

## Case Study: KPR Mill Limited (India)

### KPR Mill's Story

Founded in 1984 by three brothers, KPR Mill began operations with four looms and four employees in a converted barn in Coimbatore, a town in southern India's textile belt. Over the following 22 years, the business grew in size and scope, expanding into exports in 1989 and later emerging as a vertically integrated textile manufacturer producing yarn, knitted fabric and ready-made garments.

By 2006, KPR's leadership had ambitious plans for expansion, but knew they would need to look beyond internally generated funds and debt financing to achieve their goals. Given that the firm had never before had an outside shareholder, KPR engaged a consulting firm to explore possibilities for an equity infusion. Through this process, the company's founders became acquainted with the private equity model as a viable alternative to an IPO, and were approached by Blue River Capital, a Mumbai-based private equity firm that was actively looking for investments in India's textiles sector.



Despite a substantially higher share purchase offer from a competing fund, KPR opted to partner with Blue River Capital to capitalize on the firm's significant expertise in the textile industry as well as critical links to the global textile trade through one of its prominent U.S.-based LPs. Though Blue River Capital joined as a minority shareholder, the relationship of mutual trust built with KPR gave it considerable sway over hiring, procurement, and other key aspects of the business, setting the stage for a transformation both in KPR's culture and its stature amongst its peers.

### The Role Played by Private Equity

**As India's 1995 WTO accession dismantled world textile quotas and the fragmented domestic textile market looked poised for consolidation, Blue River Capital saw significant promise in KPR's capacity to grow. With its sights set on increasing productivity and scale, Blue River Capital led several initiatives that improved the firm's margins, controlled costs and increased exports.**

Bucking the trend in Indian textiles, Blue River Capital urged KPR to invest in reliable, high-volume machinery to capture the economies of scale necessary to compete with low-cost producers such as those in China and Bangladesh. In parallel, Blue River Capital encouraged a shift toward modern, high-end technology that commands higher margins, such as compact yarn spinning, as well as more automation in KPR's production process. Despite India's relatively cheap

labor costs, Blue River Capital advised KPR to pursue savings through improved efficiency and shorter equipment downtime instead. These efficiency gains not only improved margins but also acted as a buffer against fluctuations in cotton prices and exchange rates and, in the aftermath of the financial crisis, allowed KPR to trim operating costs without any reduction in workforce headcount.

Blue River Capital also addressed gaps in KPR's governance that constrained its ambitions to expand. At the time of Blue River Capital's investment, KPR had no formal business plan and only a rudimentary budgeting process in which the costs of several inputs were not being tracked. Blue River Capital designed a business plan and budgeting process from scratch, which has since become an integral part of KPR's corporate culture and removed a bottleneck that had hampered plans for scaling operations. ▶

#### The Company



#### Essentials

**Company:** KPR Mill Limited  
([www.kprmilllimited.com](http://www.kprmilllimited.com))

**Country:** India

**Sector:** Textiles and Apparel

**Business focus:** Vertically integrated apparel manufacturing

**Size:** INR12.8 billion (US\$230 million) in revenue; INR1.87 billion (US\$33.7 million) in EBITDA (FY2011)

**GP:** Blue River Capital, an India-based private equity firm with approximately US\$140 million under management ([www.bluerivercapital.com](http://www.bluerivercapital.com))

**Date of investment:** November 2006

**Investment:** INR1.05 billion (US\$23.6 million)

#### Impact Highlights

Blue River Capital designed a business plan to strengthen KPR Mill's budget process and improve cost monitoring

One of Blue River Capital's Limited Partners with experience in textiles has introduced the company to international clients and currently advises KPR Mill on industry best practices

Blue River Capital proposed investments to increase automation and shift to large-scale, high-volume equipment, raising EBITDA margins to twice the industry average, and propelling KPR Mill into the top five Indian textile firms by sales and profits

KPR Mill provides housing, vocational training programs and recreational facilities for its employees, improving worker productivity and limiting turnover to a fraction of the industry average

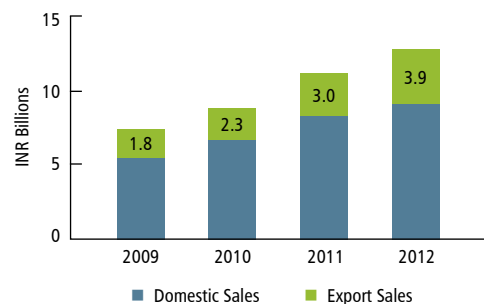
# The Company View

“We have a very cordial relationship with Blue River Capital, and we incorporate the input of their Board Director in all that we do. Their approach is analytical—even if a project is viable, they will ask a lot of questions and study it thoroughly. In addition to contributing senior talent to our operations and introducing us to new customers, Blue River Capital was instrumental in sharing their knowledge of the Bombay stock market during our IPO. It was very helpful to us, and feedback from the market was very good.”

P. Kandaswamy, Company Secretary, KPR Mill



## Financial Performance



“There was a transformational change taking place in India’s textile industry in which a handful of companies could scale up through cost competitiveness; we wanted to help create a company that would benefit from this change.”

“KPR’s best practices really set them apart in terms of their core beliefs and ethos in how they treat people. A very satisfied and high-morale workforce—that’s the magic of this formula.”

Shujaat Khan, Managing Director, Blue River Capital

▶ Finally, Blue River Capital found considerable value in leveraging the specialty experience of one of its LPs, which had more than 20 years of global textiles sourcing, to bolster KPR’s operational know-how and introduce it to new international clients. The LP not only shared its contacts with KPR, but also committed to visiting its operations in India twice a year to provide ground-level feedback to the firm’s managers, further exposing the firm to global best practices and modernizing its workflow.

With Blue River Capital’s guidance, KPR—which had decided against a public offering only 18 months prior—successfully listed on the Bombay Stock Exchange in July 2007. Although Blue River Capital considers its participation in KPR a long-term investment, the listing holds out the possibility of exit through a public placement at the appropriate time.

## Beyond the Bottom Line

Perhaps the most significant of Blue River Capital’s initiatives was an improvement in KPR’s worker conditions that remains unmatched by any textile firm in the Tamil Nadu textile belt. Under this model, young women who are recruited from rural villages through referrals are offered housing on secure company compounds, provided with educational opportunities, and given access to amenities such as swimming pools and yoga studios. Workers who have not completed secondary school can enroll in courses after their work shifts, and through agreements with two universities, KPR provides distance learning courses. As a result, almost 40% of KPR’s employees earn vocational training certificates, college degrees or business degrees. All workers are also guaranteed an eight-hour workday, and no overtime is permitted.

As a result of this initiative, worker morale has improved and yearly turnover is in the single digits, compared to estimates of 30–50% in the industry as a whole. Moreover, rising worker productivity has more than offset the associated

facilities and amenities costs; despite KPR’s position as a top-five textile firm by sales, its total labor costs are significantly lower than the industry average as a percentage of revenues. Enthusiastic about their work and motivated by daily output incentives, KPR’s workers have often proposed workflow changes from the factory floor that have lifted the firm’s productivity even further.

Blue River Capital also catalyzed a shift toward a company-wide sense of environmental stewardship, most notably through KPR’s extensive investment in wind power. The company’s wind power capacity now stands at 62 MW and supplies 80 to 85% of its total power needs, reducing its carbon footprint as well as mitigating risks due to power outages. Blue River Capital was also behind the decision to adopt higher-end dyeing technology that allows KPR to recycle its wastewater, rather than lower-end technology that results in discharge into local water sources. Not only have these initiatives increased KPR’s profile as a responsible citizen in its local communities, but they have also attracted the attention of global retailers interested in marketing KPR products as environmentally sustainable.