K.P.R. Mill Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	780.00 (Enhanced from 600.00)	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	472.82	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of K.P.R. Mill Limited (KPR) continue to derive strength from its promoters' vast experience in the textile business and steady growth in its scale of operations over past many years with its ability to garner healthy profitability margins compared to its peers by virtue of being an integrated textile manufacturer having presence across the textile value-chain. Ratings also factor its long-standing operational track record of around four decades, diversified revenue stream and its association with reputed global apparel brands. Ratings are also underpinned by its large net worth base and minimum reliance on external debt leading to comfortable capital structure and debt coverage indicators, and its superior liquidity.

However, ratings continue to be constrained due to profitability susceptible to volatile raw material prices and foreign exchange rates, inherent cyclicality of the textile and sugar industry, risk associated with compliance of stringent pollution control norms and its exposure to subsidiaries.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations through geographical diversification of client base along with sustained improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 25%.
- Improvement in the overall gearing to 0.10x on a sustained basis.

Negative factors

- In case of any large debt-funded capex undertaken by KPR leading to moderation in the capital structure with overall gearing above 0.80x.
- Prolonged down trend in the sugar industry impacting the revenue and profitability leading to stretched liquidity.

Analytical approach: Consolidated. CARE Ratings Limited (CARE Ratings) has considered the consolidated financials of KPR for its analytical purpose, which includes the financials of its subsidiaries on the back of operational and managerial linkages with them. The list of entities consolidated is given in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that KPR shall continue to maintain its strong business and financial risk profiles in the medium term.

Detailed description of key rating drivers:

Key strengths

Vertically integrated textile mill

KPR is one of the largest vertically integrated companies with presence across the textile chain value from manufacturing cotton yarn to processed fabric to garments which imparts strong operational flexibility. The product range comprises readymade knitted apparel, fabrics, compact, mélange, carded, polyester, and combed yarn. The spinning division has 370,000 spindles with production capacity of 100,000 MTPA (metric tonne per annum), which produces combed, grey mélange, carded, and compact yarn (count range around 10s-40s). The fabric division is equipped with high-speed automatic circular knitting machines with capacity of 40,000 MTPA of different kinds of fabric. Under garmenting division, KPR had installed capacity of 105 million pieces p.a. on standalone level, and 157 million pieces per annum on consolidated level as on March 31, 2024. The company manufactures knitted garments for men, women and children, which includes casual wear t-shirts, nightwear, and others.

Experienced promoters and established track record of operations

KPR is promoted by three brothers, K.P. Ramasamy, K.P.D. Sigamani, and P. Nataraj. 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

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

& 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

KPR's revenue profile is well diversified, both in terms of the segment in which it operates and geography. In FY24 (FY refers to period April 01 to March 31), the garment segment was the highest contributor in consolidated TOI contributing 42% (FY23: 40%) followed by yarn and fabric segment contributing 32% (FY23: 31%) and the balance was contributed by sugar, ethanol, and power division. In terms of geography, the company derived 36% of its total revenue from export market and the balance from domestic market. The export primarily constitutes of garments where the company has reputed customers in the US, UK, Australia, and other European countries. CARE Ratings expects that KPR's revenue will continue to remain diversified albeit the garment segment's contribution is expected to gradually increase to 50% in the medium term.

Benefits derived from captive source of power

KPR has 61.92 MW (mega-watt) of windmill in Tamil Nadu (Tirunelveli, Tenkasi, Theni and Coimbatore districts) which meets 40% of textile power requirement. KPR also has 37-MW rooftop solar power capacity further strengthening its renewable power sources. KPR meets remaining textile power requirement from the state government (TANGEDCO; Tamil Nadu generation and distribution corporation) and third parties. Through its subsidiaries, K.P.R Sugar Mill Limited (KPRS; rated 'CARE AA; Stable') and KPR Sugar and Apparels Limited (KPRSAL; rated 'CARE AA+ (CE); Stable, CARE AA; Stable/ CARE A1+'), KPR has set up co-gen plants of total 90-MW capacity (KPRS: 40 MW and KPRSAL: 50 MW) in Karnataka. The power produced from these units are first used for captive consumption and the surplus is being sold to Indian energy exchange (IEX) and Karnataka Power Transmission Corporation.

Stable revenue and profitability in FY24 despite global headwinds

Post registering growth of around 28% in FY23, the total operating income (TOI) of KPR largely remained stable at ₹6,084 crore in FY24 (FY23: ₹6,186 crore) despite decline in the cotton prices and muted exports demand for textile products. In FY24, textile segment contributed 78% (FY23: 80%) of the total revenue, whereas contribution from sugar segment stood at 21% (FY23: 19%). Increase in the sales of sugar segment was offset by decline in the average sales realisation of textile products backed by correction in cotton prices. The demand for textile products is expected to improve in FY25 with recovery in export demand as the global brands and retailers start re-stocking of inventories. The company's PBILDT margin was also largely stable at 20.76% in FY24 (FY23: 20.64%) and it is expected to remain 21-22% in near to medium term.

Comfortable capital structure and debt protection metrics

KPR's capital structure continues to remain comfortable marked by overall gearing of 0.28x as on March 31, 2024 (0.38x as on March 31, 2023) supported by its large net worth base of ₹4,357 as on even date. Apart from scheduled repayment of around ₹47 crore in FY24, KPR prepaid part of term debt in KPRSAL to the tune of ₹114 crore (through unsecured loans) backed by strong cash accruals at consolidated level in the period. KPR's total debt to gross cash accruals (TD/GCA) and PBILDT interest coverage also improved to 1.19x (FY23: 1.37x) and 17.22x (FY23: 17.18x), respectively, in FY24 despite increase in its working capital requirements at year end. CARE Ratings expects KPR's capital structure and debt protection metrics to remain comfortable in medium term in absence of major debt-funded capex plans.

Liquidity: Superior

Liquidity position of the company remains superior marked by robust cash accruals against the debt repayment obligations at consolidated level (KPR is a term debt free entity on a standalone basis). KPR had free cash and liquid investments of ₹209 crore as on March 31, 2024. The average utilisation of its fund-based limits stood low at around 17% for the past 12 months ending June 2024, which provides cushion to the liquidity. Going forward, KPR's liquidity is expected to remain strong considering expected strong generation of cash flow from operations, available liquidity, and absence of major capex plans in the medium term.

The company's operating cycle elongated from 133 days in FY23 to 170 days in in FY24 largely owing to increase in inventory level at year end both for its garments division and sugar division along with reduction in the trade payables.

Key weaknesses

Exposure to subsidiaries

KPR has total seven subsidiaries, out of which three are main subsidiaries. On standalone basis, KPR has demonstrated continued operational and financial support in the form of investments and corporate guarantee to its subsidiaries, KPRS, KPRSAL, and Jahnvi Motor Private Limited (JMPL; rated 'CARE A+; Stable/ CARE A1+'). As on March 31, 2024, KPR had aggregate equity and preference shares investments, and unsecured loans of ₹726 crore, which has increased to ₹926 crore as on June 30, 2024. CARE Ratings observes, with expectation of healthy cash accruals in subsidiaries, the exposure is expected to reduce.

Operating margin susceptible to volatility in cotton prices

The profitability of spinning mills depends largely on the cotton and cotton yarn prices which are governed by factors such as area under cultivation, monsoon, and international demand-supply situation, among others. After recording a peak of around ₹1 lakh per candy in FY23, domestic cotton prices corrected with the arrival of the new crop, and they are currently hovering between around ₹60,000 per candy. 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. Volatile cotton prices often translate into risk of inventory losses for the industry players, though at times, it also leads to inventory gains. 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, protecting its margins. 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.

Risk associated with compliance of stringent pollution control norms

Being present in the textile industry, KPR's operations are subject to environment-related regulatory compliances in a stringent manner. Also, pollution-related norms are evolving daily in India. Accordingly, continuous adherence to defined pollution control norms are mandatory for seamless operations.

KPR is regularly incurring capex for compliance with defined pollution control norms and has not encountered major adverse observations/closure notice from pollution control departments for a long period of time. Its majority of its plants are well-equipped for effective treatment and discharge of effluents, such as waste-water, and hazardous and non-hazardous waste. All the manufacturing facilities of KPR are equipped with fully zero liquid discharge (ZLD).

Environment, social, and governance (ESG) risks

Risk factors	Compliance and actions by KPR
Environmental	For the textile industry the main factor of ESG affecting the sector is the environmental aspect and optimum utilisation of natural resources and promotion of fair labour practices. KPR practices zero discharge of hazardous chemicals. For conserving the usage of water, the company has fully automated controlling systems and has also installed effluent treatment plant (ETP) and sewage treatment plant (STP) plant for recycling of water. KPR also focuses upon generating green renewable energy through wind, solar power and co-generation to minimise environmental pollution. Apart from this, KPR invests in new advanced technology machinery and equipment that are more energy efficient.
Social	KPR has a well-designed safety management policy that eliminates / reduces the risk of workplace incidents, injuries and fatalities through adoption of well-defined safety measures and devices. KPR primarily involves in 'Promotion of Education' under its CSR activities along-with women empowerment and rural development.
Governance	50% of the KPR's board comprises independent directors. KPR assures separate meetings for independent and non-independent directors and regular internal risk management committees to address the risks and measures to mitigate them. The company also has a dedicated investor grievance redressal mechanism with healthy disclosures.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

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 operations of the company. KPR is an integrated player with 15 manufacturing units (including its subsidiaries) having capacity to produce 100,000 MT of cotton yarn, 10,000 MT of viscose yarn, 40,000 MT of cotton knitted

fabrics p.a., and 157 million pieces of garments p.a. from its facilities in the Tirupur-Coimbatore region. With a capacity of 370,000 spindles, KPR is one of the leading players supplying yarn. KPRS, KPRSAL, and JMP are the three main subsidiaries of the company. KPRS, wholly owned subsidiary of KPR, owns and operates a sugar mill having capacity of 10,000 TCD (tonnes of canes crushed per day), ethanol unit of 250 KLPD (Kilolitres per day), and a 40-MW multi-fuel cogeneration power plant in Karnataka.
KPRSAL, a wholly owned subsidiary of KPR, was incorporated in October 2020 with an objective to establish an integrated sugar plant at Afzalpur, Karnataka, and garmenting facility at Tirupur, Tamil Nadu. KPRSAL has established a sugar mill having a capacity of 10,000 TCD, ethanol unit of 250 KLPD, and a 50-MW multi-fuel cogeneration power plant in Karnataka and a garmenting facility of 52 million pieces p.a. at Tirupur.
JMPL is a wholly owned subsidiary of KPR and is into dealership of Audi cars with presence in Madurai and Coimbatore.

Brief Financials – Consolidated (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	6,186	6,084	1,610
PBILDT	1,277	1,263	315
PAT	814	805	203
Overall gearing (times)	0.38	0.28	NA
Interest coverage (times)	17.16	17.22	19.21

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	780.00	CARE AA+; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	300.00	CARE A1+
Non-fund-based - ST-Bank guarantee	-	-	-	-	2.82	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	170.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	780.00	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-23)	1)CARE AA+; Stable (27-Sep-22)	1)CARE AA; Stable (06-Jan-22)
2	Non-fund-based - ST-Letter of credit	ST	170.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (27-Sep-22)	1)CARE A1+ (06-Jan-22)
3	Non-fund-based - ST-Bank guarantee	ST	2.82	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (27-Sep-22)	1)CARE A1+ (06-Jan-22)
4	Fund-based - ST-EPC/PSC	ST	300.00	CARE A1+	-	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (27-Sep-22)	1)CARE A1+ (06-Jan-22)
5	Term loan-Long term	LT	-	-	-	-	-	1)Withdrawn (06-Jan-22)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of instruments rated

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 guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	K.P.R. Sugar and Apparels Limited	Full consolidation	Subsidiary; operational and managerial linkages
2	K.P.R Sugar Mill Limited		
3	Jahnvi Motor Private Limited		
4	Quantum Knits PVT Limited		
5	Galaxy Knits Limited		
6	KPR Exports PLC, Ethiopia		
7	KPR Mill Pte ltd, Singapore		

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

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About us:

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