KPR Sugar And Apparels Limited

July 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities @	690.00	**CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]**	**Assigned**
Total Facilities	**690.00 (Rs. Six Hundred Ninety Crore Only)**		

Details of instruments/facilities in Annexure-1

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

Unsupported Rating [2]	**CARE BBB (Triple B) [Assigned]**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & 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 in the form of unconditional and irrevocable corporate guarantee provided by K.P.R. Mill Limited (KPR, rated 'CARE AA; Stable / CARE A1+').

Detailed Rationale & Key Rating Drivers of K.P.R. Mill Limited

The ratings assigned to the bank facilities of K.P.R. Mill Limited (KPR) continue to factor in the experience of the promoters in the textile industry, established track record of operations of the company, integrated nature of operations of the company with presence across the textile value chain, comfortable financial risk profile characterized by comfortable capital structure, healthy profitability and cash accruals.

The ratings, however, continue to be constrained by KPR's increasing exposure to its subsidiaries, volatile raw material prices and cyclical nature of the textile industry.

Key Rating Drivers of KPR Sugar And Apparels Limited

The unsupported rating assigned to the bank facilities of KPR Sugar And Apparels Limited (KPRSAL) factors in the strong parentage, established track record of KPR group in sugar & garment businesses and revenue diversification of KPRSAL through establishment of fully integrated sugar plant with co-generation & ethanol plant and a garment manufacturing unit. Additionally, the rating favourably considers the location of the sugar project in a high sugar recovery region.

Nevertheless, the rating is constrained by the nascent stage of project execution, however, mitigated to an extent by engagement of experienced turnkey contractors for the project implementation. The rating is also constrained by sugarcane availability risks during initial year of operations, the agro-climatic risks, cyclicality and regulatory risks associated with the sugar business and exposure of profitability in the sugar and garment export business.

Rating Sensitivities for K.P.R. Mill Limited

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

- Significant 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:

- Decline in the operating margins below 14% on a sustained basis.
- Any significant delay in completion and ramping up of operation in the new subsidiary incorporated for setting up a sugar mill and garment unit.
- Any large debt-funded capex or higher-than-envisaged exposure to subsidiaries leading to moderation in capital structure with overall gearing on a consolidated basis exceeding 0.8x.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2]*As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

Detailed description of the key rating drivers for KPR

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. Nataraj. The promoters, assisted by a team of professionals run the day-to-day activities of the company. 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 center in the country for export of cotton textiles.

Integrated nature of operations with diversified product profile

KPR has vertically integrated presence across the textile chain value from manufacturing of cotton yarn to processed fabric to garments which imparts strong operational flexibility. 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 115 mn pieces per annum of readymade garments (including the 10 million capacity of Ethiopian Subsidiary). During FY20, yarn contributed to 45% (PY: 52%) of net sales, while fabric and garments contributed to 6% (PY:
6%) and 45% (PY: 39%) respectively.

Geographic diversification and reputed customer base

Revenue stream of KPR is geographically diversified with 35% (PY: 42%) of its revenue is from the export market during FY21 and rest 65% (PY: 58%) from domestic market. Garments contribute majorly to the export sales. Decline in exports during FY21 was on account Covid-19 impact and also due to increase in demand for yarn in the domestic market.
The company's major export destinations are United Kingdom, China, Australia and USA. The top five export destinations for KPR contributed to 73% of the total exports and 27% of the total income in H1FY21 as against 62% and 26%, respectively, in FY20.
The company also has diversified and reputed customer base in both domestic and export markets who are associated with the company over a long period of time. During H1FY21, the top-10 export customers contributed to 83% of the total exports and accounted for 31% of the total income, while the top-10 domestic customers contribute to 9% of domestic sales and 6% of the total income. There is no single customer contributing to over 10% of KPR's total income.

Stable financial performance with healthy profitability

For FY21, operating income of KPR improved marginally to Rs.2,992 crore as against Rs.2,927 crore in FY20 despite Covid-19 impact during H1FY21. The improvement in income during FY21 was on account of strong recovery in sales across segments during Q4FY21. With the presence of integrated nature of operations, the company was able to manage range-bound profitability metrics despite volatile raw material prices.
During FY21, PBILDT margin of the company improved to 23.48% in FY21 (PY: 17.80%), driven by lower raw material prices during H1FY21 and improved realizations across the segments. The PAT margin improved to 14.46% in FY21 (PY: 10.07%), driven by improved realizations and reduced interest expenses. KPR reported healthy cash accruals of Rs.531 crore (PY: Rs.384 crore) in FY21.

Comfortable capital structure and debt coverage metrics

The company has a comfortable capital structure characterized by overall gearing at 0.18x as on March 31, 2021, as against 0.33x as on March 31, 2020. The interest coverage also stood comfortable at 35.82x (PY: 15.27x) in FY21. The debt protection metrics improved with Total debt/ GCA of 0.64x as on March 31, 2021, as against 1.23x as on March 31, 2020.

Key Rating Weaknesses

Exposure to subsidiaries

As on March 31, 2021, KPR's exposure to its subsidiaries in the form of investments, loans and advances stood at Rs.211 crore as on March 31, 2021 (PY: Rs.98 crore) which form 11% (PY: 7%) of KPR's networth. The y-o-y increase in investments is on account of incorporation of a new wholly-owned subsidiary KPRSAL in October 2020 to establish a new integrated sugar mill with capacity of 10,000 tons of cane per day (TCD), Co-gen power capacity of 47.50 megawatt (MW) and ethanol capacity of 220 kilo litre per day (KLPD). KPRSAL is also establishing a new garmenting unit with capacity to produce 42 million pieces per year. The entire cost of the above project is estimated at around Rs.978 crore (Rs.255 crore for garment unit & Rs.724 crore for integrated sugar plant), funded through mix of equity (including preference shares) of Rs.288 crore and debt of Rs.690 crore. The project works have commenced during Q4FY21 and is expected to commission both sugar mill and garment unit by Q3FY22. Timely completion of the projects and ramping up of operations so as to achieve breakeven levels would be critical.

KPR has also extended corporate guarantee to bank facilities (term loans and working capital limits) availed by KPRS, JMPL and KPRSAL. However, the subsidiaries KPRS and JMPL have been managing their debt commitments themselves and no support form KPR is expected for the same. Furthermore, any higher than envisaged exposure to the subsidiaries would be a key rating sensitivity.

Exposure to volatility in cotton/yarn prices
The profitability of textile 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, movement in cotton prices without parallel movement in yarn prices impact the profitability of the textile mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Industry outlook
Cotton yarn:
On a cumulative basis, cotton yarn production declined by 21.3% y-o-y to 2.9 million tonnes during April 2020-February 2021. This was mainly due to sharp decline of 53%-94% in the first 3 months of FY21 on account of Covid-19 disruptions. Thereafter, the output fell by a slower 7.1% in July 2020 and decreased by a marginal 0.5%-1.5% in the months of August 2020, December 2020 and February 2021 and increased by 0.2%-7% in rest of the months during FY21 on account of better domestic demand and increase in exports of cotton yarn. The prices of cotton yarn (40s combed spun yarn) hovered in the range of Rs.212 per kg to Rs.218 per kg during the period April-October 2020 which improved to Rs.220 per kg in November 2020 and continued to increase by 3%-4.5% on m-o-m basis during December 2020 – March 2021 backed by better demand for cotton yarn in domestic and international markets and higher cotton prices.
Textile Apparels:
Apparel exports contribute the maximum in overall exports of textile items accounting for approximately 45% on an average. During FY21, the Readymade Garments (RMG) or apparel exports on a cumulative basis declined by 21.1% y-o-y to USD 12.2 billion due to Covid-19 pandemic disruptions. The fall in RMG outbound shipments was seen across all the markets with exports to the top 2 markets (Europe and the USA) decreasing by about 23% each to USD 3.7 billion and USD 3.3 billion, respectively. The apparel exports from India faces tough competition from the competitors Bangladesh and Vietnam as they get preferred access to India's key market - the European Union. For FY22, industry is expected to grow positively due to low base and recovery in demand in key markets (US and Europe) on account of reduced covid case load. However, downside risks persists in case of any subsequent covid waves.

Liquidity of KPR: Strong
Liquidity is marked by strong accruals against low repayment obligations. The company had cash & liquid investments to the tune of Rs.278 crore as on March 31, 2021. The repayment for FY22 is only Rs.1.5 crore as KPR had prepaid most of its debt obligations.
The company usually stocks two to three months of cotton requirement in order to mitigate the risk of price volatility of cotton and yarn. The company sources cotton from Gujarat during the cotton season and imports cotton (on an average of 15% - 30% of total cotton consumption) from East African countries. Average collection period is around 30-60 days and average credit period is around 20 days. The company has been sanctioned working capital limits of Rs.900 crore and the average utilization of the same stood low at 30.35% for the past 12 months ended October 2020.

Analytical approach:
CE rating: Guarantor's assessment, as the parent K.P.R. Mill Ltd has provided unconditional and irrevocable corporate guarantee for the rated facilities.
Unsupported rating: Standalone & factoring linkages with parent K.P.R. Mill Ltd.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios - Non-Financial Sector
Rating Methodology - Project-Stage Companies
Rating Methodology - Sugar sector
Rating Methodology - Cotton Textile manufacturing
Rating Methodology: Notching by factoring linkages in Ratings
Criteria for Rating Credit Enhanced Debt

About the credit enhancement provider – K.P.R. Mill Ltd
K.P.R. Mill Limited is an integrated textiles manufacturer producing cotton yarn (with capacity of 3.5 lakh spindles), 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 3,54,240 spindles as on March 31, 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 million pieces per annum in Ethiopia through its subsidiary in FY19.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)^
Total operating income	2,927	2,992
PBILDT	521	702
PAT	295	433
Overall gearing (times)	0.33	0.18
Interest coverage (times)	15.27	35.82

A: Audited; ^: Abridged financials

About the Company – KPR Sugar And Apparels Limited
KPR Sugar And Apparels Limited (KPRSAL) 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 – NA; since project stage company.

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 instrument / 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar 2029	690.00	CARE AA (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE BBB

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-Term Loan	LT	690.00	CARE AA (CE); Stable	-	-	-	-
2.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB	-	-	-	-

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

Bank of Baroda's credit facilities	Detailed explanation
A. Financial covenants	
i) Following financial parameters arrived based on audited financial statements each year, DSCR (benchmark: 1.10x) FACR (benchmark: 1.25x) Debt-Equity ratio (TOL/Adj. TNW) (benchmark: 1.91x)	Any adverse deviation from the estimated/projected levels to attract penal interest.
B. Non financial covenants	
i) The borrower shall undertake that any increase in the capital expenditure beyond the estimate shall be funded by way of equity from promoters / internal accruals of the borrower.	-
ii) 50% of the required promoter's contribution of the project shall be brought in upfront, in the form of equity / preferential share capital redeemable after the repayment of the term loan with an option to convert into equity and balance promoter's contribution to be infused proportionately maintaining the stipulated DE ratio.	-
ICICI Bank's credit facilities	Detailed explanation
A. Financial covenants	
i) Following financial covenants will be calculated on annual basis in each year, DSCR > 1.0 times from FY23 Total Debt/EBITDA < 4.5 times from FY24	-
B. Non financial covenants	
i) Promoters to hold minimum 70% stake in K.P.R. Mill Ltd.	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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