K.P.R. Mill Limited

January 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	600.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	472.82	CARE A1+ (A One Plus)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**1,072.82 (Rs. One Thousand Seventy-Two Crore and Eighty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities and instruments of KPR Mill Limited (KPR) continue to derive strength from the vast experience of its promoters in textile business coupled with its long-standing operational track record as an integrated textile manufacturer having presence across the textile value chain, comfortable financial risk profile characterized by comfortable capital structure, healthy profitability, and cash accruals. The ratings also factor its large scale of operations; healthy net worth base, reduction in debt level and outside liabilities along with healthy cash and liquid investments. The ratings also factor improvement in performance witnessed H1FY22.

The ratings, however, continue to be constrained by large debt funded capex undertaken its wholly owned subsidiary KPR sugar and apparels limited towards which its has equity commitment and also has extended corporate guarantee to the debt. The ratings also factor in KPR's exposure to its other subsidiaries, volatile raw material prices and cyclical nature of the textile industry.

Rating Sensitivities

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

- Sustained improvement in its PBILDT margin to above 30% along with improvement in the scale of operations with geographical diversification of client base on a sustained basis

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

- Increase in fund-based exposure to the subsidiaries beyond 75% of the company's net worth
- Any large debt funded capex leading to moderation in capital structure with overall gearing above 0.8x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of operations: K.P.R. Mill Limited (KPR) is promoted by three brothers, Mr. K.P. Ramasamy, Mr. K.P.D. Sigamani and Mr. P. Natarajan. The promoters have over four decades of experience in textile sector including Hosiery, Apparel, Fabric and Yarn Export business. Mr.K.P 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 presence in Textile, Sugar, Power, Automobiles and also runs an Engineering College & Arts and Science College under the Trust 'KPR Charities'. KPR is one of the leading players supplying yarn to Tirupur market which is a major centre in the country for export of cotton textiles. Although the Company faced covid restrictions, the management with over three decades of experience in the market, had put forward strategies in procurement of cotton, the goodwill earned over years with the customers, surge in market demand for yarn & garments both domestic and export has enabled a better performance during the year.

Integrated nature of operations with diversified product profile: KPR is one of the largest vertically integrated company with presence across the textile chain value from manufacturing of cotton yarn to processed fabric to garments which imparts strong operational flexibility. The product range comprises of Readymade Knitted Apparel, Fabrics, Compact, Melange, Carded, Polyster and Combed Yarn. Under the garment division the company manufactures Knitted Garments for Mens, ladies and children wear, which includes casual wear t-shirts, nightwear, Pyjamas etc. KPR has installed capacity of 100,000 MTPA of yarn, 40,000 MTPA of Fabrics, Fabric processing capacity of 25,000 MTPA and garmenting facility of 105 mn pieces per annum of readymade garments (including the 10 million capacity of Ethiopian Subsidiary). During FY21, yarn contributed to 36% (PY: 40%) of net sales, fabric 9% (PY: 5%) and garments 36% (PY: 40%). Exports accounted for 35% of net sales in FY21 (PY: 42%). The other wholly owned subsidiaries of KPR i.e. K.P.R. Sugar mill Ltd KPRS owns and operates a sugar mill having capacity of 10,000 TCD (tonnes of canes crushed per day, upgraded from 5,000 TCD during FY21) and a multi-fuel cogeneration power plant of 40 MW (bagasse / coal / biomass based) at Almel village, Bijapur District, Karnataka. The project commenced commercial operations in November 2012. Company sells the power generated to Karnataka state discoms under medium-term Power Purchase Agreement (PPAs). The company also has ethanol manufacturing capacity of 130 KLPD (FY20: 90 KLPD)

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

Geographic Diversification and reputed customer base: KPR has its presence primarily in medium counts (30s) which in turn used in the manufacture of knitted garments. The company sells its major yarn produce to Tirupur's knitwear and garment manufacturers. Revenue stream of KPR at standalone is geographically diversified with 35% (PY: 42%) of its revenue is from the export market. Of the total exports, yarn constitutes 3.5% (PY: 8.4%), garment 92% (PY: 89%) and fabric 3% (PY: 2%). With increase in garment capacity, the share of exports has increased over the years. Decline in exports during FY21 was on account Covid-19 impact and also due to increase in demand for yarn in the domestic market. Company's major export destinations are United Kingdom, Australia and USA. 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 total power generation capacity of 61.92 MW at Tirunelveli, Tenkasi, Theni & Coimbatore Districts. KPR meets around 40-50% of its power requirement from windmills and the remaining from TANGEDCO and third parties. As a result of poor wind scenario, during FY21, the company was able to generate only about 863 lakh units as against 1016 lakh units in FY20 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: The capital structure of KPR at consolidated level improved considerably and remained comfortable with overall gearing (including acceptances) of 0.28x as on March 31, 2021 (PY: 0.42x). In FY21, KPR also prepaid Rs.36 crore term loans and around Rs.1.61 crore in H1FY22. During FY21, KPR incurred capex of ~Rs.103 crore fully funded by accruals towards addition of knitting machines and other upgradation capex. The debt repayments for H2FY22 and FY23 stands at Rs.31.38 crores and Rs.87.99 crores, respectively. The interest coverage also stood strong at 28.47x (PY: 13.82x) in FY21. The debt protection metrics improved with prepayment of term loans with Total debt/ GCA of 1.00x as on March 31, 2021 as against 1.58x as on March 31, 2020.

Key Rating Weaknesses

Exposure to subsidiaries: KPR has demonstrated continued support to KPRS, JPML, KPR Sugar And Apparels Limited (KPRSAL) and Ethiopian Subsidiary in terms of financial assistance as well as operational and managerial support. However, the subsidiaries KPRS and JMPL have been managing their debt commitments themselves and no support form KPR is expected for the same. As on March 31, 2021, on a standalone basis, KPR's exposure to its subsidiaries in the form of investments (Rs.204.4 crores), loans and advances (Rs.20.3 crores) and receivables stood at Rs.224.7 crore (PY: Rs. 99.75 crore) which form 11.8% (PY: 6.63%) of KPR's net worth. As on September 30, 2021, exposure to subsidiaries totalled Rs. 339 crores (15.16% of KPR's net worth). The y-o-y increase in investments is on account of incorporation of a new wholly-owned subsidiary 'KPR Sugar and Apparels Limited' in October 2020 (KPRSAL). The project works have commenced during Q4FY21 and is expected to commission both sugar mill and garment unit by Q3FY22. KPR has also extended corporate guarantee to bank facilities of KPRS for Rs.588.45 crore (PY: Rs. 438.52 crore) as on March 31, 2021 for funding its capex and working capital. KPR has also extended corporate guarantee to bank facilities of KPR Sugar and Apparel totalling Rs. 690 crores (PY: NIL), and JMPL aggregating Rs.29.15 crore (PY: Rs. 38.40 crore) as on March 31, 2021. The total exposure of KPR to subsidiaries including the corporate guarantee constitute 38% (PY: 33%) of its networth as on March 31, 2021. The entire cost of the above KPRSAL project is estimated at around Rs.978 crore (Rs.255 crore for garment unit & Rs.724 crore for Sugar Mill) of which around Rs.288 crore will be the equity investment and debt of Rs.690 crore. The project works commenced during Q4FY21, and as on October 31, 2021, total funded project cost stood at ~Rs.633 crores. The commissioning of the garment products had already started, and commercial production of both the units is likely to start in January 2022. As on September 30, 2021, outstanding term loans amounting Rs.95.72 crore, and fund and non-fund based facilities totalling Rs.250 crores of KPRS is guaranteed by KPR.

***Vulnerability of operating margin to volatility in cotton prices and foreign exchange fluctuation*:** The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices. Cotton and cotton yarn are the key raw materials for KPR. Being agriculture-based input; the operations of KPR are vulnerable to its inherent risks associated with agri-based inputs prices. Cotton price started to increase from August 2020 backed by recovery in demand of cotton and cotton yarn in domestic and international market and increase in international cotton prices. Prices of S-6 and J-34 which dropped to low level of Rs.102 pe Kg and Rs.94 per Kg respectively in July 2020 increased to Rs.134 per Kg (S-6) and Rs.120 per Kg (J-34) in March 2021.

Liquidity: Strong - Liquidity is marked by strong accruals against negligible repayment obligations, and cash and liquid investments to the tune of ~Rs.829 crore as on September 31, 2021 (Rs.346 crore as on March 31, 2021). With the gearing of 0.28x as on March 31, 2021, the company has sufficient gearing headroom, to raise additional debt for its capex. The company usually stocks two to three months of cotton requirement in order to mitigate the risk of price volatility of cotton and yarn. Further the company has repaid all the term debt during H1FY22, thus it does not have any Long term debt obligations going forward. Average collection period is around 30-60 days and average credit period is around 20 days. The company has sanctioned working capital limits of Rs.1529 crore and the average utilization of the same stood at 27.46% for the past 12 months ended September 2021. KPR had not availed any moratorium offered by the banks as a relief measure for Covid crisis. KPR also made prepayment of loans during H1FY21.

Analytical approach: CARE has considered the consolidated financials of KPR for its analytical purpose, which includes the financials of its subsidiaries, whereby it has operational linkages with most of them. The list of entities whose financials have been consolidated is presented in annexure.

Applicable Criteria
Consolidation
Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Rating Methodology: Notching by factoring linkages in Ratings

About the Company
KPR is an integrated player producing cotton yarn (3.5 lakh spindles), cotton knitted fabrics (with capacity of 40,000 MT p.a) and garments (with capacity of 105 million pieces p.a.) from its facilities located in the Tirupur-Coimbatore region. With a capacity of 354,240 spindles as on September 30, 2021, KPR is one of the leading players supplying yarn to Tirupur market. In addition, the company also had set up garment unit with capacity of 10 mn pieces per annum in Ethiopia.
KPR produces knitted garments which are directly exported. During FY21, yarn contributed to 36% (PY: 40%) of net sales, fabric 9% (PY: 5%) and garments 36% (PY: 40%). Exports accounted for 35% of net sales in FY21 (PY: 42%).
K.P.R Sugar Mill Limited (**KPRS**, rated, CARE AA(CE); Stable), a wholly owned subsidiary, owns and operates a sugar mill having capacity of 10,000 TCD tonnes of canes per day and a multi-fuel cogeneration power plant of 40 MW. KPRS was also engaged in export of garments since FY14 and has garment production facility of 36 million pieces. It may be noted that from Q1FY19 onwards KPRS has given its garment capacity on lease to KPR. KPR has another WOS **Jahnvi Motors Private Limited** (**JMPL**) which is into dealership for Audi cars with presence in Madurai and Coimbatore.
KPR Sugar And Apparels Limited (**KPRSAL**, rated, CARE AA(CE); Stable), a wholly-owned subsidiary of KPR, was incorporated in October 2020 with an objective to establish an integrated sugar plant at Afzalpur taluk, Kalaburagi district, Karnataka and garmenting facility at Tirupur, Tamil Nadu. KPRSAL is in the process of establishing a sugar mill (10,000 TCD capacity), 48 MW multi-fuel cogeneration power plant (including 8 MW cogen power capacity at ethanol plant) & ethanol unit (220 KLPD capacity) in Karnataka and a garmenting facility (42 million pieces per annum capacity) at Tirupur. KPRSAL is a wholly-owned subsidiary of K.P.R. Mill Limited.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (P)
Total operating income	3,380.93	3,563.09	3731.19
PBILDT	668.07	865.45	1036.29
PAT	376.68	515.26	615.09
Overall gearing (times)	0.42	0.28	0.32
Interest coverage (times)	13.82	28.47	52.28

A: Audited; P: Provisional
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Complexity level of 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	600.00	CARE AA; Stable
Term Loan-Long Term		-	-	June 2024	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	170.00	CARE A1+
Non-fund-based - ST-Bank Guarantees		-	-	-	2.82	CARE A1+
Fund-based - ST-EPC/PSC		-	-	-	300.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	600.00	CARE AA; Stable	-	1)CARE AA; Stable (19-Jan-21)	1)CARE AA; Stable (07-Jan-20)	1)CARE AA; Stable (07-Jan-19)
2	Term Loan-Long Term	LT	-	-	-	1)CARE AA; Stable (19-Jan-21)	1)CARE AA; Stable (07-Jan-20)	1)CARE AA; Stable (07-Jan-19)
3	Non-fund-based - ST-Letter of credit	ST	170.00	CARE A1+	-	1)CARE A1+ (19-Jan-21)	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (07-Jan-19)
4	Non-fund-based - ST-Bank Guarantees	ST	2.82	CARE A1+	-	1)CARE A1+ (19-Jan-21)	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (07-Jan-19)
5	Fund-based - ST-EPC/PSC	ST	300.00	CARE A1+	-	1)CARE A1+ (19-Jan-21)	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (07-Jan-19)

* Long Term / Short Term

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

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Non-fund-based - ST-Bank Guarantees	Simple
4	Non-fund-based - ST-Letter of credit	Simple
5	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

List of subsidiaries / joint ventures / associates of KPR getting consolidated

Sr. No	Name of instrument	% of holding
1	M/s Quantum Knits PVT Limited	100
2	M/s K.P.R Sugar Mill Limited	100
3	M/s Jahnvi Motor Private Limited	100
4	M/s Galaxy Knits Limited	100
5	M/s KPR Exports PLC, Ethiopia	100
6.	M/s K.P.R. Sugar and Apparels Limited (1.10.2020)*	100
7.	M/s KPR Mill Pte ltd- Singapore	100

**K.P.R. Sugar and Apparels Limited (KPRS), incorporated in October, 2020, is a wholly owned subsidiary.*

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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