

Stock Update

Sales volume yet to pick up

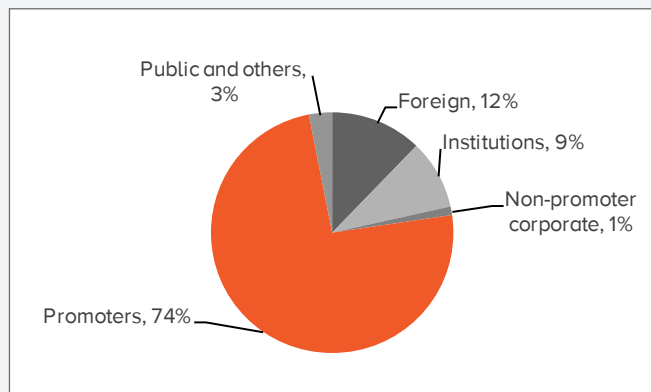
Kewal Kiran Clothing

Reco: Hold | CMP: Rs1,775

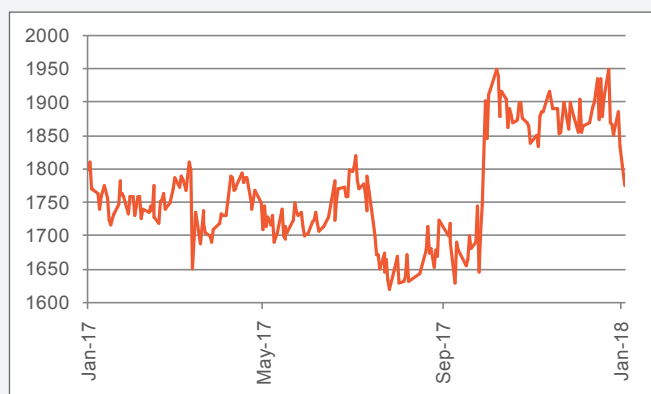
Company details

Price target:	Rs1,950
Market cap:	Rs2,188 cr
52-week high/low:	Rs2,144/1,601
NSE volume: (No of shares)	3,658
BSE code:	532732
NSE code:	KKCL
Sharekhan code:	KKCL
Free float: (No of shares)	0.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.9	-2.5	2.2	4.1
Relative to Sensex	-5.6	-10.0	-8.4	-20.5

Key points

- Revenue stood flat, margin expansion led to double digit growth in PAT:** For Q3FY2018, Kewal Kiran Clothing Limited (KKCL) reported marginal decline of ~2% in its reported revenue to Rs.94.4 crore. However, on a comparable basis, (net of GST) sales came in flat on a YoY basis during Q3FY2018. This was mainly due to a flat volume and a decline in realisation by ~3% YoY. Gross margin for the quarter increased significantly by 816BPS YoY to 59.3% as cotton prices remained stable during Q3FY2018. Further, the company benefited from a lag effect of lower cotton prices during Q2FY2018. This, along with lower manufacturing and operating expenses (down 18.2% YoY) resulted in a rise of operating margins by ~550 BPS YoY at 16.7%. Operating profit came in at Rs 15.7 crore. With higher interest cost (up 65% YoY) and higher tax rate (36.2% in Q3FY2018 vs 32.6% in Q3FY2017) profit after tax came in at Rs 10.4 crore, up ~25% YoY.
- Performance of key brand 'Killer' flat; *Integriti* and *Lawman* witness decline, factory outlets growing faster than other channels (except exports):** The key brand of KKCL, *Killer* grew in lower single digit by 2% YoY to Rs.49.5 crore (the brand contributes 54% to KKCL's total revenue). Among its other brands, *Integriti* (that contributed 18% to KKCL's total revenue) de-grew by 13% YoY to Rs. 17.2 crore and *Lawman* reported decline of 11% YoY to Rs 17.5 crore. *Easies* supported the growth and grew by 30% YoY to Rs. 3.9 crore. On the product front, jeans (contributing 64% to total sales) registered an up move by 11% YoY and shirts (contributing 16% to total sales) de-grew by 26% YoY during the quarter. Revenue through retail and factory outlets was up by 7% and 28% respectively while revenue through e-commerce, national chain stores and multi brand outlets (MBOs) was down by 46% YoY, 16% YoY and 4% YoY respectively. MBOs continued to be the largest channel, with a 42% share in total revenue. Export revenue grew substantially during Q3FY2018 at Rs. 4.3 crore as against Rs. 1.8 crore in Q3FY2017.
- Outlook – revenues to remain muted in near term on anticipation of flat realisations:** The denim segment is facing stiff competition from e-commerce players in terms of pricing. The discount offered by the online players is hampering the realisation of KKCL. The company is in the wait and watch mode and will take appropriate pricing actions looking at the competitive environment. Hence the sales realisation is expected to remain flat in the near term. However the same is expected to improve

with an increase in sales volume. KKCL is going to continue with its new strategy of focusing on volume growth by providing some leeway to its distributors in terms of their outstanding payments for next one or two quarters.

- ♦ **Maintain Hold with revised price target of Rs. 1,950:** We have reduced our earnings estimates for FY2018 and FY2019 by 5-7% to factor in lower performance of key brands for 9MFY2018. We have introduced FY2020 estimates in this note.

The performance of Q3FY2018 was subdued mainly due to a lower pricing environment. In order to increase sales, the company had revised its strategy last quarter, which we believe will put some pressure on the working capital in near term and would result in an increase in short term debt. Thus, citing the near term headwinds in terms of lower bargaining power, we maintain our Hold recommendation with a revised price target of Rs. 1,950 (in line with reduction in earnings estimates).

Valuations (standalone)					Rs cr
Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net sales	457.4	492.4	472.9	531.9	590.5
Operating Profit	104.1	99.6	109.0	124.2	138.8
OPM (%)	22.8	20.2	23.1	23.4	23.5
Adjusted Net Profit	68.0	85.3	80.9	93.6	105.0
EPS (Rs.)	55.1	69.2	65.6	76.0	85.2
P/E (x)	32.2	25.7	27.0	23.4	20.8
EV/EBITDA (x)	18.3	15.4	14.9	12.7	11.0
RoE (%)	21.7	26.0	21.5	22.5	22.7
RoCE (%)	21.5	22.0	19.8	20.7	21.0

Source: Company data, Sharekhan estimates

Cash flows snapshot		Rs cr
Particulars		9MFY18
Cash Flow from Operating Activity		21.19
Cash Flow from Investing Activity		-5.72
Cash Flow from Financing Activity		-11.46
Cash & Cash Equivalent - Closing		69.57

Source: Company data

Result table (Standalone)					Rs cr
Particulars	Q3FY18	Q3FY17	YoY %	Q2FY18	QoQ %
Net Revenues	94.4	96.4	(2.1)	167.5	(43.7)
COGS	38.4	47.1	(18.5)	71.4	(46.2)
Staff cost	15.3	14.9	2.8	18.4	(16.5)
Selling & Administrative Expenses	16.5	13.3	23.9	6.4	156.5
Other expenses	8.5	10.3	(18.2)	22.5	(62.4)
Operating profit	15.7	10.8	45.7	48.8	(67.8)
Other income	3.5	3.7	(3.0)	5.4	(34.8)
Interest expenses	1.5	0.9	64.8	1.3	13.6
Depreciation & Amortization	1.5	1.2	21.0	1.4	4.2
PBT	16.3	12.3	32.4	51.5	(68.4)
Tax	5.9	4.0	47.1	16.3	(63.9)
Reported PAT	10.4	8.3	25.2	35.2	(70.5)
EPS	8.4	6.7	25.2	28.5	(70.5)
Gross profit margin	59.3	51.2	816	57.4	196
OPM (%)	16.7	11.2	548	29.2	(1,248)

Source: Company data

Brand-wise revenue performance				Rs cr
Particulars	Q3FY18	Q3FY17	YoY (%)	
Killer	49.5	48.6	2%	
Integriti	17.2	19.8	-13%	
Page 3 Lawman	17.5	19.6	-11%	
Easies	3.9	3.0	30%	
Others	5.1	4.9	5%	
Total	93.2	95.8	-3%	

Source: Company data

Channel-wise revenue performance				Rs cr
Particulars	Q3FY18	Q3FY17	YoY (%)	
MBO	39.5	41.1	-4%	
Retail (K- Lounge)	21.0	19.7	7%	
National Chain Stores (LFS)	18.4	22.0	-16%	
Factory outlet	6.8	5.3	28%	
Exports	4.3	1.8	144%	
E-commerce	3.2	6.0	-46%	
Total	93.2	95.8	-3%	

Source: Company data

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