K.P.R Mill Limited

January 19, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	614.74 (Reduced from 626.61)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	472.82	**CARE A1+ (A One Plus)**	Reaffirmed
Total Bank Facilities	**1,087.56 (Rs. One thousand eighty seven crore and fifty six lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key rating drivers

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 Sensitivities

Positive factors

- Significant improvement in the scale of operations with geographical diversification of client base on a sustained basis

Negative factors

- 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.

Detailed description of 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

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 22,000 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 42% (PY: 44%) of its revenue is from the export market during FY20. Of the total exports, yarn constituted 8.4% (PY: 19%), garment 89% (PY: 78%) and fabric 2% (PY: 2%) in FY20. Company's major export destinations are United Kingdom, China, Australia and USA. The top 5 export destinations for KPR contributed to 62% of total exports and 26% of total income in FY20 as against 77% and 34% respectively in FY19. During FY20, the top-10 export customers contributed to 72% of total exports and accounted for 30.6% of total income while the top-10 domestic customers contribute to 9.3% of domestic sales and 5.4% of total income. There is no single customer contributing to over 10% of KPR's total income.

Stable financial performance with healthy profitability: The operating income of KPR stood relatively stable at Rs.2,926 crore in FY20 as against Rs.3,012 crore in FY19. With the presence of integrated nature of operations, the company was able

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

to manage range bound profitability metrics despite volatile raw material prices. The PBILDT margin of the company stood relatively stable in the range of 17.56% to 18% over the past three years ended FY20. The PAT margin improved consistently over the years from 8.91% in FY18 to 10.07% in FY20. KPR also reported stable cash accruals of Rs.384.2 crore (PY; Rs.384.1 crore) in FY20. During H1FY21, KPR reported operating income of Rs.1272 crore, a 15.87% drop compared to H1FY20, as there were no operations for more than a month due to covid induced lockdown. However the PBILDT margin improved to 20.83% in H1FY21 on account of lower raw material prices.

Comfortable capital structure and debt coverage metrics: The company has a comfortable capital structure characterized by overall gearing (including LC bills discounted) at 0.31x as on March 31, 2020 as against 0.43x as on March 31, 2019. The interest coverage also stood comfortable at 15.27x (PY: 15.49x) in FY20. The debt protection metrics improved with Total debt/ GCA of 1.23x as on March 31, 2020 as against 1.70x as on March 31, 2019.

Key Rating Weaknesses

Exposure to subsidiaries:

As on March 31, 2020, KPR's exposure to its subsidiaries in the form of investments, loans and advances and receivables stood at Rs.99.75 crore as on March 31, 2020 (PY: Rs.125.56 crore) which form 6.63% (PY: 8.30%) of KPR's networth. KPR has also extended corporate guarantee of Rs.476.9 crore (PY: Rs.374.9 crore) to bank facilities of its subsidiaries as on March 31, 2020 for funding its capex and working capital. The overall gearing adjusted for exposure to subsidiaries stood at 0.69x as on March 31, 2020 (PY: 0.76x).

In addition to the existing subsidiaries, KPR has also established a new wholly owned subsidiary 'KPR Sugar and Apparels Limited' in October 2020. The subsidiary is establishing a new sugar mill with sugar capacity of 10,000 tons of cane per day (TCD), Co-gen power capacity of 47.50 megawatt (MW) and ethanol capacity of 230 kilo litre per day (KLPD). KPR also plans to put up a new garmenting unit with capacity to produce 42 million pieces of garments per year in the subsidiary. Timely completion of the project and scaling up of operations so as to achieve breakeven levels would be critical. Further 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. Over the past one year ended September 2020, the purchase price of cotton by KPR varied in the range of Rs.128 per kg to Rs.103 per kg while that of yarn stood in the range of Rs.266 per kg to Rs.218 per kg.

Liquidity: Strong- Liquidity is marked by strong accruals against repayment obligations and liquid investments to the tune of Rs.152 crore as on March 31, 2020. 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 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. KPR had not availed any moratorium offered by the banks as a relief measure for Covid crisis. KPR also made prepayment of loans during FY20 and H1FY21.

Industry outlook and impact of Covid-19: Apparel exports contribute the maximum in overall exports of textile items accounting for approximately 45% on an average. European market accounts for about 33% of the total apparel exports in value terms, followed by US (around 23%) and UAE (approximately 18%). The demand for textiles was lower in H1FY21 in both the markets, domestic and international markets on account of Covid-19. The closure of retail stores and malls on account of lockdown situation across the nation affected the industry's sales. The demand for apparels had picked up post lockdown restrictions. India's readymade garments (RMG) exports grew by 6.32 per cent to USD 1,177.33 million in October 2020 against USD 1107.34 million exports registered during the corresponding month of October, 2019. Cumulative RMG exports during April-October, 2020-21 declined by 33.63 per cent to USD 5,960.84 million.

Analytical approach: For arriving at the ratings, CARE has considered KPR's standalone financials as majority of the total operating income on consolidated basis is contributed by KPR. However, support extended by KPR to subsidiaries has been factored in the ratings

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short term instruments
CARE's Methodology for manufacturing companies
Rating Methodology- Cotton textile manufacturing
Financial ratios - Non-Financial Sector
Liquidity analysis - Non-Financial sector
Rating Methodology: Notching by factoring linkages in Ratings (Parent-Subsidiary linkages, Group linkages and Joint ventures)

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, 2020, 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	3,012	2,927
PBILDT	542	521
PAT	289	295
Overall gearing (times)	0.51	0.33
Interest coverage (times)	15.49	15.27

A: Audited

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: NA

Complexity of instruments rated for the company: Please refer Annexure-3.

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-Cash Credit	-	-	-	600.00	CARE AA; Stable
Term Loan-Long Term	-	-	June 2024	14.74	CARE AA; Stable
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	600.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Jan-20)	1)CARE AA; Stable (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)
2.	Term Loan-Long Term	LT	14.74	CARE AA; Stable	-	1)CARE AA; Stable (07-Jan-20)	1)CARE AA; Stable (07-Jan-19)	1)CARE AA; Stable (03-Jan-18)
3.	Non-fund-based - ST-Letter of credit	ST	170.00	CARE A1+	-	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (07-Jan-19)	1)CARE A1+ (03-Jan-18)
4.	Non-fund-based - ST-Bank Guarantees	ST	2.82	CARE A1+	-	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (07-Jan-19)	1)CARE A1+ (03-Jan-18)
5.	Fund-based - ST-EPC/PSC	ST	300.00	CARE A1+	-	1)CARE A1+ (07-Jan-20)	1)CARE A1+ (07-Jan-19)	1)CARE A1+ (03-Jan-18)

Annexure-3: Complexity level of various instruments rated for the company

Sr. No.	Name of the 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

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.*

Contact us

Media Contact
Name – Mr Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Mr. P Sandeep
Contact no.: +91-44-2850 1000
Email ID: sandeep.prem@careratings.com

Relationship Contact
Name: Mr V. Pradeep Kumar
Contact no. : 98407 54521
Email ID: pradeep.kumar@careratings.com

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