

Q3FY18 Result Update

KPR Mill Ltd

Product mix change – key driver

KPR Mill Ltd (KPR), for Q3FY18, on a consolidated basis, reported mix set of numbers. Revenue grew by ~17% to ₹715 crore. Higher raw material cost, which as a % of sales increased by 392bps to 60.2%, led to margins contracting by 406bps to 18.4%. Net profit was flat at ₹71 crore. During 9MFY18, sales volume of yarn & fabric segment declined by ~2% to 56,487 tonne, while that of garments increased by 33% to 53.8 million units. The company has been concentrating on its garment business and has augmented capacity in the segment. We believe better utilization of the new capacity could aid future growth.

Recommendation: Post our Q2FY18 result update [click here](#) (1 Nov'17 @ ₹777, Rating: Long term portfolio stock), the stock is down ~9%. EBITDA margin contraction during the quarter could be on the back of lower operational performance in the yarn segment owing to the season change. Given the 9MFY18 numbers (revenue up 8%, profit up 1%, EBITDA margin at 19% - contraction of 157bps), we have revised our FY18 estimates downwards (revenue up 8%, EBITDA margin at 20%, net profit up 7% vs earlier revenue up 11%, EBITDA margin 20.1%, net profit up 17%). The value added yarn segment and ramp up in the better margin garment business remain key drivers. At the CMP, KPR trades at a P/E of 13.4x/10.7x on FY19E/20E basis. We maintain our view that KPR is a good long term portfolio stock. We value the stock at 14x FY20E EPS giving a target price of ₹917.

Q3FY18 Consolidated Result Summary

Y/E Mar (₹ Cr.)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Revenue	715	613	16.5	743	(3.8)
EBITDA	131	138	(4.6)	142	(7.7)
Margin (%)	18.4	22.4	-406bps	19.1	-76bps
PAT	71	71	(0.3)	74	(3.8)
EPS (₹)	9.56	9.59		9.95	

Source: Company, Centrum Wealth Research

Better utilization of new capacities could help improve realization: During 9MFY18, yarn & fabric realizations seem to have improved by ~3% to ₹208/kg, owing to the shift towards value added yarn. Realizations from the garment segment declined by ~3% to ₹132/piece, we believe this could be due to the company's focus on improving utilization levels of new capacities (by taking low garment orders along with value added garment orders). The garment business at present is 100% export oriented, KPR was under discussion for manufacturing knitted garments for the domestic market. With new capacities in place, better utilization of the same could aid future business growth.

Good balance sheet position: Post expanding its garment and processing capacity, KPR is currently looking at consolidating its current business. With the ramp up in volumes, we anticipate the company to generate better cash flow positions (positive free cash flows). The company has repaid all high cost debt and existing term loans are under the TUF scheme which would result in lower interest cost. We anticipate the company to become a net cash company by FY19/20E, with debt to equity being at <1x levels.

Risk factors: 1) Raw material price fluctuation, 2) Forex volatility, 3) Change in government policies (international and domestic), 4) Slower than expected ramp up in the garment business.

Financial Summary - Consolidated

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	NPAT	YoY (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY16A	2,601	1.4	470	18.1	211	21.4	28.51	24.7	12.7	20.6
FY17A	2,817	8.3	563	20.0	287	36.1	38.81	18.1	10.4	24.0
FY18E	3,054	8.4	611	20.0	308	7.3	41.64	16.9	9.0	21.4
FY19E	3,507	14.8	712	20.3	388	26.1	52.52	13.4	7.2	22.0
FY20E	4,089	16.6	834	20.4	484	24.8	65.52	10.7	5.7	22.5

Source: Company, Centrum Wealth Research

Long term portfolio stock

Key Data

Current Market Price (₹)	704
Target Price (₹)	917
Potential upside	30.3%
Sector Relative to Market	In-line
Stock Relative to Sector	Outperform

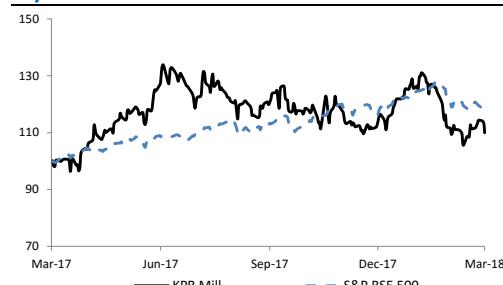
Stock Information

BSE Code	532889
NSE Code	KPRMILL
Face Value (₹/Share)	5.0
No. of shares (Cr.)	7.4
Market Cap (₹ Cr.)	5,203
Free float (₹ Cr.)	1,306
52 Week H / L (₹)	882/589
Avg. Daily turnover (12M, ₹ Cr.)	3.5

Shareholding Pattern (%)

	Dec-17	Dec-16
Promoters	74.9	75.0
Mutual Funds	12.2	12.8
FPIs	2.9	2.8
Others including Public	10.0	9.4

1 year Indexed Price Performance



Price Performance (%)

	1M	3M	6M	1YR
KPR Mill	0.5	(3.2)	(8.9)	9.8
S&P BSE 500	(0.1)	2.2	5.1	18.8

Source: Bloomberg, Centrum Wealth Research

Mrinalini Chetty, Research Analyst

Buyback Update:

KPR's board in its meeting held on 22 Feb'18 approved the proposal to buyback not exceeding 0.13 crore equity shares (representing 1.81% of the total number of shares) of the company through the tender offer process at a price of ₹810 per equity share. The buyback offer size which is not exceeding ₹108 crore, represents 9.81% of the fully paid-up standalone shareholders fund as of 31 Mar'17. The record date is tomorrow (that is 7 Mar'18). Certain members of the Promoters and Promoter Group have expressed their intention to participate in the Buyback and tender up to an aggregate maximum of 1.33 crore equity shares.

Exhibit 1: Consolidated Quarterly Performance

Y/E Mar (₹ Cr.)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Revenue	613	783	747	743	715
YoY Growth %	(4.7)	8.5	12.1	(1.6)	16.5
Raw Materials	345	503	446	460	430
% of sales	56.3	64.3	59.8	61.9	60.2
Personnel Expenses	70	70	74	74	76
% of sales	11.4	8.9	9.9	9.9	10.7
Other Expenses	61	70	75	67	77
% of sales	9.9	9.0	10.0	9.1	10.8
EBIDTA	138	139	152	142	131
EBIDTA margin %	22.4	17.8	20.3	19.1	18.4
Depreciation	38	37	38	35	34
Interest	14	14	15	13	12
Other Income	5	8	4	4	4
PBT	91	97	103	97	89
Provision for tax	20	25	30	24	19
Effective tax rate %	22.3	25.6	28.8	24.5	20.8
Net Profit	71	72	73	74	71
YoY Growth %	33.8	30.5	16.3	(9.5)	(0.3)
PAT margin %	11.6	9.2	9.8	9.9	9.9

Source: Company, Centrum Wealth Research

From the Technical & Derivative Desk

- KPR Mill is moving in a strong uptrend on monthly chart. But, the stock made a 'Lower Highs Lower Lows' sequence the weekly chart, which is a sign of reversal as per 'Dow Theory'.
- The stock has breached its strong support of '200 EMA' on daily chart and the same is now acting as a resistance for the counter.
- Considering the placement of momentum oscillator and moving averages, the stock may see further correction from current levels.
- Currently, price equality (100% extension of previous fall) is there around 652 levels. Also, the stock has a strong demand zone 620 – 635.
- Thus, any corrective move towards the above zone should be used to initiate fresh longs for the target of 760 – 800 levels. Traders should keep a closing stop-loss of 590 for the trade.

Exhibit 2: Technical Chart



Source: Company, Centrum Wealth Research

Financials - Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	2,601	2,817	3,054	3,507	4,089
Growth %	1.4	8.3	8.4	14.8	16.6
Raw Materials	1,593	1,702	1,848	2,115	2,461
% of sales	61.3	60.4	60.5	60.3	60.2
Personnel Expenses	218	278	299	351	409
% of sales	8.4	9.9	9.8	10.0	10.0
Other Expenses	320	273	296	330	384
% of sales	12.3	9.7	9.7	9.4	9.4
EBIDTA	470	563	611	712	834
EBIDTA margin %	18.1	20.0	20.0	20.3	20.4
Depreciation	152	149	158	161	164
Interest	58	64	54	43	33
Other Income	24	27	16	17	17
PBT	284	377	416	524	654
Provision for tax	73	90	108	136	170
Effective tax rate %	25.7	23.9	26.0	26.0	26.0
Net Profit	211	287	308	388	484
Growth %	21.4	36.1	7.3	26.1	24.8
PAT margin %	8.1	10.2	10.1	11.1	11.8

Source: Company, Centrum Wealth Research

Cash Flow

Y/E Mar (₹ Cr)	FY16	FY17	FY18E	FY19E	FY20E
Net Profit Before Tax	211	287	416	524	654
Depreciation	152	149	158	161	164
Others	127	151	37	27	16
Change in working capital	(198)	(14)	(39)	(150)	(139)
Tax expenses	(86)	(96)	(108)	(136)	(170)
Cash flow from Ops	205	477	464	426	525
Capex	(197)	(198)	(50)	(50)	(50)
Other investing activities	(10)	1	16	17	17
Cash flow from Invest	(207)	(198)	(34)	(33)	(33)
Proceeds from equity	-	(97)	-	-	-
Borrowings/(Repayments)	63	(104)	(120)	(120)	(120)
Dividend paid	(65)	(5)	(9)	(36)	(54)
Interest paid	(63)	(64)	(54)	(43)	(33)
Cash flow from financing	(65)	(270)	(183)	(199)	(207)
Net Cash Flow	(67)	10	248	193	285

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
Return ratios (%)					
RoE	20.6	24.0	21.4	22.0	22.5
RoCE	18.5	22.2	22.3	24.6	26.6
RoIC	18.5	21.8	24.0	29.4	35.2
Turnover Ratios (days)					
Inventory	72	67	68	67	67
Debtors	49	49	44	45	45
Creditors	38	27	26	28	26
Fixed asset turnover (x)	1.2	1.2	1.2	1.4	1.5
Solvency Ratio (x)					
Debt-Equity	0.7	0.5	0.4	0.2	0.1
Interest coverage	5.9	6.8	8.7	13.1	20.8
Per share (₹)					
EPS	28.5	38.8	41.6	52.5	65.5
BVPS	148.9	174.0	214.4	262.1	320.3
CEPS	49.1	59.0	63.0	74.3	87.7
Dividend Ratios					
DPS (₹)	5.2	0.5	1.0	4.0	6.0
Dividend Yield (%)	0.7	0.1	0.1	0.6	0.9
Dividend Payout (%)	21.9	1.6	2.9	9.3	11.1
Valuation (x)					
P/E	24.7	18.1	16.9	13.4	10.7
P/BV	4.7	4.0	3.3	2.7	2.2
EV/EBIDTA	12.7	10.4	9.0	7.2	5.7
EV/Sales	2.3	2.1	1.8	1.5	1.2

Source: Company, Centrum Wealth Research

Appendix

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