

K.P.R. Mill Limited

January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	594.64	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	372.82 (enhanced from 282.82)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	967.46 (Rupees Nine hundred Sixty Seven crore and Forty Six lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the established position of KPR Mill Limited (KPR) as one of the largest and integrated players in the textile industry, long track record of the promoters in the textile industry, stable operational and financial performance marked by comfortable capital structure, healthy profitability and cash accruals during FY18 (refers to the period April 01 to March 31) and H1FY19.

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, sustaining the profitability in light of volatile cotton and yarn prices and any large debt funded capex including exposure to subsidiaries 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 presence in almost all segments of the cotton textile value chain. The promoters, assisted by a team of professionals run the day-to-day activities of the company.

KPR produces cotton yarn, knitted fabrics and knitted apparels from its facilities located in the Tirupur-Coimbatore region. 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. KPR also produces knitted garments which are directly exported to buyers mainly in Europe and America. The company has spinning mills at Sathyamangalam, Karumathampatti, Coimbatore and Arasur, garment units at Arasur, Thekkalur and Tirupur and a processing unit at Perundurai.

Vertically integrated textile mill

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 59 mn pieces of readymade garments per annum (95 mn pieces including leased capacity), 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, 2018. With this the total garment capacity of the KPR group stands at 95 million pieces p.a.

Stable operational and financial performance marked by healthy profitability and cash accruals

KPR has registered growth of 12% y-o-y in total operating income during FY18 contributed mainly by increase in sales from garment division. Garment division witnessed growth in income by 89% at in FY18 as against the previous year. This was on account of increase in sales volume by 101% in FY18 due to higher demand. Also during the end of Q3FY18 the operational garment capacity of KPR increased by 36 million pieces p.a (from 23 million pieces p.a to 59 million pieces p.a) where KPR had discontinued the lease agreement for garment capacity which it had earlier given on lease to KPR Sugar Mill Limited (KPRS), its subsidiary.

The company also witnessed increase in income from yarn division (by 10%) and decline in income from fabric division (by 27%) mainly on account of change in product mix and higher internal consumption of fabric for the garment division. During FY18 the PBILDT margin moderated to 17.52% (PY: 20.9%) on account of increase in cotton price by 8% as against stable yarn realization. However, the same remained at comfortable levels. The yarn realization subsequently increased in H1FY19 by 8% on YTD basis as against stable cotton prices during the same period.

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

During FY18, yarn sales constituted 55% (PY 56%) of net sales followed by garment sales at 25% (PY:15%) and fabric sales at 14% (PY:22%). KPR registered PAT of Rs.225 crore (PY Rs.238 crore) and GCA of Rs.332 crore (PY Rs.353 crore) on TOI of Rs.2,524 (PY Rs. 2,242 crore) during FY18.

In order to consolidate the textile business under one company, from April 2018 onwards KPR has taken on lease 36 million pieces p.a. garment capacity belonging to KPRS, increasing the total operating capacity of garment division for KPR to 95 million pieces p.a (59 million own capacity + 36 million leased capacity from KPRS). This has resulted in increase in income from garment division by 118% in H1FY19 on y-o-y basis. This along with increase in yarn realization in H1FY19 as against stable cotton prices resulted in improvement in profitability during the period. The company achieved PBILDT margin of 19.83% (PY:18.55%) in H1FY19.

Improvement in capital structure

With stable profitability and reduction in debt levels, the overall gearing of the company has improved to 0.27x as on March 31, 2018 as against 0.46x as on March 31, 2017. With improvement in performance of KPR. The debt coverage indicators improved in FY18 with interest coverage ratio of 14.50 times (PY 10.41 times) and total debt to GCA of 1.09 times (PY 1.45 times). With no major debt funded capex, during H1FY19, the company also opted for share buyback of Rs.108 crore.

Key Rating Weaknesses

Exposure to subsidiaries

KPR has demonstrated continued support to KPRS. As on September 30, 2018, KPR's exposure to KPRS aggregated to Rs.74 crore which includes equity share capital and optionally convertible non-cumulative redeemable preference share capital. KPRS is into manufacturing of sugar (along with by products like molasses and cogen). In view of high cyclicity associated with sugar business, KPRS had de-risked itself from core sugar business by starting garment manufacturing by taking on lease the garment unit from KPR and adding additional garment capacity of 36 million pieces p.a. from FY17 onwards, however the garment business is now being operated under KPR.

KPR has also extended corporate guarantee to bank facilities of KPRS for Rs.129 crore (term debt and working capital borrowings) as on September 30, 2018. KPR has also extended corporate guarantee to bank facilities of JMPL aggregating Rs.36 crore (term debt and working capital) as on September 30, 2018. Total exposure to WOS companies in terms of investments and loans & advances as on September 2018 was Rs.92 crore (7% of KPR's net worth as on September 30, 2018).

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 32% of net sales in FY18. Of the total exports, yarn constitutes 34%, garment 63% and fabric 2%.

Liquidity

KPR's liquidity profile remains comfortable with average working capital utilization of 48% for the twelve month period ended November 2018. The average collection period is around 30-45 days and gives credit of around 20-30 days. Company stocks around two to three months inventory. The company also has free cash & bank balance and liquid investments of Rs.28 crore as on March 31, 2018 and Rs.69 crore as on September 30, 2018.

Industry Outlook

Acreage for cotton in the country is estimated at 12.3 million hectares in cotton season 2017-18, higher by about 12.8% y-o-y. Production in Cotton Season 2017-18 (CS18) increased by 8% to 6.4 billion kgs after marginally increasing by 2% y-o-y in CS17.

Cotton yarn production in India continued to remain sluggish during the CS18 registering only a marginal growth of about 0.1% y-o-y after declining by about 2% during the CS17. Subdued export demand along with high cotton prices and availability of MMF (man-made fibres) led to slower growth of production of cotton yarn.

Further, with the goods and services tax (GST) implementation in July 2017, the overall textiles industry faced slowdown. Going forward, in CS19, with high cotton prices and sluggish domestic and export demand for cotton yarn, the yarn production is expected to be at the current levels.

In CS19, cotton prices are expected to marginally pick up from the current levels and remain firm with the new cotton arrivals in the market on back of improved global demand (exports) and increased MSP by the Government. With limited supply in the market during H1 CS19 on account of increased orders from China, prices are expected to register a growth of about 5-7% and reach Rs 122 - 125 per kg during this period and average at about Rs 127 - 130 per kg for CS19 registering a y-o-y growth of about 9-11%.

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 59 million pieces p.a) from its facilities located in the Tirupur-Coimbatore region. With a capacity of 3,54,240 spindles as on September 30, 2018, KPR is one of the leading players supplying yarn to Tirupur market. KPR produces knitted garments which are directly exported. During FY18, yarn contributed to 55% of net sales, fabric 14% and garments 25%. Exports accounted for 32% of sales in FY18.

K.P.R Sugar Mill Limited (KPRS rated, CARE A; stable/ CARE A1), a wholly owned subsidiary (WOS), owns and operates a sugar mill having capacity of 5,000 TCD (tonnes of canes 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 36 million pieces. However, from Q1FY19 onwards KPRS has given its garment capacity on lease to KPR. 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)	FY17 (A)	FY18 (A)
Total operating income	2,242	2,524
PBILDT	469	442
PAT	238	225
Overall gearing (times)	0.46	0.27
Interest coverage (times)	10.41	14.50

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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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	109.64	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	195.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	2.82	CARE A1+
Fund-based - ST-EPC/PSC	-	-	-	175.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	485.00	CARE AA; Stable	-	1)CARE AA; Stable (03-January-2018)	1)CARE AA-; Stable (13-February-2017)	1)CARE AA- (11-January-2016)
2.	Term Loan-Long Term	LT	109.64	CARE AA; Stable	-	1)CARE AA; Stable (03-January-2018)	1)CARE AA-; Stable (13-February-2017)	1)CARE AA- (11-January-2016)
3.	Non-fund-based - ST-Letter of credit	ST	195.00	CARE A1+	-	1)CARE A1+ (03-January-2018)	1)CARE A1+ (13-February-2017)	1)CARE A1+ (11-January-2016)
4.	Fund-based - LT-EPC/PSC	-	-	-	-	-	-	1)CARE AA- (11-January-2016)
5.	Non-fund-based - ST-Bank Guarantees	ST	2.82	CARE A1+	-	1)CARE A1+ (03-January-2018)	1)CARE A1+ (13-February-2017)	1)CARE A1+ (11-January-2016)
6.	Fund-based - ST-EPC/PSC	ST	175.00	CARE A1+	-	1)CARE A1+ (03-January-2018)	-	-

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