

K.P.R. Mill Limited

January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	638.61	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA- ; Stable (Double A Minus; Outlook: Stable)
Short-term Bank Facilities	282.82 (enhanced from 207.82)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	921.43 (Rupees Nine hundred twenty one crore and Forty Three lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the long term bank facilities of KPR Mill Limited (KPR) takes into account the consistent financial performance of the company in the past three years ended March 2017 as reflected in stable profitability, healthy cash accruals and consequent improvement in financial position.

The ratings continue to factor in the established position of KPR as one of the largest and integrated players in the textile industry, long track record of the promoters in the textile industry, strong financial risk profile of the company characterised by comfortable capital structure and debt coverage indicators. The ratings also take note of KPR group's increasing presence in garment business through its wholly-owned subsidiary KPR Sugar Mill Limited. The ratings, however, continue to be constrained by KPR's exposure to the small players in Tirupur textile cluster for its yarn business, volatile raw material prices and cyclical nature of the textile industry.

Going forward, stabilisation of the group's garment expansion activities, sustaining the profitability in light of volatile cotton and yarn prices and any large debt funded capex would be the key rating sensitivities.

Detailed description of the 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.Nataraj. The promoters have been in the textile business for nearly three decades and have

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

experience in almost all segments of the cotton textile value chain. The promoters are assisted by a team of professionals, who manage the day-to-day activities of the plants/company.

KPR produces cotton yarn, knitted fabrics and knitted garments from its facilities located in the Tirupur-Coimbatore region. KPR is one of the leading players supplying yarn to Tirupur market.

Integrated player in the textile industry

KPR is an integrated player having presence in yarn, fabric and garments segments. The company has an installed capacity of 3,53,568 spindles, knitting facility to produce 27,000 MT of fabric per annum, garmenting facility to produce 23 mn pieces of readymade garments per annum (this apart garment capacity of 36mn pieces is given on lease to KPRS), processing facility to process 18,000 MT per annum and 66 wind mills with total power generation capacity of 61.92 MW as of September 30, 2017. This apart, KPRS WOS of KPR has commissioned new garment manufacturing unit with capacity of 36 million pieces per annum during Q1FY17.

During FY17, yarn sales constituted 56% (PY 54%) of net sales followed by fabric sales at 22% (PY:25%) and garment sales at 15% (PY:11%)

Consistent financial performance for the past three years and improvement in debt coverage metrics

During the period FY15-FY17, the financial performance has been consistent with stable profitability and healthy cash accruals. With limited capex and utilization of major portion of profits towards reduction of debt, the financial position of the company has also witnessed improvement. Overall gearing has improved from 0.86 times as on March 31, 2015 to 0.46 times as on March 31, 2017. Overall gearing stood at 0.25 times as on September 30, 2017. Total debt/GCA improved from 2.74x as on March 31, 2015 to 1.45 x as on March 31, 2017. In view of healthy cash accruals, in FY17 the company completed the buyback of equity shares amounting Rs.97 crore.

KPR has registered growth of 13% y-o-y in total operating income during FY17 boosted by increase in volume and realisation of yarn and garments. Despite lower increase in yarn sales realization (8%) as compared to increase in cotton cost (12%) decline in power cost by 28% during FY17 resulted in improvement in PBILDT margin FY17. Drop in power cost was on account of improved power generation from captive windmills in FY17. Power from windmills accounted for nearly 50%-55% of the power requirement of the company. KPR registered PAT of Rs.238 cr (PY Rs.156 cr) and GCA of Rs.353 cr (PY Rs.279 cr) during FY17

Key Rating Weaknesses

Exposure to group companies

KPR has extended corporate guarantee to bank facilities of KPRS for Rs.289 crore (term debt and working capital borrowings) as on September 30, 2017 for term loan and working capital for additional garment capacity. KPR has also extended corporate guarantee to bank facilities of JMPL aggregating Rs.35 crore as on September 30, 2017. Total exposure to WOS companies in terms of investments and loans & advances as on September 2017 was Rs.84 crore translating to 7% of networth.

Overall gearing at consolidated level continues to be relatively high as compared to standalone levels on account of debt-funded capex in KPRS for setting up additional garment capacity of 36 million pieces p.a. The project cost of Rs.175 crore mainly in FY17 funded by debt of Rs.113 crore and remaining through internal sources. On consolidated level overall gearing stood at 0.61 x as on March 31, 2017 as against 0.80 x as on March 31, 2016.

Exposure to Tirupur market for yarn

KPR has its presence primarily in medium counts (20s-40s), which in turn is used in the manufacture of knitted garments. The company sells its major produce to Tirupur's knitwear and garment manufacturers. Over the years, KPR has reduced its exposure to Tirupur market, however, the same continues with large exposure to a number of smaller players in the industry cluster who in turn export. KPR also exports its yarn produce to Asian countries like Thailand, Bangladesh, South Korea and China. Exports constituted 30% of net sales in FY17. Of the total exports yarn constitutes 45%, garment 49% and fabric 3%.

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 to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology- Cotton Yarn Industry](#)

[Financial ratios \(Non-Financial Sector\)](#)

About the Company

K.P.R. Mill Limited (KPR) is promoted by three brothers Mr.K.P.Ramasamy, Mr.K.P.D.Sigamani and Mr.P.Nataraj. KPR is an integrated player producing cotton yarn, cotton knitted fabrics (with capacity of 27,000 MT p.a) and garments (with capacity of 23 million pieces p.a) from its facilities located in the Tirupur-Coimbatore region. With a capacity of 3,53,568 spindles as on September 30, 2017, KPR is

one of the leading players supplying yarn to Tirupur market. KPR directly exports knitted garments to various countries. During FY17, yarn contributed to 56% of net sales, fabric 22% and garments 15%. K.P.R Sugar Mill Limited (KPRS rated, CARE A (stable)/ CARE A1), a wholly owned subsidiary, owns and operates a sugar mill having capacity of 5,000 TCD (tonnes of canes crushed per day) and a multi-fuel cogeneration power plant of 30 MW. KPRS is also engaged in export of garments since FY14 and has garment production facility of 72 million pieces (of which 36 million pieces is leased facility). KPR has another WOS Jahnvi Motors Private Limited (JMPL) which is into dealership for Audi cars with presence in Madurai and Coimbatore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,992	2,243
PBILDT	387	469
PAT	156	238
Overall gearing (times)	0.63	0.46
Interest coverage (times)	8.72	10.41

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	485.00	CARE AA; Stable
Term Loan-Long Term	-	-	March 2024	153.61	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	205.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	2.82	CARE A1+
Fund-based - ST-EPC/PSC	-	-	-	75.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	485.00	CARE AA; Stable	-	1)CARE AA-; Stable (13-Feb-17)	1)CARE AA-(11-Jan-16)	1)CARE AA-(28-Nov-14)
2.	Term Loan-Long Term	LT	153.61	CARE AA; Stable	-	1)CARE AA-; Stable (13-Feb-17)	1)CARE AA-(11-Jan-16)	1)CARE AA-(28-Nov-14)
3.	Non-fund-based - ST-Letter of credit	ST	205.00	CARE A1+	-	1)CARE A1+(13-Feb-17)	1)CARE A1+(11-Jan-16)	1)CARE A1+(28-Nov-14)
4.	Fund-based - LT-EPC/PSC	-	-	-	-	1)CARE AA-; Stable (13-Feb-17)	1)CARE AA-(11-Jan-16)	1)CARE AA-(28-Nov-14)
5.	Non-fund-based - ST-Bank Guarantees	ST	2.82	CARE A1+	-	1)CARE A1+(13-Feb-17)	1)CARE A1+(11-Jan-16)	1)CARE A1+(28-Nov-14)
6.	Fund-based - ST-EPC/PSC	ST	75.00	CARE A1+	-	-	-	-

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