and has earned the goodwill of customers over years. The surge in the market demand for yarn and garments both in the domestic and export markets has enabled better performance during the year.

Integrated nature of operations with diversified product profile: KPR is one of the largest vertically-integrated company with a presence across the textile value chain – from the manufacturing of cotton yarn to processed fabric to garments, which imparts strong operational flexibility. The product range comprises readymade knitted apparel, fabrics, compact, melange, carded, polyster and combed yarn. Under the garment division, the company manufactures knitted garments for men, ladies, and children wear, which includes casual wear t-shirts, nightwear, pyjamas, etc. KPR has installed a capacity of 100,000 metric tonne per annum (MTPA) of yarn, 40,000 MTPA of fabrics, a fabric processing capacity of 25,000 MTPA, and a garmenting facility of 157 million pieces per annum of readymade garments.

Significant improvement in operating performance: KPR registered a significant improvement in the operations and profitability in FY22 vis-à-vis FY21. The TOI registered about 37% growth to ₹4,891 crore (PY: ₹3,563 crore) with the PBILDT and profit-after-tax (PAT) on a y-o-y basis registering 49% and 63% growth to ₹1,289 crore (PY: ₹865 crore) and ₹842 crore (PY: ₹515 crore), respectively. The company reported a healthy PBILDT margin of about 26%. One of the factors for improvement in the overall performance is attributed to the sufficient inventory (six months) of cotton maintained by KPR, which was acquired at a cheaper price. Furthermore, through its subsidiary, KPR, the company operates a sugar plant with a capacity of 10,000 tons crushed per day (TCD) and ethanol with 130 kilo liters per day (KLPD). The improved revenue from the sugar segment has also contributed to an overall improvement in KPR's operational performance. In Q1FY23, KPR registered a TOI of ₹1,585.32 crore, up by 75.52% compared to Q1FY22 (₹909 crore) with the PBILDT improved by about 64% to ₹368 crore (Q1FY22: ₹225 crore). In terms of margins, the same, however, moderated to about 23% in Q1FY23 vis-à-vis 25% in Q1FY22. CARE Ratings expects KPR to continue to report an improved overall performance at the back of its increased garment capacity by 42 million pieces coupled with the doubling of the sugar capacity to 20,000 TCD and the increase in ethanol capacity by 230 KLPD to 360 KLPD. Furthermore, KPR's focus on improving its share of revenue from the garment division coupled with diversification into the retail segment is expected to benefit the company in the long run. The below graph depicts the growth of KPR.



Geographic diversification and reputed customer base: KPR has its presence primarily in medium counts (30s), which in turn, is used in the manufacturing of knitted garments. The company sells its major yarn produce to Tirupur's knitwear and garment manufacturers. The revenue stream of KPR is geographically diversified, with 38% (PY: 35%) of its revenue from the export market. Of the total exports, yarn constitutes 1.00% (PY: 3.47%), garment 94% (PY:91%) and fabric 3% (PY:3%). With an increase in garment capacity, the share of exports has increased over the years. The company's major export destinations are the UK, Australia, and the US. There is no single customer contributing to over 10% of KPR's total income.

Benefits derived from captive source of power: KPR has 66 windmills with a total power generation capacity of 61.92 megawatt (MW) at Tirunelveli, Tenkasi, Theni and Coimbatore districts. It meets around 60% of its textile power requirements from windmills and the remaining from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and third parties. As a result of the poor wind scenario, during FY22, the company was able to generate only about 863 lakh units as against 1050 lakh units in FY21 from captive windmills. KPR does not plan for any addition of windmills or solar power for captive consumption and plans to buy power from third parties and IEX due to abundant power with the discoms.

Comfortable capital structure and debt protection metrics: During FY22, KPR has undertaken a major capex to the tune of about ₹912 crore, mainly in its subsidiary KPRSAL. The capex was incurred for the expansion of sugar, co-generation, and ethanol production capacity. This apart, the company has also established a new garment facility with a capacity to produce 42 million knitted garments at Chengappally, Tamil Nadu. Despite undergoing a substantial capex, the capital structure of KPR remained comfortable with an overall gearing of 0.37x as on March 31, 2022 (PY: 0.28x). The interest coverage also stood strong, at 61.72x (PY: 28.47x) in FY22. The debt protection metrics also remained at a comfortable level with the total debt (TD)/gross cash accruals (GCA) of 1.20x as on March 31, 2022, as against 1.00x as on March 31, 2021. CARE Ratings expects the company's capital structure to remain comfortable, going forward, with the overall gearing continuing to remain below 0.50x and with the TD/GCA below 1.50x.

Key rating weaknesses

Exposure to subsidiaries: KPR has a total of seven subsidiaries, of which three are main subsidiaries. On a standalone basis, it has demonstrated continued support in the form of investments and CG to its subsidiaries K.P.R. Sugar Mill Limited (KPRS), KPRSAL, and Jahnvi Motor Private Limited (JMPL). As on March 31, 2022, it has made investments to the tune of ₹579.12 crore (PY: ₹187.14 crore) and has also provided deposits and loans amounting to ₹25.54 crore (PY: ₹38.29 crore). This apart, KPR has also extended a CG amounting to ₹1,790.45 crore (PY: ₹1,082.60 crore) for the loans taken by subsidiaries, namely, KPRS, KPRSAL, and JMPL. KPR has extended a CG to KPRS to the extent of ₹588.45 crore comprising primarily of ₹208.45 crore of term loans and ₹375 crore of working capital limits; however, the company has repaid the majority of its term debt and the outstanding of the same as on June 30, 2022, is ₹66.60 crore and working capital utilisation remained almost negligible. Furthermore, the management has opined that going forward, the CG by KPR to KPRS will be proposed to be withdrawn. Factoring the same, CARE Ratings expects the exposure of KPR to its subsidiaries to reduce considerably.

Vulnerability of operating margin to volatility in cotton prices, albeit the same has been effectively managed over the years: The profitability of spinning mills depends largely on the prices of cotton and cotton yarn, which are governed by various factors such as the area under cultivation, monsoon, international demand-supply situation, etc. Cotton being the major raw material of spinning mills, the movement in cotton prices without the parallel movement in yarn prices impacts the profitability of the spinning mills. The cotton textile industry is inherently prone to volatility in the prices of cotton and yarn.

However, although there is a wide fluctuation in cotton prices over the years, nevertheless, on account of the prudent and pragmatic cotton procurement strategies and the availability of exclusive personnel in the cotton growing areas has enabled KPR to access quality cotton at competitive prices, thereby protecting it margins. Furthermore, as KPR is an integrated apparel unit, the impact of the higher cost of raw materials on its performance is minimal, as the additional cost is shouldered by the resultant products. The company has been able to maintain, rather improve, its PBILDT margins.

Liquidity – KPR: Strong

The liquidity position of the company remains strong, marked by robust accruals against the repayment obligations. The GCA for FY22 stood at ₹986.11 crore with cash and liquid investments to the tune of about ₹435 crore. With the gearing of 0.37x as on March 31, 2022, and with no major capex in the near future, the company's capital structure is at a comfortable level. The operating cycle of the company stood at 123 days (PY: 132 days), which is primarily on account of the stocking of cotton. The company usually stocks three to four months of cotton requirement to mitigate the risk of the price volatility of cotton and yarn. The company sources cotton from the domestic market and imports cotton on a need basis from West African countries. The average collection period stood at around 30 days with an average credit period of around 20 days. The current ratio of the company as on March 31, 2022, stood at 2.52x (PY: 2.53x). With the commissioning of the sugar and apparel segments in KPRSAL, the company projects to achieve GCA of about ₹1,100 crore going forward, as against the capex committed from internal accruals of about ₹250 crore during FY23 and minimal during the subsequent years while the repayment obligations remain at about ₹88 crore for FY23, ₹162 crore for FY24, and ₹147 crore for FY25. Considering the past performance and the projected GCA, CARE Ratings opines that the company is comfortably situated to meet any additional capex requirements and meet its debt obligations on time.

Analytical approach

CE rating: Guarantor's assessment, as the parent KPR has provided an unconditional and irrevocable CG for the rated facilities.
Unsupported rating: Standalone and factoring in the linkages with the parent, KPR.

Applicable criteria

Policy on Default Recognition
Factoring linkages parent sub JV group
Liquidity analysis of non-financial sector entities
Rating credit enhanced debt
Rating outlook and credit watch
Cotton textile
Manufacturing companies

Policy on Withdrawal of Ratings
Short-term instruments

About the CE provider – KPR

KPR is promoted by three brothers – KP Ramasamy, KPD Sigamani, and P Nataraj. The promoters, assisted by a team of professionals, run the day-to-day activities of the company. KPR is an integrated player with 15 manufacturing units, having the capacity to produce 100,000 MT of cotton yarn, 4,000 MT of viscose yarn, cotton knitted fabrics with a capacity of 40,000 MTPA and garments with a capacity of 115 million pieces per annum, from its facilities located in the Tirupur-Coimbatore region. With a capacity of 370,000 spindles, KPR is one of the leading players supplying yarn. KPR, KPRSAL, and Jahnvi Motor Private Limited are the three main subsidiaries of the company.

About the company – KPRSAL

KPRSAL is also a wholly-owned subsidiary of KPR and was incorporated in October 2020 to establish an integrated sugar plant at Afzalpur taluk, Karnataka, and a garmenting facility at Tirupur, Tamil Nadu. KPRSAL has established a sugar mill (10,000 TCD capacity), a 50-MW multi-fuel cogeneration power plant and a 230-KLPD capacity ethanol unit in Karnataka and a garmenting facility (42 million pieces per annum capacity) at Tirupur. KPRSAL is a wholly-owned subsidiary of KPR.

Brief financials of KPR

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)

TOI	3,563.09	4,890.94	1,585.32
PBILDT	865.45	1,288.79	367.94
PAT	515.26	841.84	226.80
Overall gearing (times)	0.28	0.37	-
Interest coverage (times)	28.47	61.72	-

A: Audited, UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	March 2029	630.54	CARE AA+ (CE); Stable
Unsupported rating-Unsupported rating (long term)		-	-	-	0.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	630.54	CARE AA+ (CE); Stable	-	1)CARE AA (CE); Stable (July 07, 2021)	-	-
2.	Unsupported rating-Unsupported rating (long term)	LT	0.00	CARE A+; Stable	-	1)CARE BBB (July 07, 2021)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level

1.	Fund-based - LT-Term loan	Simple
2.	Unsupported rating-Unsupported rating (long term)	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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