K.P.R. MILL LIMITED

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The Listing Department
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BSE: 532889

The Listing Department
National Stock Exchange of India Ltd
Exchange Plaza, Plot: C/1, G Block,
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NSE: KPRMILL

Dear Sir,

Sub: Transcript of the Conference Call held on 04th May, 2023.

In Compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and in continuation to the filing of Audio Recording please find the attached, transcript of the aforesaid Conference Call as received from the Concall service provider.

Please take the same on record.

Thanking you,

Yours faithfully,

For K.P.R. Mill Limited

P. Kandaswamy
Company Secretary

Encl: As above

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"K.P.R. Mill Limited Conference Call hosted by Batlivala & Karani Securities India Pvt. Ltd."

May 04, 2023

MANAGEMENT: **MR. P. NATARAJ – MANAGING DIRECTOR, K.P.R. MILL LIMITED**
MR. PL. MURUGAPPAN – CHIEF FINANCIAL OFFICER, K.P.R. MILL LIMITED
MR. P. KANDASWAMY – COMPANY SECRETARY, K.P.R. MILL LIMITED

MODERATOR: **MR. ABHISHEK NIGAM – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY23 Earnings Conference Call of K.P.R. Mill Limited, hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference has been recorded. I now hand the conference over to Mr. Abhishek Nigam from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Abhishek Nigam: Thanks, Jacob. Hi, everyone. Thank you for joining us today afternoon. We are joined today by management from K.P.R. Mill Limited. We have with us Mr. Nataraj – the Managing Director; Mr. Murugappan, who is the CFO; and Mr. Kandaswamy – the Company Secretary. And now without any further delay, I will hand over to Mr. Nataraj for opening comments. Over to you, sir.

P. Nataraj: Thank you, Mr. Abhishek, and very good evening to everyone here, and I welcome you all for the K.P.R. Mill Limited Q4 Earnings Call for the Financial Year 2023.

The opening of economies around the world after the COVID crisis, consumers had the opportunity to spend the money that they could not during the COVID period. Consequently, demand soured, and brands and retailers increased orders to meet this pent-up demand. However, with inflation raising, especially after the Russian invasion of Ukraine, the demand of consumer goods slowed with inventories remained very high

KPR commenced FY2023 with a positive mode of growth and profitability. But the steep increase in cotton prices, we all know well, coupled with the resultant lower yarn realization impacted the margin. However, the unstinted support from the garment segment and our inherent strengths enabled KPR to repeat its performance level despite the challenges.

Now, the cotton prices started stabilizing, the textile industry is optimistic with the government policies and FTAs. As reported earlier, to improve our performance further, we implemented a certain modernization and expansion plan at a total outlay of about Rs.500 crores. Setting of above exclusive vortex spinning mill at an outlay of Rs.100 crores will be completed during the current financial year. The rooftop solar power plant at Rs.50 crores is completed and commissioned. Processing and printing expansion at a cost of Rs.50 crores will be completed in the first half of this financial year. Ethanol capacity expansion at Rs.150 crores will be commenced before the coming sugar season 2023-24, that is by October this year.

Then finally, we spent around Rs.100 crores on modernization to improve the quality of the product so as to meet the customers' requirements. With this, we have spent around Rs.500 crores in the last one year. The project will be completed by the end of this year around Rs.500 crores investment. Geopolitical tensions, high inflation, raising commodity prices and interest rates are impacting many economies. The textiles business is also facing challenges. So, we are watching the market continuously and will consider any further expansion plans accordingly.

With these opening remarks, the floor is now open for the question-and-answer session. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Kapil Jagasia from Nuvama Wealth Research. Please go ahead, sir.

Kapil Jagasia: Sir, firstly, wanted to know reasons for this sharp contraction in gross margins for this quarter?

P.L. Murugappan: This is mainly due to the margin reduction in spinning business, that is yarn and fabric. The cotton prices were highly volatile and the demand is little subdued, because of that the realization of yarn and fabric is lower than the normal levels, the profitability is also low during this quarter.

Kapil Jagasia: So, what were the margins in yarn and fabric segment this quarter?

P.L. Murugappan: This quarter is about 10%.

Kapil Jagasia: Garment segment margins would be?

P.L. Murugappan: 25% and sugar is about 20%.

Kapil Jagasia: How are you seeing this in coming quarter, any unutilized high cost, cotton inventory still in our books or how is it?

P.L. Murugappan: No, sir. All the inventories of the previous season has fully consumed. We have only the current inventories.

Kapil Jagasia: My next question is your sales contribution from Europe region this year has increased to 60%, 61%. So, can you elaborate, any client additions done in that region over the last one year?

P.L. Murugappan: It is mainly because of the existing customers like Primark and some of the European customer increased the order since we have commissioned the new plant for their requirement, the demand has increased from Europe and whatever the balance available capacity will be utilized for the other region customers in the coming year.

Kapil Jagasia: How's the demand environment in Europe region for garments, is it improving from last year, how is the outlook over there?

P.L. Murugappan: When compared to last year, we all know well about the Ukraine war, purchasing trend has changed a little bit in the Europe. So, as like what we are also waiting for similarly general image in Europe is also like that, there is a little bit slow down in the last three, four months we are able to see. But we hope that this trend will change and we are able to see a change in the order flow. Most probably the orders are moving towards the large players. So, this is what we are able to see now.

Kapil Jagasia: What would be your order book position for garments as on today?

P.L. Murugappan: As of today, it's about Rs.1,000 crores.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go-ahead sir.

Biplab Debbarma: Sir, my question is on capacity expansion. So, you have multiple capacity extensions, one in ethanol, one in vortex, then you have the modernization, bottlenecking. Sir, just trying to understand all this capacity expansion like how much increase in turnover this capacity expansion would be to?

P.L. Murugappan: Vortex spinning is expected to be somewhere around Rs.100 crores of turnover on completion of the project. And the solar power plant is expected to generate revenue of close to about Rs.12 crores per annum, it's more of a profit. And processing and printing expansions is expected to increase its capacity by about 4,000 tons. And ethanol expansions will increase the revenue by about Rs.150 crores.

Biplab Debbarma: So, around more than 250-odd crores from all these capacity expansion?

P.L. Murugappan: Other than that, in the modernization whatever we have done it will improve our competitiveness in the market and we will continue to be the preferred customer in the market.

Biplab Debbarma: This always would lead to around 250-odd crores of increase in our turnover?

P.L. Murugappan: Yes, more value-added products, so we will have returns.

Biplab Debbarma: Recently, Government has announced mega textile park and two of the parks has been launched; one in Karnataka, one in Tamil Nadu. So, any plan of investment in this mega textile park and by when do you think this park will be operational if you intend to invest in, by when do you foresee that you would invest in this park?

P.L. Murugappan: Development activities not yet commenced in Tamil Nadu. We expect that it will be done in the coming period and the final notifications and other benefits will be announced in the coming year. Based on that we will take a call on that.

Biplab Debbarma: And my final question is on the total interest cost has gone up significantly and I believe that level has also gone up. So, since we are doing a significant Rs.500 crores of CAPEX and in future also we are all anticipating your CAPEX in garment. So, at what level of debt would you be comfortable and how would you fund this CAPEX, what is the thought behind this CAPEX expansion?

P.L. Murugappan: Most of the CAPEX project we have announced, and implementing is from internal sources only except the ethanol project where the interest subsidy is available. Apart from the ethanol project, the other projects are all from internal accruals. The current term loan is about Rs.590 crores and working capital of about Rs.735 crores and overall debt-equity ratio of about 0.37%. So, we feel up to 0.5% would be comfortable, but we are not intending to borrow much because the cash generations are good. Some of the term loans we have are mostly interest subsidy loans, other loans, we are slowly closing down.

Biplab Debbarma: So, what would be the blended cost of debt in this?

P.L. Murugappan: It will be somewhere around 6%. Working capital loan is higher because it's season ending, we are holding stocks for next four to five months, that's why the working capital availment is little higher. It will be regularized in the coming periods.

Moderator: The next question is from the line of Dipen Shah, an individual investor. Please go ahead.

Dipen Shah: I have a couple of questions. Firstly, in the past year if you look at the total revenue growth in garments, we had probably a 5% to 7% volume growth and a large part of the revenues came from our increased realizations, which has reached almost Rs.200 Crores. So, if you could just give us some idea about what's the kind of value addition which came in and how much was because of the price increase because of cotton?

P.L. Murugappan: Some 10% would be because of the cotton price increase, that is expected to continue in the coming period also, because currently, the cotton price is around Rs.65,000, the prices what is in the previous period is also the same, it's expected to continue. On the value additions, we have introduced some of the printing technologies in the garment divisions and embroidery and other whole body printing kind of a thing. The value addition is slowly going up and that would be somewhere around 10%.

Dipen Shah: So, I think the average realizations could sustain at the current level because most of these are kind of longer-term in nature?

P.L. Murugappan: Yes, yes, long-term in nature.

Dipen Shah: As far as the current year is concerned, we had just a volume growth of 5% to 7% last year. Any indication whether growth could be better in the current year based on whatever you are seeing in the market?

P.L. Murugappan: Currently, we have about 147 million garment capacity. We hope that we will reach close to that.

Dipen Shah: Sir, you said there is some improvement in demand which could come through, but maybe something specifically Europe and US what trends are you seeing?

P. Nataraj: Sir, generally if you see the China Plus One, everybody we are talking since long and overall, the sentiment is that the customers are looking for a large customer. Another very important issue is the inventory which is a big issue now. So, those who have the working capital capacity, those who are able to keep the inventory level, the customers once they place the order, they are just keeping the warehouse as they own here. And whenever they need the shipment, based on that only we have to ship it. So, we have to keep the stock up to the production of the garments. Here, the working capital facility is very key at the present situation. Only like having capacity and inventory, storage facility and the working capital facility, this kind of the facilities are key at the present level. This plays a major role. So, large players can grab more orders. So, that is the position. So, KPR is well placed in this area. So, we feel that the future will be good for garments.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life AMC. Please go ahead with your question.

Naushad Chaudhary: Some clarifications. Firstly, on the cotton side, how much cotton inventory we must be having on the balance sheet as of now, and what would be the average price?

P.L. Murugappan: Balance sheet date, we have about four months inventory. Now, we have a little more. But the average cost would be somewhere around Rs.54,000.

Naushad Chaudhary: Secondly, I understand you have mentioned on your opening remarks that you would wait and watch for the right time for the announcement on the garment capacity expansion. But if at all if you have to do it, how much time will it take you to get your capacity ready to fill the demand, should it be ready within six to eight months, do you have any scope within your existing facility to expand or will it take one and a half to two year like previous Greenfield expansion?

P. Nataraj: So, we have a certain space also in the existing facilities, that is small like five to 10 million capacity we can go with Brownfield. But further if you want to go for a large expansion, we have to plan for the Greenfield. And so, we have past experience in the last 10 years like creating the facility so we can make it in like six to eight months, whatever the size, like 30, 40 million garment capacity we can be able to set up. But the main thing here is we have to see how the trend is around the world due to war or various uncertainties. People say some recession maybe there in future. So, with various uncertainties, we are closely watching the market. And again, I know decision is not in our hand. We have to wait and see how the trend goes, maybe I'll say next three months, six months. So, based on that, we have to take a decision.

Naushad Chaudhary: If at all if you announce it, will it be a similar size of the previous capacity, 35, 40 million plus or would it be?

P. Nataraj: Yes, yes.

Naushad Chaudhary: And in the same region?

P. Nataraj: Yes, in the same region.

Naushad Chaudhary: Lastly, on the yarn business, given the demand and spread pressure do you think this is worst now and from here on we should see improvement or do you think it is very difficult as of now to comment on the demand and spread both?

P. Nataraj: Generally, you see the yarn price again, what is the position on the final product as I told just now, most of our exports for the textile products for Europe and US. So, when garment orders improve, automatically the raw material yarn, also will improve. So we have to wait and see. But I can say that the worst is over because cotton prices went up to more than one lakh per candy and they just came down. If we look at the last couple of months, it stabilized somewhere around 60,000 to 62,000. So, we can say that the worst is over, and we hope maybe in the next quarter or two definitely the situation will improve.

Naushad Chaudhary: Any comment you'd like to make on your retail brand, FASO, how is it doing, you had some ambitious target for FY24, are we on track to achieve that?

P. Nataraj: Yes, we have the target and almost we are moving towards, it except during the COVID time when we started the same time and it was a little tough time and in the last six months we are pushing it to cover even the earlier time what we lost and we hope that we can achieve as per our plan but we are lagging a little behind because of the COVID and other issues, and we are confident that we can push it to the track.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: So, just wanted to understand the opportunity in the garment segment as this China Plus One opportunity is still there and very active and various other countries are still facing issues on maybe some or the other factors. I'm just trying to understand a large player like you why are we waiting for demand improvement to happen and stuff because otherwise we can do capacity expansion and place our capacities much better than a smaller company. So, just wanted to understand the thought process on what is leading to a doubt where the demand will not come in the next six months?

P. Nataraj: No, no, you see that one year back the China Plus One was very interesting and a lot of orders are flowing in. But after that, a lot of uncertainties are happening around the world like there's some region the war is going on and the garments in this region, Tirupur and even KPR were the major exporters to Europe. And Europe you know very well that Europe is most affected because of this war. And even the people's purchasing pattern itself has changed. So, from a passion to basic needs they have moved like that because of the gas problem, power shortage the power cost has gone up manifold in Europe. Every human being when the basic needs they struggle, their full attention will be on this. So, they will think fancy or a passion will be the next. So, that kind of situation is there. So, we are very cautious, and we don't want to just invest hundreds of crores, and anything happens, so we don't want to put the investment and keep it idle or struggle for getting orders and all these things. So, when the situation becomes the worst or something like unnecessarily investing on this and we should not get into trouble. So, we can say that we are a little more extra cautious. So, that is only the reason we are waiting for.

Prerna Jhunjhunwala: Generally, as per your experience of so many years in the industry, how much time does an improvement in consumption generally take in such kind of scenario. We've been through many recessionary cycles.

P. Nataraj: Recessionary, we can say, but the war scenario and all, I think we are first time facing this kind of situation. So, it is very difficult. So, we can assume, but we should not go wrong. So, that is a reason we are waiting for that, that's why I told. We can predict, but it cannot go right. So, it's better to wait and see for some more time.

Prerna Jhunjhunwala: Second question is FASO. What is our thought process there and how are we moving ahead on that business?

P. Nataraj: Because we started in the state and we moved into southern states, now, we are actually moving to pan India. So, this is what we plan at the beginning. So, we are moving as per our plan. But the only thing was due to COVID and other issues, it was a little bit time lag, almost, one to two years lost in that, and we are aggressively pushing it, and we hope that maybe we are running behind that and as our team and marketing team and technical team, we are pushing it fast to catch up this time maybe in a couple of years what we lost in that. So, we hope that we can reach as per our plan.

Prerna Jhunjhunwala: Can we assume that the brand could be Rs.100 crores brand in the next two years?

P. Nataraj: We also hope to do that.

Prerna Jhunjhunwala: Sir, last question on your spinning business. This vortex spinning that you have announced, is it a better profitability business than your current spinning or is it the same margin business?

P. Nataraj: Almost margin will be the same, but one thing we can say is that cotton has high fluctuation in the price, ups and downs is there and mainly we use viscose fiber. So, the fluctuation will not be there, we can say the stable margin without high risk like cotton.

Prerna Jhunjhunwala: The demand is also improving in the viscose segment, right?

P. Nataraj: Yes, yes.

Moderator: The next question is from the line of Monish Ghodke from HDFC Mutual Fund. Please go ahead.

Monish Ghodke: Sir, our sales to Europe is around 60%. So, what would be the split between mainland Europe and the UK?

P.L. Murugappan: UK would be somewhere around 15%, balance will be other European countries.

Monish Ghodke: So, 15% of the 60%?

P.L. Murugappan: Yes.

Monish Ghodke: Europe and North America are almost equally large garment markets. What is the reason that we are so strong in Europe but not as strong as North America like if I compare even Australia which is a very small market, our share is 14% whereas North America which is a larger market, we are just at 20%?

P.L. Murugappan: American business some three, four years back when we expanded the business. Otherwise, we are in Europe almost. Now only we are expanding our businesses to other regions like the US, Australia and all. We hope that in the coming period the share will increase.

Monish Ghodke: On our yarn and fabric business, what would be the split between domestic and export?

P.L. Murugappan: Almost domestic only.

Monish Ghodke: Sir, what would be our typical yarn realization?

P.L. Murugappan: The current quarter is about Rs.265 per Kg. Fabric is about Rs.310 per Kg.

Monish Ghodke: Sir, this cotton prices if I'm looking at trends of past few months, it's around Rs.60,000 a candy. You said our procurement cost is 53, 54. So, why is it lower – are we buying some different quality cotton?

P. L. Murugappan: No, it is Rs. 62,000 to Rs. 63,000, not Rs. 52,000.

Monish Ghodke: Sir, last question. Generally, the textile and garmenting industries say that we don't have FTA with you; that's why we are not benefiting. But we have FTA with Japan and Korea. Why, as an industry, our share is not that strong in those countries?

P. Nataraj: Since the beginning, the product what we are making is to the Europe and the US. The Japanese market is niche market, not volume based. So, it depends on how you make the product. Suppose one company or one region makes volume based and few players make only niche garments, and in this region if you see that mainly Tirupur region where most of the exporters where entire Tirupur is making more than Rs. 30,000 crores of export are mostly on volume based. That is the main reason we are towards Europe and the US. Still, we also do a small volume but the quantity will be very less. It is for the small players having 100 to 200 machines, those people can go for niche market. Large volume if you want, we have to have a larger size factory and we have to go to these kinds of markets.

Moderator: The next question is from the line of Gnanasundaram S. from Spark Institutional Equities. Please go ahead.

Gnanasundaram S: Sir, sorry to be harping on this again, but just in terms of the garment capacity, we have done about 135 million pieces this year and our capacity is about 157. There is a minimum room for about 18% with the kind of growth that is left out in terms of capacity. And typically, the large facility that we have at Chengapalli took us about 14 months in terms of gestation. So, when could we really expect this in terms of you getting confidence? Because you illustrated to a lot of positive facts coming out of this expansion into North America or in terms of larger players gaining share. So, why is this really not imbibing confidence in us to go for a capacity expansion right now? Are there labor related issues?

P. Nataraj: No, this is not…. Already the Chengapalli unit is a larger size unit. To ramp up a factory of this size takes time where we have to meet both order booking as well as the training of the labors. So, we have to go in a phased manner only. We cannot go all of a sudden. If it is a small factory like 100-200 machines, we can make it in a couple of months or so like that. With a larger capacity size, we have to train the people. At the same time, we have to meet the customers' delivery schedule. That's why ramping up happens like that. As you said, 12 to 14 months. Once the ramping up is over, then we can think of further expansion, and as already said, the uncertainty in the market, we have to consider that also before taking a decision for the expansion plan. That is the present situation.

Gnanasundaram S: So, it's got nothing to do with labor availability or in terms of labor attrition?

P. Nataraj: No, that is not an issue at all.

Gnanasundaram S: Sir, just another bookkeeping question. Can you just give us the split between the numbers of yarn and the fabric business as well as your sugar business?

P. L. Murugappan: You want the production or sales?

Gnanasundaram S: Sales.

P. L. Murugappan: Yarn sales is about 19,000 tonnes. Fabric sales is about 2,000 tonnes.

Gnanasundaram S: And the sugar business, sir?

P. L. Murugappan: Sugar business, the sales is about 1 lakh tonne. Ethanol sales is about 2,38,00,000 liters.

Gnanasundaram S: Just another bookkeeping question. This year, our garment production is about 133 million pieces and the sales was about 128 million pieces. Is it purely a timing issue in terms of order pickup or have there been cancellations?

P. L. Murugappan: As MD explained to you, now the shipments are happening on the basis of capacity. They wanted us to produce and keep the stock ready for shipment. Once they give the shipping schedule, we have to ship it. They are keeping the warehouse in our factory. As and when required, it is getting exported. So, we are keeping about 2 months' production as the stock.

Gnanasundaram S: And just one follow-up. Has this changed? Because earlier they used to give us a 6-month order book. Now that has come down to 3 months. Are there changes in terms of the order book schedule?

P. L. Murugappan: No, the order book is more or less the same, only shipping schedule.

Moderator: The next question is from the line of Akshay from Canara Robeco Mutual Fund. Please go ahead.

Akshay: Two questions, sir. First is just on the realization per piece. This quarter also, it is around Rs. 211. And you did allude to that it's partly a function of say 10% is because of cotton price and 10% is because of the printing technology, etc. But the cotton prices have corrected. So, what if the realizations come down? How should we look at the realization? Can it go back to Rs. 140 or Rs. 160 or this Rs. 200 would continue?

P. L. Murugappan: Sir, cotton prices earlier used to be about Rs. 35,000 to Rs.40,000. Now, it is about Rs. 63,000 to Rs. 64,000, around Rs.65,000. Realization-wise, we are not expecting any downturn because almost the cotton price is about 50% higher than the normal level. We expect it to be the same. The peak cotton prices were there in the last year for about 2-3 months only, not full year. That does not have an impact on this.

Akshay: So, is it fair to assume that this Rs. 200 should continue going forward also?

P. L. Murugappan: Yes, we are expecting that it will be more or less at the same level.

Akshay: Sir, the second question is on the sugar business. At least except UP, there are concerns that the yield and recoveries on the lower side in Maharashtra and Karnataka. How do you see the FY24 numbers? Can we expect a similar number or there will be some hit on the top line and even on the margins if you can guide for FY24?

P. L. Murugappan: FY24, it's too early to predict because it is more of a monsoon-based business. We hope that things will be good. Because the rain last year was good and sowing was also good, we expect that things will be normal this year in North Karnataka.

Akshay: Any color if you can provide from the crushing season that has just ended from where if you can give some inference?

P. L. Murugappan: Current year crushing information you want?

Akshay: Yes, sir, if you can help with that.

P. L. Murugappan: 26 lakh tonnes we have crushed.

Moderator: The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha: Can you give me the volume numbers for yarn and fabric? Can you give the revenue numbers in rupees million for yarn and fabric? And the split of ethanol and sugar?

P. L. Murugappan: Yarn quantity is about 19,000 tonnes and fabric is 2,000 tonnes. Yarn revenue is about Rs. 500 crores and Rs. 70 crores in fabric. Sugar, about 1 lakh tonnes is sales and Rs. 327 crores is the revenue. Ethanol is 2,38,00,000 liters and Rs. 155 crores is the revenue.

Shradha: What is the sugar inventory we are sitting at as of this quarter?

P. L. Murugappan: Close to about 1 lakh tonnes.

Shradha: The new sugar ethanol capacity that is expected to be commissioned, that will be operational in the next cycle of October to January?

P. L. Murugappan: It is not a new sugar capacity. It is ethanol capacity. It is expected to come into operation from next season, i.e., from October.

Moderator: The next question is from the line of Pratik Kothari from Unique Portfolio Managers. Please go ahead.

Pratik Kothari: Sir, my first question is on the…. We were expecting some large orders to come in after the FTA which we signed with Australia. Any comments, any color that you can throw on those?

P. Nataraj: Already we are doing with one customer. After the FTA, now order flow has increased. We import raw cotton also from

Australia. Generally, for import, duty is there from Australia. The import duty is removed because of the FTA. So, import also started. We will see the improvement in the future, both the raw material import as well as order booking also.

Pratik Kothari: Sir, my second question is on the production numbers which we expect to do this year from 133 million to about 147-150 million. Given the near-term pressures that we are seeing in the consumer market of US and Europe, where is this confidence or optimism coming from? What are we seeing or how are we getting these orders?

P. L. Murugappan: We have an order book for about 6 months from now. The next order cycle will start sometime in June-July. Inquiries and discussions are going on as per the expected levels. We hope that the business will do well.

Pratik Kothari: So, the current order book that we have booked for the next 6 months gives us the confidence that we will do this 150 odd million production?

P. L. Murugappan: Yes. We also expect that the worst in Europe is more or less over. Now they are coming back to normal. We hope that things will improve.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go ahead.

Biplab Debbarma: Sir, you mentioned that yarn realization is around Rs. 256 per kg. At the current cotton rate, the cotton yarn spread is coming around INR 80 per kg. Is this a normal level? I thought normal level would be something else, around Rs. 110 to Rs. 120 per kg of cotton yarn spread. What will be the ideal cotton yarn spread for you?

P. L. Murugappan: Whatever you said is right. We hope that things will improve from the coming quarters.

Biplab Debbarma: What would be the ideal cotton yarn spread?

P. L. Murugappan: As you said, it's about Rs. 110 to Rs. 120 per kilo.

Biplab Debbarma: Sir, the second question is on the new garment capacity of 42 million pieces. What will be the capacity utilization? I am just trying to understand that if you incrementally get orders, do you have enough capacity to fulfill those orders?

P. L. Murugappan: More or less, the capacity is running full. We hope that the production will be achieved in 2-3 months' time.

Biplab Debbarma: So, if incrementally in the order book in this June-July cycle you see a significant increase, say 10% to 15% increase in orders, would you be able to fulfill? Because, if your capacity is running almost full capacity, then how do you….?

P. L. Murugappan: Yes, we can run it. Capacity is full means full factory is running now. Generally, after full capacity is running, capacity utilization will increase afterwards only. Since it is a new capacity, slowly it will improve production. The labor is also new; the capacity of the people will increase slowly over a period of time. Maybe 3 months to 4 months' time, we will reach our optimum level.

Biplab Debbarma: You have 147 million pieces capacity. Can you produce more than that in terms of garment? Can you go beyond 147 million pieces if….?

P. L. Murugappan: As the MD said, we have some space or brownfield expansion that can be done whenever it is required. We can do some 10 million to 20 million additional with a small addition of sewing machines and some balancing equipments.

Biplab Debbarma: So, 10 million to 20 million in brownfield; that is what you are mentioning? 10 million to 20 million pieces?

P. L. Murugappan: Yes.

Biplab Debbarma: And the final question is on viscose yarn. You said it is better that it is less volatile. In terms of realization and margin, how much better than yarn? Are you saying that realization would also be better than the normal yarn and margin would be better than the normal yarn? Can you give us some color on that?

P. Nataraj: No, it is not better than normal yarn like that. It is like steady margins because the value addition is steady and the margins also steady. We expect that it will be somewhere around 18% to 20% margin business because we are testing it based on the outcome of this expansion. If everything goes well, we can expand this business also, but we have to see how it comes.

Biplab Debbarma: And what would be the capacity there you will be putting on for viscose? I know the amount, but in terms of metric ton, how much capacity are you putting in?

P. Nataraj: The present capacity is production of 25 tonnes per day.

Biplab Debbarma: For viscose, the new capacity expansion, how much you are doing?

P. Nataraj: That’s what I said that 25 tonnes per day is the yarn production capacity.

P. L. Murugappan: Expected capacity around the new facility is about 9,000 tonnes per annum.

Moderator: The next question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha: The first question I had was on the yarn volumes. If I look at…. say last 3 quarters, we are doing less than 15,000 volumes or thereabout. This quarter, the number was higher. Can you explain what is the reason for the jump in Q4 yarn volumes? With that, for the next year FY24 with further ramp up in our garment production, do we expect that yarn volumes will fall further?

P. L. Murugappan: Yes, some small quantity will go to captive consumption. The balance will be sold outside. We were carrying a little more stock during the second quarter and third quarter that was liquidated during the fourth quarter.

Ahmed Madha: Sir, the high inventory on our balance sheet is just because of the high cotton inventories and the 2-month inventory we are keeping for the garments? These are the reasons or there is anything else?

P. L. Murugappan: Yes, there is a reason. Also, some sugar stock is also there. We have close to about 1 lakh tonnes of sugar and molasses for the off-season; that is also there. It is mainly because of the high cotton inventory with a higher price.

Ahmed Madha: In the sugar segment, margins for Q3 and Q4, can you explain what is the key accounting reason or any specific reason why Q3 margins were so high and Q4 margins are low? And also, with that, how much sugar we exported this year?

P. L. Murugappan: We have exported somewhere around 37,000 tonnes. And the margin during quarter 3 is higher because of most of the sales – export sales as well as the ethanol sales. Sugar sales and other sales are very small. This quarter, the sugar sales is very high. In sugar sales, generally the margins are a little lower. When the turnover is lesser ethanol-based sales is higher means the margin will be higher. Blended margin, we are looking at somewhere around 22% to 23%.

Moderator: The next question is from the line of Vikas Jain from Equirus. Please go ahead.

Vikas Jain: Sir, firstly, I missed your number with respect to…. What was the yarn segment margin that you said you did in 4Q?

P. L. Murugappan: Fourth quarter is about 10%.

Vikas Jain: Sir, one clarification. While we are not currently committing to expanding our garment capacity, but as the need arises, is there a possibility that we can possibly operate on a double shift in some of the facilities to meet the higher order inflow if at all it happens?

P. L. Murugappan: We feel the single shift capacity operation is doing well. We would like to keep it like this.

Vikas Jain: Sir, one last thing. You did mention in one of the participant's call of the current garment capacity at 147 million pieces. Is it 147 or 157?

P. L. Murugappan: 10 million capacity is in Ethiopia. We want to move it. We are just making an attempt to move the machineries from Ethiopia to here. It is in progress. In India, now we have only 147 million capacity.

Vikas Jain: When can we expect that 10 million Ethiopia capacity to come here?

P. L. Murugappan: We are also hoping that it will come quickly. We will see.

Moderator: The next question is from the line of Raj Malhotra, an individual investor. Please go ahead.

Raj Malhotra: Sir, I have 2 questions. 1) Why is other expenses and depreciation higher on a quarter-on-quarter basis?

P. L. Murugappan: Depreciation is higher because we have increased the capital expenditure during last year and this year. That resulted in a higher depreciation. In quarter 3, some of the machineries completed their useful lives, so it is little less. In Quarter 4 some of the machineries came into existence, came into operation, so the depreciation increased.

Raj Malhotra: And other expenses?

P. L. Murugappan: Other expenses more of a power cost because during this quarter we do not have any power available from our wind sources and all. So, the power cost has increased substantially that is there is a higher other expenses.

Raj Malhotra: The second question was, is it fair to assume that the next garmenting capacity expansion announcement is at least 6 months away?

P. L. Murugappan: As MD explained, we are waiting for the situation to come to normal. Then we will decide because we have not yet finalized anything. It will be taken at an appropriate time.

Moderator: The next question is from the line of Yash Tanna from ithought PMS.

Yash Tanna: One question on the UK FTA, once India signs the FTA what sort of financial impact do we expect for KPR? Something in terms of numbers, we are 60%, we are well penetrated into the region. How does this help us in terms of immediate financial impact?

P. L. Murugappan: UK we have a few large customers and a considerable size of orders from the UK. Once the agreement FTA is signed we can get more orders whereas the duty is removed then definitely we get more benefit towards better pricing and the higher orders. So, exactly we can't financially quantify it now but definitely there will be very good positivity for the KPR business particularly for the garment business.

Yash Tanna: And one question on the labor front, you mentioned that there's no problem. How do we see scale up if we commission another large plant, how do we see ourselves managing maybe twice the employee base that we have currently? Are we comfortable doing that and how confident are we for that? Similarly, will we be open to scale up in other geographies where labor availability is maybe higher and it's more accessible? Some of our peers are also looking at that. Do we have that thought process or we will be sticking to our home-ground?

P. L. Murugappan: Labor front we have one of the best practices for our employees and we have both state local employees as well as migrant labors almost more than ten states like Orissa, Jharkhand, UP, Bihar. So, various states people are here and we are providing an excellent facility and in fact KPR is we can say the best labor practices particularly in textiles. We have all kind of facilities, even higher education, food facilities, free accommodations all these things we are providing for our employees. They are quite comfortable, and we continue to watch all the situations very well even during COVID time also like where migrant labor was big issue around the country and all of our employees were in our campus even during the lockdown. We provided them salary and free food, all these things. The fully satisfied employees give better performance, so this is what KPR's policy. With this strength we are confident that we can mobilize the people what we require.

Yash Tanna: Yes, we are well aware of KPR's policies and congratulations to you for that. Just one last question on realization. You've mentioned that the realizations you can maintain the realization going forward but with the value addition that we are planning to do what is the scope? Given the raw material situation is actually cooling out a little bit and we have to be competitive to get the market share what sort of a realization improvement do we see over the next 3 to 5 years? If you can comment something on that.

P. Nataraj: It's more based on the raw material cost, more or less value addition side we have done whatever possible and any new technology comes, and new things comes we will be doing it. We hope that we will maintain the margins. Whatever we are getting in the garment business will continue. Whatever opportunity comes we will utilize it.

Yash Tanna: So, maybe a 10% value addition is like a good number to directionally look at?

P. Nataraj: Yes, 10% definitely possible but we are looking at more of a margin what we are getting there.

Moderator: The next question is from the line of Manoj Bahety from Carnelian Capital.

Manoj Bahety: I just wanted to stress further on the CAPEX part or capacity expansion part. Unless we are having some negative view for 3 to 4 years because the way I am hearing you that in Europe things are getting normal and you are also pretty confident on your capacity utilization. Just wondering are we running a risk of not having capacity when opportunity because the way China Plus One is happening, the way things are coming to India and the way KPR is positioned even if we put the capacity right now and even if we might have to wait for scaling up for 6 months, 8 months, the cost of having the capacity visa-a-vis not having a capacity and missing the opportunity. Not sure that's how you are evaluating it. Just wanted to understand the thought process of not going ahead when like end of the year we are expecting full capacity utilization and the risk of not having capacity is clearly visible.

P. L. Murugappan: Yes, we will take your views and we are having some internal discussions in the coming period. We will discuss and we will explain whatever you have said. We will try to reach some consensus among the team.

Manoj Bahety: Second is the way we are expanding at a single location and I fully agree with you, the kind of labor practices, HR practices which KPR has, one of the best class in the textile sector, I would say maybe in the world. But there will be a point of time when there will be a constraint like scaling up and getting the labor at a single location. Is there any discussion of having one more location where you can again create such a big scale? Just wanted to understand is there any thought process or you will stick to the single location only?

P. L. Murugappan: What we have, the workers are not coming from locally, they're all from various states. So, they're all staying in the campus. Wherever the location, the people coming from outstations, it doesn't make a big issue. But the same time here in the garment it needs personal attention. If it is in and around it's a factory. So, that lot of other advantages like operational convenience because we have our knitting facilities, processing. Processing government allows only in a particular area like SIPCOT and the transportation or convenience. All these things are a better advantage having in and around the facilities or near to the processing, printing, embroidery, all these things are reachable around 50-kilometer radius where we have the facilities. This makes a lot of cost saving. Based on that only as you said at this point, we are also thinking seriously because this many of employees we have so every time we are discussing all these subjects so finally, we are taking an appropriate decision.

Manoj Bahety: One last question I have. I'm sure putting capacity is an easy thing but scaling up may require hiring, labor and all those things. Do you think that once you go for a brownfield, right from getting the land putting all infrastructure and labor hiring and everything, are you sure you will be able to do this entire thing in 12 to 14 months or it may take bit longer because already we are having 30,000 employees.

P. L. Murugappan: With our experience we can do it. We are confident.

Moderator: The next question is from the line of Pratik Tholiya from Systematix.

Pratik Tholiya: Just working on clarification, you said 1 lakh ton of sugar that we sold during the quarter, this also includes the export of 37,000 tons, right?

P. L. Murugappan: Yes, includes.

Pratik Tholiya: So, domestic is 63,000 and export is 37,000.

P. L. Murugappan: Yes.

Pratik Tholiya: This 26-lakh ton of cane that you crushed that is for the current season or that is for the financial year ending March?

P. L. Murugappan: Current season.

Pratik Tholiya: Can you just help with the realization in the sugar? How much was your average realization in the domestic and export market during the quarter?

P. L. Murugappan: It’s a combined realization only, it's about Rs. 32.40 paisa per kg.

Pratik Tholiya: In ethanol what was the average realization?

P. L. Murugappan: Rs. 65.33 paisa.

Pratik Tholiya: Ethanol during the quarter is 2.38 kilo liter that you've done that is entirely through juice?

P. L. Murugappan: Yes it is, during the season. It's entirely through juice.

Pratik Tholiya: For FY24 what percentage of your production would be via juice and what would be your molasses? How much would you be planning to do through molasses?

P. L. Murugappan: It is 50-50. We are planning for about 10 crores liters of ethanol for the year. The 5 crores would be from juice and 5 crores would be from ethanol.

Pratik Tholiya: Lastly, we are also talking about we are hearing about this El Nino and lower monsoon and since Karnataka largely would be rainfed. How are you seeing the ground level picture in terms of how much canes you expect to crush in the next season and what could be your recovery rates for the next season?

P. L. Murugappan: We are expecting a normal monsoon and normal crushing. Let us see because generally this one year before situation only prevail in the next season. Last year's monsoon was good, so sowing is very good, so we hope that it will be a normal year.

Pratik Tholiya: For this current sugar season what was the recovery rates for you?

P. L. Murugappan: Since ours is a composite unit you cannot exactly measure the recovery. We hope that it will be somewhere around 11%.

Pratik Tholiya: 11%, this is after diversion to ethanol or at gross level?

P. L. Murugappan: It's at gross level.

Pratik Tholiya: Just lastly one request, since now your sugar business is also expanding and becoming big and the overall profitability also. But I don't see any mention of your sugar at least the volume numbers and all you can share on the PPT so that we can save time on the calls discussing the numbers and we can have more strategic level discussions.

P. L. Murugappan: Certainly, we will do that.

Pratik Tholiya: Just a request maybe you can have a few slides on the PPT with all the volume numbers?

P. L. Murugappan: Yes, we will do it.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: Most of my questions have been answered. Just from the margin front so this year overall margins we have seen at around 21.4% and in the past, you have guided that if your garment business margins are around 25% and sugar business margins are close to 25%, your margin trajectory would be somewhere about 23% to 24%. So, just on that front where do you see your margins going ahead over the next 2 to 3 years?

P. L. Murugappan: Garment and sugar margins expected to remain the same line only and only the spinning margin was little fluctuating. We hope that it will settle during this year.

Kaustubh Pawaskar: So, this year overall spinning margins were how much?

P. L. Murugappan: 17%.

Kaustubh Pawaskar: Full year 17% and what is the comfortable level of margins historically you have achieved?

P. L. Murugappan: In spinning business?

Kaustubh Pawaskar: Yes.

P. L. Murugappan: It will be somewhere around 19% to 20%.

Kaustubh Pawaskar: Can we expect that to happen this year considering?

P. L. Murugappan: Yes, we hope.

Kaustubh Pawaskar: So, this year we should expect margins to recover a bit on a year-on-year basis?

P. L. Murugappan: Yes.

Kaustubh Pawaskar: In terms of revenue growth, you have always guided double digit kind of a revenue growth but considering the situation now and what 6 months of whatever the scenario what you are looking at, do you expect your overall revenue growth would be in low double digit or we should expect it to improve?

P. L. Murugappan: Hopefully in double digit.

Moderator: The next question is from the line of Aman Madrecha from Augmenta Research Private Limited.

Aman Madrecha: Could you throw some light on the arrivals of cotton this season because the news we are reading is that the farmers are holding the cotton so how has the arrival this season? And could you please highlight on how we are getting affected because the Indian cotton is trading at a premium with international cotton. Could you please highlight both these things?

P. L. Murugappan: The cotton arrival now up to April we can say that approximately 200 lakh bales have come compared to last year. Last year by this time was around 250 lakh bales. So, 50 lakh bales is behind this year and people believe the production will be almost same like last year. Maybe the farmers are holding back additionally some 50 lakh bales. This is the general market view, and we hope that's the reason the price is a little higher level, a little above the 60,000-64,000 level. Whenever cotton price breaches 60 and goes down below 60 immediately farmers are slowing down their bringing into the market. Almost like the farmers are now controlling the prices so that's what the present situation and the world market are both prevailing at the same level almost there maybe Rs. 1,000 plus or minus between domestic cotton and international cotton. Only difference is, in India there's 11% import duty is there. That's why it's not viable now to go for the import cotton. So, that is a present situation.

Aman Madrecha: Can we say that there will be no cotton shortage in the country, right?

P. L. Murugappan: Yes. The record shows even the various associations and CAB the government like almost recently announced around 330 lakh bales is the production, expected production and the consumption was a little lower compared to the previous year. So, cotton is available. That is what the government report as well as the various associations also says.

Aman Madrecha: Could you highlight how the spinning industry is operating in the country? Are the spinning mills operating at almost optimal capacity utilization or they are still operating below the optimal capacity utilization?

P. L. Murugappan: Even till now operating at below the standard level because in the last 6 months the cotton price of course touched 1 lakh and slowly it was falling down whereas cotton yarn price also falling down but the yarn demand was little slow in the past 4-5 months. Because of that mills also slowed down their production. I hope this is still may be like around say 10% to 15% lower than the normal level.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for closing comments.

P. Nataraj: Thank you. KPR is well equipped with the high-tech integrated facilities, enthused workforce, progressive business model and empowered by strong performance track record, loyal customer base and drive for enhancing value for all stakeholders will keep its growth in line with the expected level. So, with this we thank you all once again. Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.