

K.P.R. Mill Limited

January 07, 2020

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|--|-------------------|
| Long-term Bank Facilities | 626.61 (enhanced from 594.64) | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 472.82 (enhanced from 372.82) | CARE A1+ (A One Plus) | Reaffirmed |
| Total Facilities | 1,099.43 (Rs. One Thousand Ninety Nine crore and Forty Three lakh only) | | |

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of K.P.R. Mill Limited (KPR) continue to factor in the experience of the promoters in the textile industry, established track record of operations of the company, integrated nature of operations of the company with presence across the textile value chain, comfortable financial risk profile characterized by comfortable capital structure, healthy profitability and cash accruals.

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.

Rating Sensitivities
Positive Factors

- Significant improvement in the scale of operations with geographical diversification of client base on a sustained basis while maintaining the profit margin above 18%.

Negative Factors

- Decline in the operating profit margins below 14% on a sustained basis.
- Increase in exposure to the subsidiaries beyond 25% of the company's net worth.

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, assisted by a team of professionals run the day-to-day activities of the company. 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.

KPR produces cotton yarn, knitted fabrics and knitted apparels from its facilities located in the Tirupur-Coimbatore region. With a capacity of about 3.5 lakh spindles, KPR is one of the leading players supplying yarn to Tirupur market which is a major center 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, Neelambur and Arasur at Coimbatore, a processing unit at Perundurai, Erode and garment units at Arasur, Coimbatore & Thekkalur, Tirupur.

Integrated nature of operations of the company with presence across textile value chain

KPR has vertically integrated presence across the textile chain value from manufacturing of cotton yarn to processed fabric to garments which imparts strong operational flexibility. The company has an installed capacity of 354,240 spindles, knitting facility to produce 27,000 MT of fabric per annum, garmenting facility to produce 105 mn pieces of readymade garments per annum (including 36 mn pieces of leased facility from its subsidiary, K.P.R. Sugar Mill Limited), 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, 2019.

KPR has ventured into branded retail segment and expansion in garmenting through subsidiaries for further diversification. In FY19 (refers to the period April 1 to March 31), KPR has set up garmenting unit at Ethiopia (KPR Exports PLC, Ethiopia) with a production capacity of 10 mn garments per annum. During FY20, KPR has ventured into the branded retail segment through

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

the launch of premium quality men's innerwear. As on December 31, 2019, the company launched the product under the brand name FASO in the states of Tamil Nadu, Kerala, Andhra and Telangana.

Stable operational and financial performance in FY19; continuous increase in share of value added products mainly garments

KPR has registered growth of 19% y-o-y in total operating income during FY19 contributed mainly by increase in sales from garments. Over the past few years, KPR's product mix has witnessed a gradual change with increase in share of value-added products (mainly garments) in sales mix. During FY19, garment sales increased by 84% Y-o-Y basis to Rs.1102 crore from Rs.598 crore in FY18, while yarn & fabric sales declined marginally by 3% on Y-o-Y basis to Rs.1619 crore. The increase in garments sales is primarily on account of shifting of production/sales of garments from its wholly-owned subsidiary, K.P.R.Sugar Mill Ltd (KPRS) to KPR in FY19. It is to be noted that during FY18, KPRS reported garment sales of Rs.464 crore (FY19: Rs.182 crore). Decline in the income from fabric division by 52% Y-o-Y is on account of higher internal consumption of fabric for the garment division.

During FY19, yarn sales constituted 52% (PY: 55%) of net sales followed by garment sales at 39% (PY: 25%) and fabric sales at 6% (PY: 14%). KPR registered PAT of Rs.289 crore (PY: Rs.225 crore) and GCA of Rs.384 crore (PY: Rs.332 crore) on TOI of Rs.3012 crore (PY: Rs.2526 crore) during FY19. During FY19, exports accounted for 42% sales. The company mainly exports to US, Europe and Asian countries. During FY19, exports to US accounted for around 5% of sales and exports to Europe accounted for around 14% of sales.

Comfortable financial risk profile notwithstanding the deterioration in the overall gearing during FY19

Supported by large scale and integrated nature of operations, KPR has reported PBILDT margin in the range of 17.56% to 20.90% in the past three years ended March 31, 2019. Further, gross cash accruals also remained healthy in the range of Rs.332-384 crore during this period. The company has a comfortable capital structure characterized by overall gearing at 0.44x as on March 31, 2019; PY:0.27x (Including LC bills discounted, overall gearing stood at 0.52 times as on March 31, 2019; PY: 0.34 times). Debt service coverage metrics are also comfortable with interest coverage ratio of 15.49 times for FY19 (PY: 15.11 times) and total debt to GCA of 1.70 for FY19 (PY: 1.04).

The company has been generating healthy GCA in the last three FY. With no major debt-funded capex and low debt repayment commitments (Rs.19 crore in FY20 and Rs.22 crore in FY21), the company opted for share buyback of Rs.108 crore during FY19 and Rs.265 crore during FY20.

Key Rating Weaknesses

Exposure to subsidiaries

KPR has demonstrated continued support to KPRS. As on September 30, 2019, 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 addition to this, KPRS has garment facility of 36 million pieces per annum which is leased to KPR as the group decided to consolidate textile operations to single entity.

KPR has also extended corporate guarantee to bank facilities of KPRS for Rs.166 crore (term debt and working capital borrowings) as on September 30, 2019. KPR has also extended corporate guarantee to bank facilities of JMPL aggregating Rs.15 crore (term debt and working capital) as on September 30, 2019. Total exposure to wholly-owned subsidiary companies in terms of investments and loans & advances as on September 2019 was Rs.143 crore (9% of KPR's net worth as on September 30, 2019).

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 China and Bangladesh. Exports constituted 42% of the net sales in FY19. Of the total exports, yarn constitutes 19%, garment 78% and fabric 2%.

Industry Outlook:

After registering a decline of about 9% in cotton season (CS) 2018-19, India's cotton production is likely to witness a double-digit growth of about 16% in CS 2019-20 with production at 6.6 billion kg during the year on back of favorable monsoon as well as increased MSP that led to increased cotton crop sowing. For CS20, the acreage under cotton is estimated to have marginally increased by about 1.3% to 12.8 million hectares.

Cotton prices (S-6 & J34) during the year remained largely stable witnessing an increase of about 2%-4% on back of increased MSP despite weak demand after remaining range bound during domestic CS18 at about Rs.118 per kg on account of subdued demand from the spinners. Domestic cotton consumption increased only marginally by about 1% y-o-y mainly by mills. In FY19, however, exports demand witnessed an improvement led by demand from Bangladesh, Vietnam, Pakistan and Sri Lanka. Exports to China remained strong as well. Going forward, prices are expected to remain range bound and average at about Rs.124 - 127 per kg for CS20 despite increased MSP due to higher production amidst subdued demand.

Liquidity: Adequate

The company stocks around two to three months of inventory. Average collection period is around 30-45 days and average credit period is around 20 days. KPR's operations are working capital intensive as reflected in its operating cycle of 112 days for FY19. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Liquidity is adequate marked by sufficient accruals (Rs.221 crore in H1FY20 and Rs.384 crore in FY19) against moderate repayment obligations (Rs.20 crore in FY20, of which the company has repaid Rs.9.70 crore as on September 30, 2019) and cash balance to the tune of Rs.86 crore as on November 30, 2019.

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

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Criteria for Short Term Instruments](#)

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

About the Company

KPR is an integrated player producing cotton yarn (3.5 lakh spindles), cotton knitted fabrics (with capacity of 27,000 MT p.a) and garments (with capacity of 105 million pieces p.a.) from its facilities located in the Tirupur-Coimbatore region. With a capacity of 354,240 spindles as on September 30, 2019, KPR is one of the leading players supplying yarn to Tirupur market. In addition, the company also had set up garment unit with capacity of 10 mn pieces per annum in Ethiopia through its subsidiary in FY19.

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. KPR has another WOS Jahnvi Motors Private Limited (JMPL) which is into dealership for Audi cars with presence in Madurai and Coimbatore. 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. As on December 02, 2019, the promoters hold 75.20% stake in KPR with rest held by the public shareholders.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income | 2,526 | 3,012 |
| PBILDT | 443 | 542 |
| PAT | 225 | 289 |
| Overall gearing (times) | 0.34 | 0.52 |
| Interest coverage (times) | 15.11 | 15.49 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 | - | - | - | 535.00 | CARE AA; Stable |

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--------------------------------------|------------------|-------------|---------------|-------------------------------|---|
| Credit | | | | | |
| Term Loan-Long Term | - | - | March 2024 | 91.61 | CARE AA; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | 170.00 | CARE A1+ |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 2.82 | CARE A1+ |
| Fund-based - ST-EPC/PSC | - | - | - | 300.00 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 535.00 | CARE AA; Stable | - | 1)CARE AA; Stable (07-Jan-19) | 1)CARE AA; Stable (03-Jan-18) | 1)CARE AA-; Stable (13-Feb-17) |
| 2. | Term Loan-Long Term | LT | 91.61 | CARE AA; Stable | - | 1)CARE AA; Stable (07-Jan-19) | 1)CARE AA; Stable (03-Jan-18) | 1)CARE AA-; Stable (13-Feb-17) |
| 3. | Non-fund-based - ST-Letter of credit | ST | 170.00 | CARE A1+ | - | 1)CARE A1+ (07-Jan-19) | 1)CARE A1+ (03-Jan-18) | 1)CARE A1+ (13-Feb-17) |
| 4. | Non-fund-based - ST-Bank Guarantees | ST | 2.82 | CARE A1+ | - | 1)CARE A1+ (07-Jan-19) | 1)CARE A1+ (03-Jan-18) | 1)CARE A1+ (13-Feb-17) |
| 5. | Fund-based - ST-EPC/PSC | ST | 300.00 | CARE A1+ | - | 1)CARE A1+ (07-Jan-19) | 1)CARE A1+ (03-Jan-18) | - |

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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