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Company Update: KPR Mill

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Abstracts

Underpower ed, but r eady to soar

KPR Mill has braved industry headwinds to report 15.4% growth in 9mFY12 revenues, EBITDA margin of 14.38% and PAT margin of 2.9%.

Tamil Nadu’s power crisis affected output in Q3FY12, resulting in reduced utilization and delay in operations of new high-value compact yarn spinning facilities, but the company managed to stay in black.

Compact Yarn capacity fully operational from January 5, 2012

KPR’s new capacity is fully operational from January 5, 2012, increasing the Yarn capacity to 90,000MT p.a.

Power situation to improve after June

The power deficit in the state may continue till June when monsoon arrives, and wind-mills produce power. Henceforth, we expect the utilization to be in line with historical numbers. The state government has already fast-tracked power projects.

We have revised downward revenue and PAT estimates for FY12. FY13 has also been reduced on account of expected utilization drop due to state’s power issues in Q1.

A cocktail of right fundamentals and future growth potential

With yarn capacity now increased by 60% to 90,000MT, KPR is poised to reap rich benefits from textile demand revival.

KPR has the healthiest balance sheet among peers even with recent capacity expansion, modernization and debt for Sugar Mill.

Growth drivers for FY13: FY13 will benefit from new high value-add Compact Yarn capacity. Power self-sufficiency by H2FY13 will save costs and ensure operations continuity year round. Sugar mill operations will commence in Q3FY13. Textile sector will witness revival as cotton prices have now stabilized worldwide.

We have revised our Mar'13 price target from Rs 240 to Rs 180, as power shortage will result in underperformance in Q1FY13 too, lowering the FY13 EBITDA and PAT margins.

Despite challenges in FY12, KPR remains a quality stock, and amongst the best picks in the textile space. FY13 will see profit revival and FY14 could see return to full profitability. At a likely FY14 PE

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