KPR Sugar And Apparels Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities@	490.24 (Reduced from 630.54)	CARE AA+ (CE); Stable	Reaffirmed

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 AA-; Stable [Revised from CARE A+; Stable]**

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

Rationale and key rating drivers for the credit enhanced debt

The rating assigned to the 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+').

Rationale and key rating drivers of KPR

The reaffirmation of the ratings to the bank facilities of KPR derives strength from the steady growth in the TOI from FY18-FY23, along with the vast experience of its promoters in the textile business. This, coupled with its long-standing operational track record, deriving about 38% of its TOI from the export of apparels to reputed global brands, its ability to garner healthy profitability margins by virtue of being an integrated textile manufacturer having presence across the textile value-chain also strengthen the ratings. Furthermore, ratings are also underpinned by comfortable financial risk profile of the company characterised by comfortable capital structure and low utilisation (around 30%) of working capital borrowings. The ratings also factor in the steady improvement in the performance of its subsidiaries, K.P.R Sugar Mill Limited, and successfully ramping-up of newly installed capacities in KPR Sugar and Apparels Limited (KPRSAL) along with generation of healthy cash accruals. The ratings, however, continue to be constrained by KPR's exposure to its subsidiaries, volatile raw material prices and cyclical nature of the textile and sugar industry.

Key rating drivers of KPRSAL

The revision in the unsupported rating assigned to the bank facilities of KPRSAL derives strength from the timely ramping-up of the greenfield sugar and apparel unit and healthy operating margin during the first full year of operation, i.e., FY23. The rating also factors in the support extended by KPR to KPRSAL by virtue of being its wholly-owned subsidiary, 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. 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 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 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 of KPR: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in its PBILDT margin of above 25% along with improvement in the scale of operations with geographical diversification of client base on a sustained basis.
- Improvement in the overall gearing to 0.10x on a sustained basis.

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

Negative factors

- 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.
- Prolonged down trend in the sugar industry impacting revenue and profitability leading to stretch in the liquidity position.

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.

Outlook: Stable

The stable outlook reflects the expectation that the rated entity will continue maintain its strong business and financial profile in the medium term.

Detailed description of the key rating drivers of KPR:

Key strengths

Vertically integrated textile mill

KPR is one of the largest vertically integrated companies 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 readymade knitted apparel, fabrics, compact, melange, carded, polyester 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, etc. The spinning division has 354,240 spindles with production capacity of 100,000 MTPA, which produces combed, grey melange, carded and compact yarn (count range 10s-40s). The fabric division is equipped with high-speed automatic circular knitting machines with capacity 40,000 MT per annum of different kinds of fabric. The garmenting facility has installed capacity of 115 million pieces per annum.

Experienced promoters and established track record of operations

KPR is promoted by three brothers, K.P. Ramasamy, K.P.D. Sigamani and P. Natarajan. The promoters have over four decades of experience in the textile sector, including hosiery, apparel, fabric and yarn export business. 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.

Diversified revenue profile

The revenue of KPR is well diversified, both in term of the segment in which it operates as well as geography. During FY23, garment segment was the highest contributor in terms of the total revenue contributing 39% (₹2,309 crore) followed by yarn and fabric segment contributing 38% (₹2,156 crore) and the balance has been contributed by sugar, ethanol and power division. In term of geography, the company derived 38% of its total revenue from export market and the balance 62% from domestic market. The export primarily constitutes of garment where the company has reputed customers located in US, UK and Australia. Based on the discussion with the management, CARE Ratings expects that the revenue of KPR will continue to remain diversified albeit the garment segment's contribution is expected to gradually increase to 50% from the current 39%.

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 45%-50% of the textile power requirement from windmills and the remaining from TANGEDCO and third parties. KPR does not plan for any addition of windmills for captive consumption and plans to continue buying power from third parties and IEX. However, during FY23, the company has installed a 10-MW rooftop solar power plant at a cost of about ₹50 crore. The power generated from the same will be used for captive purposes. CARE Ratings notes that with the installation of 10-MW rooftop solar power plant, the captive power will meet around 55%-60% of the total power requirement of KPR.

Significant improvement in TOI albeit moderation in operating margin during FY23

KPR registered significant improvement in its TOI during FY23. The TOI registered about 28% growth from ₹4,822 crore in FY22 to ₹6,186 crore in FY23. Over a period of last 5 years (FY18-FY23), the company has registered a compounded annual growth rate (CAGR) growth of about 15%. The revenue improved from ₹3,025 crore in FY18 to ₹6,186 crore in FY23. While the company witnessed steady growth in its income, its operating margin during the same period fluctuated between 18% and 25% (though the margins have been fluctuating however KPR commands the industry best margins). The reason for the fluctuating trend in margin is primarily attributed to raw material cost, viz., cotton. During FY22, the company reported PBILDT margin of 25% due to the sufficient inventory (six months) of cotton maintained by KPR at a cheaper price. However, during FY23, on account of high-cost inventory and inflation in raw material prices, the gross margin in the spinning activity contracted, resulting in fall in PBILDT margin by 468 bps to 20.64%. Furthermore, during FY23, the company ramped-up its newly installed capacity in its subsidiary, KPRSAL, which has contributed about ₹1,058 crore on a standalone basis. Furthermore, for Q1FY24, the company reported operating income of ₹1,611 crore (Q1FY23: ₹1,585 crore), with PBILDT margin of 20.61% (Q1FY23: 23.21%).

Comfortable capital structure and debt protection metrics

The capital structure of the company continues to remain comfortable. Debt to equity ratio and overall gearing improved to 0.16x (PY: 0.23x) and 0.36x (PY: 0.37x), respectively. Other debt protection metrics such as term debt/gross cash accruals (GCA) have improved to 0.59x (PY: 0.72x), while the total debt/GCA have marginally deteriorated, due to increase in working capital borrowings, and stood at 1.33x (PY: 1.20x). The total term loan outstanding has decreased from ₹714.13 crore in FY22 to ₹599.15 crore in FY23. On account of increase in the interest cost due to the term loan availed in its subsidiary KPRSAL, the interest coverage parameters (PBILDT/interest and PBIT/interest) have deteriorated marginally to 17.16x and 14.82x during FY23 (58.48x and 51.72x during FY22).

Key weaknesses

Exposure to subsidiaries

KPR has total seven subsidiaries, out of which three are main subsidiaries. On standalone basis, it has demonstrated continued support in the form of investments and corporate guarantee to its subsidiaries, K.P.R. Sugar Mill Limited, KPR Sugar and Apparels Limited, and Jahnvi Motor Private Limited. As on March 31, 2023, it has made investments to the tune of about ₹750 crore (PY: ₹578 crore) and have also extended corporate guarantee amounting to ₹1,620 crore (PY: ₹1,790 crore) for the bank facilities taken by subsidiaries, namely, K.P.R. Sugar Mill Limited (KPRS), KPRSAL and Jahnvi Motor Private Limited (JMPL). The guarantee extended to the bank facilities of KPRS and JMPL amounts to ₹395 crore where the company does not have much term debt and the guarantee is proposed to be withdrawn. Furthermore, in KPRSAL, the company's operations have started and company has prepaid term loan to the extent of about ₹90 crore. With the payment of term loans in all its subsidiaries, CARE Ratings expects the exposure of KPR to its subsidiaries to reduce.

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 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. However, though there is wide fluctuation in cotton prices over the years nevertheless, prudent and pragmatic cotton procurement strategies and availability of exclusive personnel in the cotton growing areas, has enabled KPR access to quality cotton at a competitive price, thereby protecting its margins. Furthermore, CARE Ratings notes that as KPR is an integrated Apparel Unit, the impact of higher cost of raw material on its performance is minimal as the additional cost is shouldered by the resultant products.

Liquidity-KPR: Strong

The liquidity position of the company remains strong marked by robust accruals against the debt repayment obligations. The GCA for FY23 stood at ₹1,015 crore with cash and liquid investments to the tune of about ₹235 crore. With the gearing of 0.36x as on March 31, 2023, the company's capital structure is at comfortable level. The operating cycle of the company stood at 129 days (PY: 123 days). The primary contributing factor for the same is stocking of cotton. The company usually stocks two to three months of cotton requirement to mitigate the risk of price volatility of cotton and yarn. The average working utilisation for the 12 months ending in July 2023 remained low at about 30% which further provides cushion to the liquidity. Average collection period remained at around 33 days. The current ratio of the company as on March 31, 2023 stood at 2.24x (PY: 2.52x). The company has debt repayment obligation to the tune of ₹150 crore during FY24. Given the healthy cash accruals and liquidity position of the company, CARE Ratings expects that the company will be able to comfortably meet its liability.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks of KPR

For the textile industry the main factor of ESG affecting the sector is the environmental aspect coupled with optimum utilisation of natural resources and promotion of fair labour practices. Governance remains a universal concept affecting all the sectors and geographies. At KPR, the company practices zero discharge of hazardous chemicals, for conserving the usage of water company has fully automated controlling systems and have also installed ETP and STP plant for recycling of water. The company also focuses upon generating green renewable energy through wind, co-generation to minimize environmental pollution. The company is also focusing on the solar energy. Apart from the green energy, the company has taken up various measures such as automated cut-off system for boiler and compressor, acquiring 5-star rated equipment, etc., to save the energy. In terms of governance, the company is managed by qualified and independent board. Furthermore, in terms of social welfare, the company is involved in promotion of education, women empowerment and rural development.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Cotton Textile
Manufacturing Companies
Sugar
Policy on Withdrawal of Ratings

Adequacy of credit enhancement structure:

The guarantee provided by KPR is unconditional and irrevocable and covers the entire rated amount. The rating is being reaffirmed as RBI has permitted the previous approach of factoring the credit enhancement based on the existing corporate guarantee till the residual tenure of the loan.

About KPR

KPR is promoted by three brothers, K.P. Ramasamy, K.P.D. 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 capacity to produce 100,000 MT of cotton yarn, 4000 MT of Viscose yarn, cotton knitted fabrics with capacity of 40,000 MT p.a. and garments with capacity of 115 million pieces p.a. from its facilities located in the Tirupur-Coimbatore region. With a capacity of 354,240 spindles, KPR is one of the leading players supplying yarn. KPRS, KPRSAL and JMP are the three main subsidiaries of the company.

Brief Financials of KPR consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	4,890.94	6,186.25	1,611.00
PBILDT	1,288.79	1,276.56	332.00
PAT	841.84	814.10	203.00
Overall gearing (times)	0.37	0.36	-
Interest coverage (times)	61.72	17.16	15.09

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

KPRSAL is also a wholly-owned subsidiary of KPR and was incorporated in October 2020 with an objective to establish an integrated sugar plant at Afzalpur taluk, Karnataka and garmenting facility at Tirupur, Tamil Nadu. KPRSAL has established a sugar mill (10,000 TCD capacity), 50-MW multi-fuel cogeneration power plant & ethanol unit (220 KLPD capacity) in Karnataka and a garmenting facility (42 million pieces per annum capacity) at Tirupur.

Brief Financials of KPRSAL (₹ crore)	March 31, 2023 (A)
Total operating income	1057.91
PBILDT	219.17
PAT	89.44
Overall gearing (times)#	17.84
Interest coverage (times)	4.61

A: Audited, Note: 'the above results are latest financial results available
FY23 had been the first full year of operation for the company
In its analysis, CARE Ratings has considered preference capital infused by K.P.R. Mill Limited to the tune of ₹700 crore as debt.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	March 2029	490.24	CARE AA+ (CE); Stable
Unsupported rating-Unsupported rating (Long term)	-	-	-	-	0.00	CARE AA-; 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 2023-2024	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
1	Fund-based - LT-Term loan	LT*	490.24	CARE AA+ (CE); Stable	-	1)CARE AA+ (CE); Stable (04-Oct-22)	1)CARE AA (CE); Stable (07-Jul-21)	-
2	Unsupported rating-Unsupported rating (Long term)	LT	0.00	CARE AA-; Stable	-	1)CARE A+; Stable (04-Oct-22)	1)CARE BBB (07-Jul-21)	-

*Long term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Debt service coverage ratio (DSCR)>1x from FY23	DSCR for FY23 stood at 2.19x.
II. Total debt/EBITDA< 4.5x from FY24	Total debt to EBITDA excluding preference shares as debt is expected to be below 4.5x
For Corporate Guarantor:	
I. Debt service coverage ratio (DSCR)>1.50 from FY21	DSCR for FY21 stood at 8.90x
II. Total debt to EBITDA <4x from FY21	Total debt/EBITDA remained below 4x from FY21 onwards
On consolidated financials:	
I. Total debt to EBITDA<2x from FY21	Total debt/EBITDA remained below 2x from FY21 onwards
B. Non-financial covenants	
I Promoters to hold minimum 70% stake in K.P.R. Mill Limited	As on June 30, 2023, promoters holding in K.P.R. Mill Limited stood at 74.78%
II Borrower to obtain all the necessary statutory and non-statutory clearances and approvals from time to time as necessary to operate the project	All the approvals are in place and the project has commenced operations from February 2022 for sugar and co-gen plant and from April 2022 for ethanol and garment facility.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Unsupported rating-Unsupported rating (Long term)	Simple

Annexure-5: Lender details

To view the lender wise details of 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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