K.P.R. Mill Limited

September 27, 2022

Ratings

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

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings of the long-term bank facilities of K.P.R. Mill Limited (KPR) derives strength from robust growth in total operating income along with reporting of healthy profitability margins during FY18-FY22 and comfortable financial risk profile characterized by comfortable capital structure as on March 31, 2022. The revision in ratings also factors in commissioning of greenfield sugar and apparel unit (undertaken in KPR's subsidiary KPR Sugar and Apparels Limited (KPRSAL) with slight cost and time overrun and availability of significant liquidity cushion in the form of cash and liquid funds along with low utilization (less than 30%) of working capital bank borrowings. The ratings continue to derive strength from vast experience of its promoters in textile business coupled with its long-standing operational track record, deriving about 40% of its total operating income from 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. CareEdge expects the overall performance of KPR to improve further with the commencement and ramping-up of its newly commissioned capacity in KPRSAL. These strengths are partially offset by exposure to volatility in cotton prices and fluctuations in foreign exchange (forex) rates, working capital-intensive operations, and susceptibility to slowdown in the end-user market, competition in the apparel segment and cyclical nature of the industry.

Rating sensitivities

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

- Sustained PBILDT margin of above 25% along with improvement in the scale of operations with geographical diversification of client base on a sustained basis.
- Successfully ramping-up of additional facilities established in KPR Sugar and Apparels Limited resulting in significant increase in revenue.
- Improvement in overall gearing to below 0.10x.

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

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and established track record of operations

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

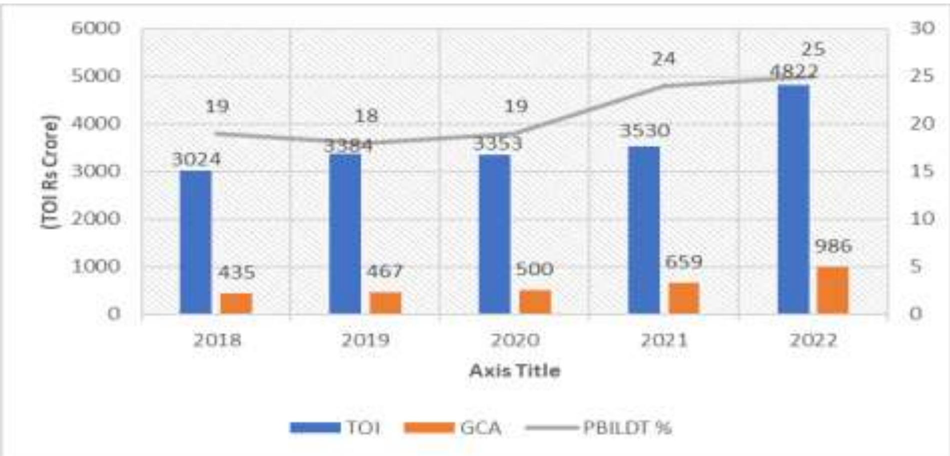
K.P.R. Mill Limited (KPR) is promoted by three brothers, Mr. K.P. Ramasamy, Mr. K.P.D. Sigamani and Mr. P. Natarajan. The promoters have over four decades of experience in textile sector including Hosiery, Apparel, Fabric and Yarn Export business. Mr.K.P Ramasamy ventured into the business as a small 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. Company follows prudent strategies for procurement of cotton and has earned 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 157 mn pieces per annum of readymade garments.

Significant improvement in operating performance

KPR registered significant improvement in the operations and profitability in FY22 vis-à-vis FY21. Total operating income registered about 37% growth to Rs 4891 crore (PY: Rs. 3563 crore) with PBILDT and PAT on y-o-y basis registered 49% and 63% of growth to Rs 1289 crore (PY: Rs.865 crore) and Rs 842 crore (PY: Rs. 515 crore) respectively. Company reported healthy PBILDT margin of about 26%. One of the factors for improvement in overall performance is attributed to the sufficient inventory (six months) of cotton maintained by KPR which was acquired at a cheaper price. Further, through its subsidiary K.P.R. Sugar Mill Limited company operates a sugar plant with capacity of 10,000 TCD and ethanol with 130 KLPD. The improved revenue from the sugar segment has also contributed to overall improvement in KPR's operational performance. In Q1FY23, KPR registered total operating income of Rs. 1585.32 crore, up by 75.52% compared to Q1FY22 (Rs.909 crore) with PBILDT improved by about 64% to Rs. 368 crore (Q1FY22: Rs 225 crore). In terms of margin the same however moderated to about 23% in Q1FY23 vis-à-vis 25% in Q1FY22. CareEdge expects KPR to continue to report improved overall performance at the back of its increased garment capacity by 42 mn pieces coupled with doubling of sugar capacity to 20,000 TCD and increased in ethanol capacity by 230 KLPD to 360 KLPD. Further, KPR's focus on improving its share of revenue from garment division coupled with diversification into retail segment is expected to benefit the company in the long run. Below graph depicts the growth of KPR.



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 is geographically diversified with 38% (PY: 35%) of its revenue is from the export market. Of the total exports, yarn constitutes 1.00% (PY: 3.47%), garment 94% (PY:91%) and fabric 3% (PY:3%). With increase in garment capacity, the share of exports has increased over the years. 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 60% of textile power requirement from windmills and the remaining from TANGEDCO and third parties. As a result of poor wind scenario, during FY22, the company was able to generate only about 863 lakh units as against 1050 lakh units in FY21 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

During FY22, KPR has done major capex to the tune of about Rs 912 crore mainly in its subsidiary KPR Sugar and Apparels Limited. The capex was incurred for expansion of sugar, co-generation and ethanol production capacity. This apart the company has also established a new garment facility with a capacity to produce 42 mn knitted garments at Chengappally, Tamil Nadu. Despite undergoing substantial capex the capital structure of KPR remained comfortable with overall gearing of 0.37x as on March 31, 2022 (PY: 0.28x). The interest coverage also stood strong at 61.72x (PY: 28.47x) in FY22. The debt protection metrics also remained at comfortable level with Total debt/ GCA of 1.20x as on March 31, 2022 as against 1.00x as on March 31, 2021. CareEdge expects company's capital structure to remain comfortable going forward with overall gearing continue to remain below 0.50x and with Total debt/GCA below 1.50x.

Key rating weaknesses

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, 2022, it has made investments to the tune of Rs 579.12 crore (PY: Rs 187.14 crore) and have also provided deposits and loans amounting to Rs 25.54 crore (PY: Rs 38.29 crore). This apart, KPR has also extended corporate guarantee amounting to Rs 1790.45 crore (PY: Rs 1082.60 crore) for the loans taken by subsidiaries namely K.P.R. Sugar Mill Limited, KPR Sugar and Apparels Limited and Jahnvi Motor Private Limited. KPR has extended corporate to K.P.R. Sugar Mill Limited to the extent of Rs. 588.45 crore comprising primarily of Rs. 208.45 crore of Term loan and Rs. 375 crore of working capital limits, however the company has repaid majority of its term debt and the outstanding of the same as on June 30, 2022 is Rs. 66.60 crore and working capital utilisation remained almost negligible. Further management has opined that going forward the corporate guarantee extended by KPR to K.P.R. Sugar Mill Limited shall be proposed to be withdrawn. Factoring the same CareEdge expects that the exposure of KPR to its subsidiaries to reduce considerably.

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 on account of prudent and pragmatic cotton procurement strategies and availability of exclusive personnel in the cotton growing areas has enabled KPR to access the quality cotton at competitive prices, thereby protecting it margins. Further, 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. Company has been able to maintain rather improve its PBILDT margins.

Liquidity: Strong

The liquidity position of the company remains strong marked by robust accruals against the repayment obligations. The GCA for FY22 stood at Rs 986.11 crore with cash and liquid investments to the tune of about Rs 435 crore. With the gearing of 0.37x as on March 31, 2022, and with no major capex in the near future, the company's capital structure is at comfortable level. The operating cycle of the company stood at 123 days (PY: 132 days) which is primarily on account of stocking of cotton. The company usually stocks three to four months of cotton requirement to mitigate the risk of price volatility of cotton and yarn. Company sources cotton from domestic market and imports cotton on need basis from West African countries. Average collection period stood at around 30 days with average credit period of around 20 days. The current ratio of the company as on March 31, 2022 stood at 2.52x (PY: 2.53x). With commissioning of Sugar and apparel segments in KPRSAL, the company projects to achieve GCA of about Rs. 1100 crore going forward as against the capex committed from internal accruals of about Rs. 250 crore during FY23 and minimal during subsequent years while the repayment obligations remain at about Rs. 88 crore for FY23, Rs. 162 crore for FY24 and Rs. 147 crore during FY25. Considering the past performance and projected GCA, CareEdge opines that the company is comfortably situated to meet any additional capex requirements and meet debt obligations on time.

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 subsidiaries of KPR which have been consolidated are mentioned under Annexure-6.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Sugar
Policy on Withdrawal of Ratings
Cotton Textile

About the company

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. KPR is an integrated player with 15 manufacturing units, having capacity to produce 1,00,000 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 3,70,000 spindles KPR is one of the leading players supplying yarn. K.P.R. Sugar Mill Limited, KPR Sugar and Apparels Limited and Jahnvi Motor Private Limited are the three main subsidiaries of the company.

K.P.R. Sugar Mill Limited is 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.

KPR Sugar and Apparels Limited 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. KPRSAL is a wholly-owned subsidiary of K.P.R. Mill Limited.
Jahnvi Motor Private Limited is a wholly owned subsidiary of KPR and is in to dealership of Audi cars with presence in Madurai and Coimbatore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	3,563.09	4,890.94	1,585.32
PBILDT	865.45	1,288.79	367.94
PAT	515.26	841.84	226.80
Overall gearing (times)	0.28	0.37	-
Interest coverage (times)	28.47	61.72	-

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	600.00	CARE AA+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	170.00	CARE A1+
Non-fund-based - ST-Bank Guarantee		-	-	-	2.82	CARE A1+
Fund-based - ST-EPC/PSC		-	-	-	300.00	CARE A1+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	600.00	CARE AA+;	-	1)CARE AA; Stable	1)CARE AA; Stable	1)CARE AA; Stable

				Stable		(06-Jan-22)	(19-Jan-21)	(07-Jan-20)
2	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (06-Jan-22)	1)CARE AA; Stable (19-Jan-21)	1)CARE AA; Stable (07-Jan-20)
3	Non-fund-based - ST-Letter of credit	ST	170.00	CARE A1+	-	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (19-Jan-21)	1)CARE A1+ (07-Jan-20)
4	Non-fund-based - ST-Bank Guarantee	ST	2.82	CARE A1+	-	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (19-Jan-21)	1)CARE A1+ (07-Jan-20)
5	Fund-based - ST-EPC/PSC	ST	300.00	CARE A1+	-	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (19-Jan-21)	1)CARE A1+ (07-Jan-20)

*Long term/Short term.

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

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

Annexure-5: Bank lender details for this company

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

Annexure-6: List of subsidiaries

Name of companies/ Entities	% of holding
M/s Quantum Knits PVT Limited	100
M/s K.P.R Sugar Mill Limited	100
M/s Jahnvi Motor Private Limited	100
M/s Galaxy Knits Limited	100
M/s KPR Exports PLC, Ethiopia	100
M/s K.P.R. Sugar and Apparels Limited	100
M/s KPR Mill Pte ltd- Singapore	100

Note on 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:
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