

K.P.R. MILL LIMITED

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15.03.2022

To

The Listing Department
Bombay Stock Exchange Ltd
1st Floor, Rotunda Buildings,
Phiroze Jeejeebhoy Towers,
Mumbai - 400 001

The Listing Department
National Stock Exchange of India Ltd
Exchange Plaza, Plot: C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai - 400 051

Dear Sir,

BSE: 532889 / NSE: KPRMILL

Sub: Transcript of the Conference Call held on 09th February, 2022

In Compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find the attached, transcript of the aforesaid Conference Call.

Please take the same on record.

Thanking you,

Yours faithfully,

For K.P.R. Mill Limited



**P. Kandaswamy
Company Secretary**

Encl: As above



**“KPR Mill Limited
Q3 FY2022 Earnings Conference Call”**

February 09, 2022



**ANALYST MS. PRERNA JHUNJHUNWALA - BATLIVALA & KARANI
SECURITIES**

**MANAGEMENT: MR. P. NATARAJ – MANAGING DIRECTOR – KPR MILL
LIMITED
MR. MURUGAPPAN – CHIEF FINANCIAL OFFICER – KPR
MILL LIMITED
MR. KANDASWAMY – COMPANY SECRETARY – KPR
MILL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to KPR Mill Limited Q3 FY2022 Earnings Conference Call 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Perna Jhunjunwala from Batlivala & Karani Securities. Thank you, and over to you, Ms. Jhunjunwala!

Perna Jhunjunwala: Thank you Lizann. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for Q3 FY2022 results conference call of KPR Mill Limited. From the company, we have with us the senior management including Mr. P. Nataraj - Managing Director of the Company, Mr. Murugappan – CFO and Mr. Kandaswamy – Company Secretary. I would now like to hand over the call to the management for initial comments. Thank you and over to you Sir!

P. Nataraj: Thank you Perna. Very good evening to one and all. I welcome you all for the KPR Mill’s Q3 earnings call for the FY2022. We take pleasure in reporting a good performance for the quarter ended December 31, 2021. The textile business continues to be good. The historical high demand for cotton resulted in high demand for yarn due to which the yarn prices have also gone up.

Garment orders remains healthy, new garment factory at Chengapalli near Tirupur commenced production during the current quarter and ramping up of full capacity is expected during next financial year. The establishment of new ethanol from sugar unit is in progress.

As regards third wave of COVID pandemic unlike the first two waves, Indian business has managed to tackle the current price and infections with ease and ensure relatively less disruption to the business. With the sustained support from the stakeholders and the employees of the Company, its impact on the KPR business is negligible. With the proactive government policies on rising global demand, Indian textiles and apparel sector is heading for a bright future.

With this remark, now the floor is open for question and answers. Thank you.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Jagesia from Edelweiss. Please go ahead.
- Kapil Jagesia:** Thank you for taking my question. Your yarn segment has now been completely operated to value added yarn, so like what would be the difference in margins between the two-value added and conventional yarn?
- P. Nataraj:** Today's market is for value added yarn. 2%-3% difference will be there.
- Kapil Jagesia:** Okay Sir. I wanted to know the difference like in terms of margins like how much margins higher do we make in this value-added yarn, would it be possible to give this number?
- PL Murugappan:** It is 3%+ would be there Sir.
- Kapil Jagesia:** Okay and can you provide the garment segment volume numbers for the quarter and also for yarn and fabric segment?
- PL Murugappan:** Yarn production 22,379 tons.
- Kapil Jagesia:** And for fabric?
- PL Murugappan:** Fabric 6600, garment 32 million.
- Kapil Jagesia:** Garment we have really done very well in this quarter?
- P. Nataraj:** Yarn 42,000 tons, fabric 3,009 tons, garment is about 20,500 million.
- Kapil Jagesia:** Okay and could you also provide the yarn and fabric sales separately, the revenue numbers?
- PL Murugappan:** Yarn sales, you want value?
- Kapil Jagesia:** Yes value.
- P. Nataraj:** Yarn is about 462 Crores; fabric is about 95 Crores.

- Kapil Jagesia:** Thank you Sir. I will just join in the question queue for further questions. Thank you for answering.
- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.
- Manish Ostwal:** Thank you for the opportunity. My question on the other operating income decline in this quarter, so compared to last quarter 57.4 Crores to 33 Crores, so can you explain the reason of decline in the other operating?
- P. Nataraj:** We told you in the last call also, we have accrued for nine months in the last quarter i.e for period from January 1 to September 30. So nine months export incentive is accrued there. Actual benefit is about 15 Crores we have accrued 45 Crores in the last quarter. These quarter actual export benefits are on account of that, Government notification was pending for quite some time, they announced only in the last quarter.
- Manish Ostwal:** Secondly in terms of gross profit margin of our yarn and garment segment we are stable quarter-to-quarter, how is the moment in the margin, gross profit margin in these two different segments?
- P. Nataraj:** Yarn and fabric margin is about 20% compared to last quarter margin of about 28%. Last quarter margin was mainly because of the inventory we were carrying at a lower cost and garment margins are more or less stable say about 29%, sugar margin is about 23%.
- Manish Ostwal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Biplab Debbarma from Antique Stock Broking Limited. Please go ahead.
- Biplab Debbarma:** Good afternoon Sir. Regarding the new capacity that has started operations, I would like to understand that as of today how much capacity it would be filled in terms of percentage?
- P. Nataraj:** You are asking garment capacity question?

- Biplab Debbarma:** Yes Sir.
- P. Nataraj:** Regarding garment capacity we have commissioned during end of last quarter which is ramping up now. We have installed about 30% of the capacity. It is slowly ramping up, we hope that we will ramp up somewhere around 25% during these quarters.
- Biplab Debbarma:** Okay, 23% during this quarter. That is great. I missed that on that margin but just trying to understand in this quarter what would be your EBITDA margin in different segment like in yarn, garment and fabric and sugar, I just need that?
- P. Nataraj:** Yarn and fabric is about 20%, garment is 29%, sugar is 23%.
- Biplab Debbarma:** Are these margins going to be the new normal or do you think this margin I mean are these margins bit level would be steady and the new normal of this margin would change depending on the market situation?
- P. Nataraj:** Generally yarn margin used to be about 17% to 20% depending upon the season. So we feel it is a normal margin. Garments market is very good, so we hope that the margin would be little higher only, sugar will be normal margin.
- Biplab Debbarma:** So in the previous concall, I do not know, correct me if I am wrong, you mentioned garment margin to be in this 24%-25% but last quarter and this quarter we are seeing heightened is it because of some rebate gone in rebate or on its own 29% there is a margin expansion in garment business?
- P. Nataraj:** Not like that, garment division is doing very well, the order flow very good margin also improved.
- Biplab Debbarma:** Okay and one final question on this what would be the order book in garment as of now?
- P. Nataraj:** Somewhere around 1000 Crores now.
- Biplab Debbarma:** That is great. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Tanvi Jain from Hem Securities. Please go ahead.

Tanvi Jain: Congratulations on a good set of numbers. I just had a couple of questions. First, could you just explain the margin that is purely on account of the inventory gains which are not there in this quarter and the RoSCTL benefit that is not under the quarter, any other reason of our margin fall?

P. Nataraj: Basically, first reason is RoSCTL we have accrued for nine months last quarter that is the main reason. Second is the inventory gain in the spinning business, both contributed the higher margins.

Tanvi Jain: Okay, just one more, having in order to and is confirm that in September 2021 you said you had the order book of 750 Crores and now you are selling it is 1300 Crores the garment order book, so from where are, the order book is almost doubled?

P. Nataraj: Order book is about 1000 Crores and compared to last quarter order book was around 750 Crores now it is about 1000 Crores.

Tanvi Jain: 1000 Crores?

P. Nataraj: Yes. Since we have commissioned to the new factory, we are going ahead with little higher order because we need the orders for the new factory also.

Tanvi Jain: Okay, just one last thing, any guidance on our revenue for the full year?

P. Nataraj: We have reached the revenue as of 3375 Crores. Improvement is there, we hope that it will be in proportionate. We cannot tell you the future number.

Tanvi Jain: Sir just one last thing, can you repeat the volume numbers, your voice was not so clear, the production volume and the sales volume, although you have quantified the sales value, if you could give us sales split in terms of garment, yarn, fabric, and sugar volume wise?

P. Nataraj: Volume you want?

Tanvi Jain: Yes, sales volume.

P. Nataraj: 15,000 tons yarn, 3000 tons fabric, 27.6 million garments.

Tanvi Jain: 20?

P. Nataraj: 27.6 million.

Tanvi Jain: Okay. The chase of decrease in garment because in September 2021, you had a share value of 37 million which is 27.6 million this quarter?

P. Nataraj: Last quarter, 26.8 million Q1 sales is 28.6 million. Some shipment in the port which will not be counted for sales for the purchase.

Tanvi Jain: Sorry, you said that it is not 37 million for last quarter, it is 26.8 million?

P. Nataraj: Last quarter is 26.8 million.

Tanvi Jain: Okay which is now 27.6 million?

P. Nataraj: Yes.

Tanvi Jain: The yarn volume has also declined from 18,500 to 16,000 tons?

P. Nataraj: Last quarter we had some stock that was need to be sold. This quarter actual production has sold.

Tanvi Jain: Okay. Specific production volumes once again?

P. Nataraj: Yarn 22,379, fabric 6600, garment 32.21 million.

Tanvi Jain: 20?

P. Nataraj: 32.21 million.

Tanvi Jain: Okay. Sir, why is the garment production volume declining this 5% new facility coming up?

- P. Nataraj:** Not declining, it is increasing.
- Tanvi Jain:** 22.12 million?
- P. Nataraj:** It is 32.21 million.
- Tanvi Jain:** Okay. Thank you.
- Moderator:** Thank you. The next participant is from the line of Ashutosh from Ambit Portfolio Management Service. Please go ahead.
- Ashutosh:** Just wanted to understand couple of things, the ramp up of this garment capacity by when do you expect this ramp up to be completed?
- P. Nataraj:** September – October.
- Ashutosh:** September 2022 you are saying around that?
- P. Nataraj:** Yes.
- Ashutosh:** Okay and also if you can throw some light on the ethanol production, I presume the machinery was expected by the end of November-December, has that come in and how is the production looking for this particular quarter, has the production started for ethanol?
- P. Nataraj:** In New plant, ethanol production is yet to start. We are running sugar mill on trial basis. We have applied for the approval and we are waiting for the approvals for commercial production.
- Ashutosh:** Would then be the case that we will see ethanol contribution from next quarter onwards and not this quarter basically?
- P. Nataraj:** We hope that it will come from this March onwards, so as you said full production will come in the Q1 of next year.
- Ashutosh:** Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line Gaurav Jain from ICICI Mutual Fund. Please go ahead.

Gaurav Jain: Thank you for taking my question. Quantity of view on how is the cotton and yarn prices trading I mean as compared to December exit whether the prices have continued to go up and to what extent is getting passed on in yarn?

P.Nataraj: Cotton market continued to be firm and the demand and supply almost continuing in the last three months to four months; production is expected in India around 340 lakh bales and consumption almost matching with production. Because of the import duty at 11% on cotton, import has come down approximately around 10 lakhs bales. Export happened already around 30 lakh bales, so with all these when we see the with opening stock of around 60 lakh bales, the total arrival so far is 180 lakh bales in Indian market but in the same period last year it was around 260 lakh bales. So there was a difference of 80 lakh bales. The arrival has to come, the cotton is with the farmers. So we hope that the season will extend from March to next another two months – three months. Cotton arrival is slowly into the market. That is a reason. Consumption also has gone up. The market is holding the price at this level as well as international price also ruling high. So we hope the present situation will continue at a high price of cotton. Today it is around somewhere Rs. 78,000 to Rs. 80,000 per candy. We have to wait for the new season. We hope that for next two months to three months the same situation will prevail unless something happen like the government policy on removal of duty. When the cotton price is firm, the yarn price is also moving in the same direction, it is also firm. This is the present situation.

Gaurav Jain: So, basically will it be fair context and at yarn has moved completely in tandem with cotton or will there be some lesser?

P. Nataraj: You are right. Yarn price is also going up in line with the cotton.

Gaurav Jain: Thank you.

Moderator: Thank you. The next question is from the line of Venkat Samala from Tata Asset Management. Please go ahead.

Venkat Samala: Thanks for the opportunity. My question is with respect to margin, I understand Q-o-Q our margins have kind of declined and this is same time our margins continue to be what is having than what it used to be say pre-COVID levels, right, so in light of the higher cotton prices how do you see the margin pan out in Q4 and Q1 FY2023?

P. Nataraj: If everything goes well we can maintain around 20% kind of a margin in yarn and fabric. Garments also doing well and the margins expected to be around this way.

Venkat Samala: Right, okay so this garment margin, could you give some more color actually why we are doing better margins and what we used to do historically because earlier?

P. Nataraj: The order flow is very good because of the China Plus one kind of situation. Buyers wanted to have one more sourcing and so the prices are higher. That is one reason. Second, after this COVID especially US and European clients wanted to increase their sourcing from other countries, so it helped us to increase our order flow with better margins.

Venkat Samala: Right so, this increase in margins is it because of a better mix or we are getting some kind of pricing power because we are among the very few players larger players of in India having, there is predictability and we are completely integrated end-to-end, right?

P. Nataraj: Yes, basically we can have higher margin when the production is from the other people. So we buy cotton and we supply garments. Because of that advantage our margins should be higher than the other people. We can supply very large quantity. Because our capacity is one of the largest in India.

Venkat Samala: Just want to understand that just a little further, are we commanding some kind of pricing power here?

P. Nataraj: It is not like commanding pricing power. Since we have a completely integrated and larger capacity, buyer themselves agreeing for better price. This one completely commanding, more price than the other peers

Venkat Samala: Okay and this you think it kind of sustainable?

- P. Nataraj:** Yes.
- Venkat Samala:** Okay, so I mean previously we have still guide for 20% to 22% margin levels, right at a console level, so do you think now we can expect higher margins in that I mean on a sustainable basis?
- P. Nataraj:** Once we go for integration margins levels will improve. We hope that with new garment factory come into full production and with the volume driven capacity the margins will also improve.
- Venkat Samala:** Right, so 24% we can kind sustain and improve, is it this what you said the way to look at it?
- P. Nataraj:** Yes, 24% is doable.
- Venkat Samala:** Okay, understood Sir. Thank you. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.
- Resham Jain:** Good evening and congratulation on good set of numbers. I have three-four questions, first is on the garmenting expansion in the ramp up, are we spending this new capacity to the existing side of customers or are we able to routine new set of customers also because earlier are portfolio used to be largely Europe and UK or rather large part, is there more diversification happening there?
- P. Nataraj:** Basically initial ramp up will be to existing customers only. We are also in the process of finalizing the new customers. They will come in the later stage, may be after three to four months. Initially we will go out with the existing customers. As of today, the market share is little different. Europe around 54% and US is about 20% and Australia is about 20%, other areas is about 6%.
- Resham Jain:** Okay, understood Sir, the second question is on sugar, what will be a total ethanol production once the new capacity will come into production, what will be the total number of liters will be manufacturing ethanol?
- P. Nataraj:** In a good year we may produce somewhere around 10 Crores liters'.

- Resham Jain:** Sorry Sir, 10 Crores liters'?
- P. Nataraj:** Yes.
- Resham Jain:** Sugar, total sugar sellable quantity can be how much at the peak?
- P. Nataraj:** 2 lakh tons.
- Resham Jain:** 2 lakh, okay and with this ethanol of 10 Crores liters' and 2 lakh tons, what will be once everything will commission, how much revenue and margins one should expect from the total sugar division including the old one?
- P. Nataraj:** Revenue somewhere around 1200 Crores to 1300 Crores and margins as stands today it will be somewhere around 20%+ kind of a margin.
- Resham Jain:** 20%+?
- P. Nataraj:** Yes.
- Resham Jain:** Okay, understood Sir and last question is on the capex you have already commissioned 2 lakh project sugar and garment and probably six months' time it may get commissioned and normalize so any capex plan beyond for FY2023-FY2024?
- P. Nataraj:** 2023-2024, we have not decided. We do not finalize the project for two years to three years. We confine project to one year. This year we have completed capital expenditure as planned.
- Resham Jain:** Okay, like any tentative plans in terms of in which segment we are going to do, is it going to be garment?
- P. Nataraj:** Textile. We are waiting for whether Tech Park Scheme is coming during this quarter or not we do not know. Otherwise we will take a call.
- Resham Jain:** Okay Sir, great. Thank you very much Sir and all the best. Thank you.

- Moderator:** Thank you. The next question is from the line of Sameer Dosani from Carnelian Capital. Please go ahead.
- Sameer Dosani:** Sir wanted to know your thoughts on whether KPR is going to apply for the PLI Scheme and what is our plan around that?
- PL Murugappan:** We have not yet decided. It is in advanced stage of discussion with the consultant.
- Sameer Dosani:** But this is going to be your cotton side, this is going to be under technical and magnet hyper side and which is something which we do not do currently, right?
- P. Nataraj:** We are discussing with the consultant on the possibilities.
- Sameer Dosani:** Okay, thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Nirav Savai from Abakkus Investment Advisors. Please go ahead.
- Nirav Savai:** Good evening Sir and thanks for the opportunity. In the garmenting segments of what portion would be fully integrated as what could be the in-house fabric which is requires in garmenting?
- P. Nataraj:** In-house fabric requirement of garment will be somewhere around 20,000 tons.
- Nirav Savai:** About 20,000 tons and in percentage terms would it be about 80%-90% ?
- P. Nataraj:** 100%.
- Nirav Savai:** 100% and this margin would you talk about at 29% margins also taking into consideration of fabric integration, that is how the margins are much higher, right?
- P. Nataraj:** No, the yarn and fabric is kept separately. Each division will be separate profit center we do not want mix of profit with the other segments.
- Nirav Savai:** Okay, it is just arm's length but only garment segment is 29% margin, fabric margin was in the fabric segment and that is why it is calculated?

- P. Nataraj:** Yes.
- Nirav Savai:** Sir, what portion of your factories would have this dormitory kind of a structure where you know employees can also stay and work simultaneously right?
- PL Murugappan:** No, dormitory is there we used to provide rooms where two, three people stay in a room. It is college kind of a setup. Because we are giving education to the worker who are working with us. This is one of the practice that is followed in the industry. We provide education to them, so we follow the house and community kind of things like in colleges.
- Nirav Savai:** Sure, this is what all factories have this hostel kind of facility.
- PL Murugappan:** Yes, all the factories.
- Nirav Savai:** Okay and Sir what are the total number of factories which you all have in the garment space?
- PL Murugappan:** We have three garment factories and new one is commissioned, along with that four factories.
- Nirav Savai:** Okay, alright Sir. That is it from my side, thank you.
- Moderator:** Thank you. The next question is from the line of Vinod Malviya from Union Mutual Fund please go ahead.
- Vinod Malviya:** Thank you for taking my question. Just couple of questions, first on the ramp up so I just wanted to clarify this you said that the garment facility is an additional 42 million pieces of capacity which you have added will get completely ramped up in FY2024 or it will be 2023 or you are talking about 100% utilization of this incremental capacity?
- PL Murugappan:** Garment facility generally takes about nine months to one year for ramping up. We hopefully ramp up sometimes in September-October and the full capacity is expected in FY 2023-2024. In FY 2022-2023 a portion of the capacity will be ruin.

Vinod Malviya: Okay, so one should expect 150 million pieces of volume sales probably in FY2024?

PL Murugappan: Yes FY2024 correct.

Vinod Malviya: Just second directing to this now wanted to understand your long term process over here, you know probably in FY2024, you will have 100% utilization level in the garment capacity, so from a long-term perspective what is the thought process of the management like where they really want to put the capital, is it more towards the yarn, fabric or garment or any new verticals which are looking at, you can just give your thought not exact precise number but just a broad idea about or ideology like what is really prepared working towards?

PL Murugappan: Actually in a long term we would like to concentrate more on textile segment, not specifically on fabric or garment anything. We want to concentrate on the textile segments including the retail segment also.

Vinod Malviya: Including the retail segment also okay and just last thing, just last clarification, you said that internal capital consumption of fabric was around 20,000 for the current volume or once the entire ramp up happens that is 150 million?

PL Murugappan: So once the entire ramp up is completed.

Vinod Malviya: So that will be 20,000 tons of fabric that you are getting in the starting point in time.

P. Nataraj: Yes.

Vinod Malviya: Okay, that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay from Ampersand Capital. Please go ahead.

Sanjay: You have already mentioned that current margin is sustainable and you are also saying that cotton is kind of supply is fairly balanced that there is no over supplier or supply, can you just tell us something about the yarn side that how the industry

is in terms of utilization and whether that what kind of capacity build up is happening there?

P. Nataraj: Well, as current capacity is about 50 million spinning and it is expected to grow by about 2 million spending in the coming year and that is something we have to see because spending made generally will not go up sharply, it depends upon the profitability and other things and next time it is our own 52 million we will be doing, as it is we are supplying about 30% is requirement of the market doing yarn, so we already getting enough capacity and the addition capacity is coming up because of the market requirement.

Sanjay: Because of what Sir?

P. Nataraj: Market requirement.

Sanjay: Okay, net, net your debtor point is suggesting that this industry which is to be fairly cyclical in terms of demand as well as margin is probably entering a period of lesser volatility which is a structural change is that what you we can conclude because normally cycles just happen you cannot really predict so I am just trying to get a sense on that basis?

P. Nataraj: Actually, as you said it is cyclical industry only. But we feel this time it is structural change kind of thing. Because cyclic happens when the price fluctuates within two months to three months' time. Now the prices are firm for last 7 months to 8 months. Now, it continues to be strong because we are reaching end of the season. The season will extend by another two months. The prices are very firm, so we feel it is the structural change. Because of the ban in US and Europe for this Xinjiang cotton Indian cotton become more requiring in the market.

Sanjay: Okay and Sir from your side, are you looking at sustaining your volume growth of 8%-10% each year through continuous capacity addition on an overall basis?

P. Nataraj: Yes, I hope.

Sanjay: Understood. Thanks a lot.

- Moderator:** Thank you. The next question is from line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.
- Kaustubh Pawaskar:** Thanks for giving me the opportunity. Most of the questions have answered. I just have one question on how does demand environment you know currently pressed out in domestic as well as between international market where do you have a good present?
- P. Nataraj:** Yarn market is very good. Fabric market is very good, international market also good.
- Kaustubh Pawaskar:** Third wave or the disruption because of the supply, will it not have any impact on near terms performance issues, you said that the growth level in all your textile verticals would sustain in the coming quarters?
- P. Nataraj:** I could not to hear you.
- Moderator:** The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.
- Kashyap Javeri:** I just wanted to recheck, you have mentioned about margins and yarn, fabric, and garment separately, I just missed out on those numbers for nine months this year and last year?
- PL Murugappan:** You want this year and last year?
- Kashyap Javeri:** Yes, for the 9 months.
- PL Murugappan:** I will tell you later Sir, you go ahead with other questions.
- Kashyap Javeri:** Sure, that is the only question from my side.
- P. Nataraj:** Yes, I will get back to you.
- Moderator:** Thank you. The next question is from the line of Shradha from Asian Market Securities. Please go ahead.

- Shradha:** Thanks for taking my question. Can you give us some sales volume number for sugar and ethanol in this quarter and what is the inventory you are sitting on currently?
- P. Nataraj:** Sale volume of sugar is about 43,000 tons and ethanol is about 70 lakh liters.
- Shradha:** 70 lakh liters'?
- P. Nataraj:** Yes.
- Shradha:** Inventory in sugar, how much do you have?
- PL Murugappan:** We have 21,000 tons. Ethanol we do not have stock
- Shradha:** Sorry, how much Sir?
- PL Murugappan:** Sugar is about 21,000 tons and we do not have much of ethanol. The ethanol is fully sold.
- Shradha:** Right Sir and I could not catch one thing; you said the new commencing capacity would ramp up by what extent next quarter?
- PL Murugappan:** Next quarter will be somewhere around 50%.
- Shradha:** 50% and full ramp up is by 25 you are saying, right?
- PL Murugappan:** Whole ramp up will happen sometime in September-October 2022.
- Shradha:** 2022, okay. Sure, thank you.
- Moderator:** Thank you. The next question is from the line of the Prerna Jhunjhunwala from B&K Securities. Please go ahead.
- Prerna Jhunjhunwala:** Just wanted to understand on the cotton procurement strategy in light of currently high cotton prices, what is your strategy this year because it is a very different year than a normal year?

P. Nataraj: Prices are slightly volatile. We are holding only minimum stock. We are slowly buying for the requirements; we would like to maintain about the 2.5 to 3 months stocks.

Prerna Jhunjunwala: Okay understood and could you help us update on the retail brand sales and demand scenario that you are witnessing now and how is your reach improves there?

PL Murugappan: Retail business is picking up now. Last three months only it is picking up. Now, we are pushing it. We will inform you once it reaches the reasonable level of turnover and profitability.

Prerna Jhunjunwala: Sure Sir but the demand is very good...

P. Nataraj: Demand is there, and we are pushing it very fast.

Prerna Jhunjunwala: Okay Sir. Thank you so much.

P. Nataraj: Kashyap Javeri had asked about the nine months margins in 2021 and 2022. Yarn margins 2021 was 20% and 2022 is 23%. Garment margin in 2021 was about 27% and 2022 also 28%, sugar margin also around 20%, this nine months also 20%.

Moderator: Thank you. The next question is from the line of the Gaurav Jain from ICICI Mutual Fund. Please go ahead.

Gaurav Jain: Thanks for a follow up opportunity. Just wanted the gross and net debt number as on December 2021?

P. Nataraj: Gross debt is 957 Crores and net debt is about 344 Crores.

Gaurav Jain: 957 and 344, right Sir?

P. Nataraj: Yes.

Gaurav Jain: Okay, thank you Sir.

- Moderator:** Thank you very much. The next question is from the line of the Renjith from Mahindra Manulife Mutual Fund. Please go ahead.
- Renjith:** Congrats on good set of numbers, just wanted to get some idea like this Xingjian ban has actually helped all the textile manufacturers, so we have also seen such kind of cotton cycles a couple of times before, so do you think that this ban and this optic is kind of a sustainable for the next three years to four years or is there any risk in terms of the ban getting revoked and hinging on all those areas going back on, I know that it is a very futuristic thing but what is your sense of the whole issue which is actually helping us currently well?
- P. Nataraj:** We feel the situation may continue for some more time. We do not think it will be revoked immediately, so we feel these things will be there for some time.
- Renjith:** Okay and in terms of this the benefits of FTA like how much do we currently export to UK and what is a sense that if that FTA goes through it what kind of revenues or the growth optic can we expect?
- PL Murugappan:** We are exporting about 54%-55% to Europe. If FTA happens, it will be moved to the Indian exporters. It is one of best opportunities for KPR.
- Renjith:** Okay, how much will be UK in that?
- P. Nataraj:** Not specifically UK, the overall Europe is about 54%, UK may be somewhere around 10%.
- Renjith:** Okay, so if there is a probability of this if we are going through that can be kind of probably double your size in that?
- PL Murugappan:** Yes, we can increase the size.
- Renjith:** Okay Sir. Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of the Akshay Chheda from Canara Robeco Mutual Fund. Please go ahead.

Akshay Chheda: Just wanted your updates on the Ethiopia business I mean any progress there or we continue to face challenges there?

P. Nataraj: Domestic disturbance is still going on and fight between the two regions is there, so we were not able to continue that business in Ethiopia. We are waiting and watching, and requesting the Ethiopia Investment Commission to help us to do something. But we are not getting any positive response as of now. We hope that these things will improve in the coming period.

Akshay Chheda: Okay, Thank you Sir.

Moderator: Thank you. The next question is from the line of the Navin Vijay from NS Capital. Please go ahead.

Navin Vijay: Good evening Sir, thank you for good set of numbers. Just wanted to get a feel of the active customers for exports, how many customers do we have currently live and what is the share of top 5 customers?

PL Murugappan: We have about 95% for exports in garments. The top five customers will be somewhere around 40%.

Navin Vijay: Any new customers added this quarter due to expansion of the new factory?

PL Murugappan: New factories, we have done few samples and other things. We are able to find new customers may be another three – four months, we may ramp up to 55%.

Navin Vijay: Thank you Sir. My other question is regarding the FASO retail segment, any store opening numbers that you can share that is planned immediately?

P. Nataraj: Now we are not opening any new store. It is sold through retail channel, currently about 3000 retail stores selling our product, we wanted to reach somewhere around 10,000 stores.

Navin Vijay: Thank you Sir. Very helpful.

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

Biplab Debbarma: Thank you for taking my question Sir, just one follow-up, on this ramping up of your garment business, earlier you gave us the guidance that it normally takes six months or so to fully ramp up the capacity, now we are seeing a little more than six months maybe eight months - nine months or so, is there any issue in getting the required skilled labor or this is the normal eight months - nine months is normal time for ramping up such a capacity?

P. Nataraj: Factory being large, we need to train the people. We cannot train the people at one go. We have to train them in that facility, for about three months. One month offline, one month online and one-month regular training. Like that it is going on. We have already in the process of training the people in three – four batches and we started working in the factory. So it is eight months to nine months is little hard but we are trying to reach at the earlier.

Biplab Debbarma: Okay, so this is normal, that is what happening?

P. Nataraj: Yes.

Biplab Debbarma: Okay and I missed that if you can give again repeat that the total net supply in India this year is around 180 lakh spend in cotton, last year it was 260 lakh and absorption is also around 260 lakh, could you just again elaborate on that, I just missed that cotton consumption supply in India?

P. Nataraj: The production almost same like last year and consumption this year may be little bit increased. So expected like 330 lakh bales and the arrival is little slow from the farmers. Last year by this time around 260 lakh bales has arrived in the month end and this year only 180 lakh bales have come. So that means arrival into the market from the farm is little slow. That is also one of the reasons why the price is holding at this high level. May be farmers also bringing it little slowly to retain the price at this level. That is why, generally the industry also expect that arrival will complete by March. This may extend for another two months to three months.

Biplab Debbarma: Okay, so just my understanding is that that there is no significant demands of mismatch, it is just that the arrival is little bit late this year, normally last year the arrival was 260 lakh belts, this year it is around 180 lakhs belts, so the situation

would significantly expected to improve by March 2022, that is what you are saying Sir?

P. Nataraj: No, here the production is the same and consumption has gone up little bit and import in last year was around 30 lakh bales. Due to duty of 11% on cotton import, it has come down. So that is why the industry here is that at the end of the season if the cotton is not available as the consumption has increased little bit and the import has little bit slow down, so around there will be a mismatch of 30 lakh – 40 lakh bales, so we will come to know only end of the season, so that creates panic in the industry, so that is why everyone is confirm so that is why it is also requesting the government to remove the duty, so that is what is the present situation.

Biplab Debbarma: Okay, thank you sir, that is all.

Moderator: Thank you. The next question is from the line of the Kapil Jagesia from Edelweiss Financial Service. Please go ahead.

Kapil Jagesia: Thank you for the follow-up I just needed breakup between the sugar and ethanol sales for this quarter?

P. Nataraj: Sugar is about 42,000 tons and production is about 52,000 tons and value of sugar is Rs.136 Crores, ethanol production is about 71 lakh liters and same is 70 lakh liters, value is Rs.45 Crores.

Kapil Jagesia: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of the MS Rajasekar, an Individual Investor. Please go ahead.

MS Rajasekar: Good afternoon Sir, Nataraj team, you are doing an excellent job, giving an excellent result at the same time you are also doing good social work in educating all your workers, all your people coming to you, excellent job. My question is the cotton prices are at the peak, so the yarn prices are also going up same time the fabric prices and then the crop prices also going up, so the end customer has to pay for an increased price of the cloth and the fabric or for the end product, so is that

demand still because the prices are up, is it because there is less supply in the market, in the world market or because there is a good demand for the Indian products, I just want to understand that?

P. Nataraj: I can say there is good demand for the Indian product. Because the cotton price internationally is much higher than the Indian cotton price. Hence there is a good demand for the final product from India.

MS Rajasekar: Okay Sir. Your, putting up the new garment facility which is going to be commissioned in this year, what is the turnover you can expect from this facility there?

P. Nataraj: We have already commissioned this plant, production has started, the ramping up is required in the garment factory. It may take about 8 months to 9 months' time. We hope that we will reach full capacity sometime in September or October 2022.

MS Rajasekar: Okay Sir, thanks. This is all from my side. All the best for an excellent and bright future.

Moderator: Thank you. The next question is from the line of the Chinmay Shah, an Individual Investor. Please go ahead.

Chinmay Shah: Good evening Sir, thanks for the opportunity. I have two questions, as you said earlier, the content rates are around 78,000 to 80,000 per candidate, right, so will it be able to maintain the margin for the next two quarters of the sale?

P. Nataraj: You are asking about the future, hopefully this margin can be maintained.

Chinmay Shah: Okay and Sir, as you said we are keeping three months of inventory, right, so how much time it will takes to pass on from procuring the cotton to, how much time it takes to pass on the prices?

P. Nataraj: One month time.

Chinmay Shah: Okay, thank you very much, that is all.

- Moderator:** Thank you. The next question is from the line of the Venkat Samala from Tata Asset Management. Please go ahead.
- Venkat Samala:** Thanks a lot for the opportunity again. I understand you have not really taken a fall on your new unit but broadly I mean how should we think about it from FY2024 standpoint I mean what would you be looking in terms of commissioning timelines in FY2024?
- P. Nataraj:** Which one?
- Venkat Samala:** I mean whenever you take a call on the new factory right, so the commissioning of that new factory?
- P. Nataraj:** It is depending upon the factory, whether garment factory or processing factory or spinning factory. The decision is not yet taken.
- Venkat Samala:** Right, okay and the reason that I ask is that you know by September 2022 as you said we will be completely ramping up our garment facility, right and sugar facility more or less, it will not take so much time to ramp up, so therefore I am just trying to understand you know from FY2024 standpoint I mean we would largely while entering into FY2024, we would largely be running full capacity utilization right across all the units, so then how should we kind of model growth in FY2024 from that standpoint?
- P. Nataraj:** In 2024, garment production will be somewhere around 150 million. The prices and all we have to wait.
- Venkat Samala:** Okay Sir. Thank you, thanks a lot.
- Moderator:** Thank you. The next question is from the line of the Navshad Chaudhary an Individual Investor. Please go ahead. As there is no response, we move on to the next participant, the next question is from the line of Sandeep Raman, Self-employed. Please go ahead.
- Sandeep Raman:** Good afternoon Mr. Nataraj and you have been an investor for your on your firm since the IPO days, I had a query more on your strategy of retail, I understand you

know our strategy is to go into retail where the margins are high, your top competitor has around 8% of the sales coming by the online channel, so what is your current spend on it and what is your strategy in terms of growing online in terms of transformation?

P. Nataraj: Online, we are all going through online. Our turnover will be somewhere around 15% through online. We are in a very early stage and we will be more pushing through online also. We are planning to take more shops for that and online along with it.

Sandeep Raman: Okay, last time you had mentioning about hiring a consultant to help you out with this process, so is that done and you have certain timelines to complete that process with the consultant?

P. Nataraj: 10000 stores we are targeting in 2023.

Sandeep Raman: Okay, so the last question I have is I just want to understand your model in terms of contracting with customers, so designs that are done are those done in-house or those designs are given by customers?

P. Nataraj: Both are there. We also develop designs and they also develop designs, so whatever requirement will be produced.

Sandeep Raman: Okay, will there be any conflict of interest when we are in retail as well as contract manufacturing?

P. Nataraj: In a contract manufacturing, we develop the design and give it to them, if they are okay with that. If they want some modification, they will do and we will produce accordingly.

Sandeep Raman: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of the Marsal, an Individual Investor. Please go ahead.

Marsal: My question is regarding the new subsidiary of the name KPR Sugar and Apparels Limited, as you mentioned during this call that you are in the process of getting

approval to start the factory, to start the commercial presence of factory, so can you please explain that whether the equipment for all sugar generation and ethanol have been installed and commissioned or only sugar is done, so by what the timeline to commit the production from all three segments, sugar, fabric, and ethanol?

P. Nataraj: During this quarter, we will do this. We already started sugar and fabric. Ethanol we are waiting for the approval from the Central Government.

Marsal: Okay, so this sugar mill is in which district and what is the cane availability, so sugar is already six months.

P. Nataraj: Yes, it will be available in the new factory and it will be available up to March.

Marsal: Right now we will lose the six months?

P. Nataraj: What?

Marsal: We will lose this sugarcane season?

P. Nataraj: Yes, the season we will not crush 100%, we may reach half of it.

Marsal: When did the production of sugar and fabric happen from the factory?

P. Nataraj: Trial production is going on at the new factory. We have not reached full capacity because it is a larger capacity. The trial will take some time about one month – one and a half month time. Once it is fully done, we will go ahead with full production.

Marsal: So you are saying this commercial production from their sugar mill has not yet started?

P. Nataraj: Commercial production has not started.

Marsal: Because I read press release of December 18, 2020, there you said that this will be commissioned October 2021, so basically sugarcane availability is available from October to March-April, it will because of delaying this commission?

- P. Nataraj:** The delay is mainly because of the COVID pandemic during this year which delayed to the project a little bit and also there is a heavy rain in this region also. Otherwise it might have been started some two - three months earlier.
- Marsal:** In that press release it is mentioned that we have made this because of the tax benefit, what are the tax benefit which will be available.
- P. Nataraj:** You are not audible, can you repeat?
- Marsal:** In December 2020 press release it was mentioned that is with new subsidiary will also be eligible for tax benefits.
- P. Nataraj:** upto 2024 it is eligible?
- Marsal:** Sorry?
- P. Nataraj:** Government has allowed up to March 31, 2024, if the factory is commissioned, it is eligible. We will commission it during this quarter itself. Already we have started the trial production and the commercial production will start sometimes during this course.
- Moderator:** Thank you. The next question is from the line of the Swaminathan, an Individual Investor. Please go ahead.
- Swaminathan:** Thanks for the opportunity. My question is related to the new facility depreciation, have you taken that into consideration already for both garments as well as sugar frontline?
- P. Nataraj:** Garment depreciation is taken. Full depreciation will be taken during this quarter only and sugar we have to commission the commercial production, it will be considered during this quarter.
- Swaminathan:** Thank you. My next question is in terms of the human resource and labor availability for the new garment facility, is that all lined up or are you having any challenge, firstly can you give some detail on that?
- P. Nataraj:** We are in a process of recruiting people. We are not facing any challenge.

- Swaminathan:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of the Aditya, individual investor, please go ahead.
- Aditya:** Thank you for taking my question, my question revolves around, you know over the last one and a half - two years due to a lot of pent-up demand, people are shopping in Europe where you predominantly export to, so how do you see you know demand going forward because in the US where you do not export much or rather you do not export at all, demand is started to fall you know, gap and households with \$75,000 to \$100,000 income which probably is our target market has declined significantly and gap has just recently been downgraded by a lot of brokerages due to fallen sales, so I just wanted to get your sense that you know how can things pan out going forward?
- P. Nataraj:** Garment segment is growing because of growing requirement. Due to pandemic the retails has come down sharply and now the requirement is growing up the segment. Regular wear, fashion wear or office wear, everything is growing.
- Aditya:** Alright, any plans on acquiring customers in the US?
- P. Nataraj:** Yes, we already export 20% of our sales to US. We will get some more customers for new factory. Hope to reach somewhere around 25% market in the coming years.
- Aditya:** Okay, thank you that is all.
- Moderator:** Thank you. The next question is from the line of the Rajiv Venkatesh, individual investor. Please go ahead.
- Rajiv Venkatesh:** Happy New Year. I have couple of questions. Do we have sufficient land in case of any Greenfield expansion for ethanol since we are completely sold as you said and there is another question, many sugar companies have recently set up distilleries and are venturing out into Indian made liquor does our management think something on these matters?

- P. Nataraj:** We have already built ethanol facility, so there will be no problem and we do not have any intention to produce distillery that is ENA. We do not intend to produce.
- Rajiv Venkatesh:** Thank you Sir and how would our thought process on the textile mega park, which was informed in the budget, any thought process on that?
- P. Nataraj:** The announcement is yet to come. We are waiting for the announcement because government indicated that there will be two mega parks in Tamil Nadu. The area and timeline and all, we are waiting for the announcement.
- Rajiv Venkatesh:** Okay Sir, thank you and all the best.
- Moderator:** Thank you, the next question is from the line of Tanvi Jain from Hem Securities. Please go ahead.
- Tanvi Jain:** Just two things, wanted to confirm that garment sector was 100% integrated?
- P. Nataraj:** Yes.
- Tanvi Jain:** It is new facility?
- P. Nataraj:** It is also.
- Tanvi Jain:** The cotton price have again moved up to say 70,000 to 80,000 per candy so still your inventory policy remains at three months inventory of cotton?
- P. Nataraj:** Yes, half of your voice is not audible.
- Tanvi Jain:** Your inventory policy of three months remains intact even though the cotton prices have increased to 80,000 per candy?
- P. Nataraj:** Yes we are maintaining it.
- Tanvi Jain:** Okay, thank you Sir.
- Moderator:** Thank you very much. I now hand the conference over to the management for closing comments.



KPR Mill Limited
February 09, 2022

P. Nataraj: Thank you, so overall the economic indicators are showing positive sign of revival for the Indian economy. Recently the government has announced various schemes to encourage the textile industry and is also pushing hard to conclude FTS with UAE, UK, and Australia to explore new avenues to expand its export basket. With its inherent strength and support from the stakeholders KPR is marching ahead as a leading manufacturer in the Indian Textile Industry. Thank you all once again for participating in this call. Thank you.

Moderator: Thank you very much. On behalf of Batlivala and Karani Securities India Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.