

# Stock Update

Long-term story to remain intact

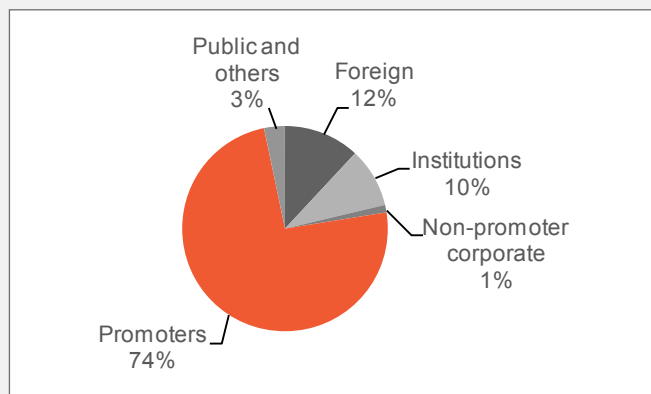
## Kewal Kiran Clothing

Reco: Hold | CMP: Rs1,659

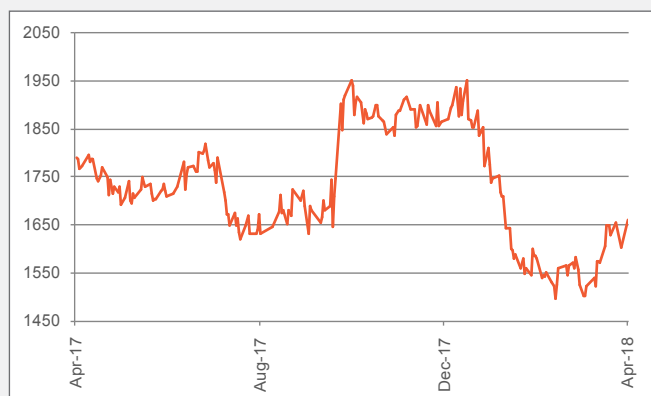
### Company details

Price target:	Rs1,770
Market cap:	Rs2,045 cr
52-week high/low:	Rs2,144/1,439
NSE volume: (No of shares)	1,841
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	6.1	-8.9	-16.2	-5.8
Relative to Sensex	0.4	-4.6	-21.2	-20.7

### Key points

- ♦ **Revenue declined and higher operating expenses dented margins:** For Q4FY2018, Kewal Kiran Clothing Limited (KKCL) reported a decline of 3.3% in its reported revenue to Rs. 120 crore. This was mainly due to a decline in realisation by ~2% y-o-y, though sales volume increased by ~2%. Gross margin for the quarter increased by 132 BPS y-o-y to 55.9% as cotton prices declined during Q4FY2018. However, due to higher employee expenses (up by ~22% y-o-y) and selling and administrative expenses more than doubling during Q4FY2018, operating profit margin (OPM) declined by 318 BPS y-o-y to 21.9%. Operating profit came in lower by 15.5% y-o-y at Rs. 26.3 crore. With higher interest cost (up 76% y-o-y) and higher tax rate (33.7% in Q4FY2018 vs. 28.9% in Q4FY2017), profit after tax came in at Rs. 19.5 crore, down 18% y-o-y.
- ♦ **Performance of key brand 'Killer' flat; *Integrati* witnesses a decline while *Lawman* grew in double digits; factory outlets, exports and e-commerce growing faster than other channels:** The key brand of KKCL, *Killer*, grew in lower single digit by 1.4% y-o-y to Rs. 62.6 crore (the brand contributes 53% to the total revenue of KKCL). Among its other brands, *Integrati* (contributes 19% to the total revenue of KKCL) declined by 18.5% y-o-y to Rs. 22.7 crore and *Lawman* reported growth of ~16% y-o-y to Rs. 21.5 crore. *Easies* supported growth and grew by 21% y-o-y to Rs. 7.1 crore. On the product front, revenue from jeans (contributing 65% to total sales) was down by 3.1% y-o-y, while shirts (contributing 17% to total sales) grew by ~14% y-o-y during the quarter. Revenue through factory outlets and e-commerce doubled up during the quarter, while revenue through national chain stores, multi brand outlets (MBOs) and retail was down by 29% y-o-y, 11% y-o-y and 7% y-o-y, respectively. MBOs continued to be the largest channel, with a 49% share in total revenue. Export revenue grew substantially during Q4FY2018 to ~Rs. 6.7 crore as against Rs. 3.4 crore in Q4FY2017.
- ♦ **Near-term pressure persists; but long-term growth prospects intact:** FY2018 as a whole has been a challenging year for KKCL due to hiccups created by GST implementation and demonetisation. Even after consumer sentiments getting back to normal, the company

is unable to increase its product realisation due to the ongoing price discounts offered by online players and value fashion offerings given by leading brick-and-mortar players. The company has now adopted a new strategy of concentrating on volumes by giving some leeway to distributors in terms of payment. The strategy will help in recovering volumes, though with a lag. Margin improvement will depend upon the improvement in revenue mix and reduction in input prices in the coming years.

- ♦ **Maintain Hold, PT revised at Rs. 1,770:** We have reduced our earnings estimates for FY2019 and FY2020 substantially to factor in the dismal performance in Q4FY2018. With improving discretionary environment, we expect sales

volume to gradually improve in the coming quarters. However, consistent discount offerings by online channels will continue to put pressure on realisation in the coming quarters. Hence, pressure on revenue and margin would sustain in the near term. KKCL has a strong brand portfolio and is one of the well-managed companies with stable working capital in comparison to peers in the branded retail space. This gives us confidence of recovery in the performance of the company in a stable demand environment going forward. Investors with a long-term view and looking for a lean balance sheet company can stay invested in the stock. We maintain our Hold recommendation on the stock with a revised price target (PT) of Rs. 1,770.

#### Valuations (Standalone)

					Rs cr
Particulars	FY16	FY17	FY18	FY19E	FY20E
Net sales	457.4	477.1	461.9	502.0	545.5
Operating Profit	104.1	98.8	98.2	107.2	117.3
OPM (%)	22.8	20.7	21.3	21.4	21.5
Adjusted Net Profit	68.0	74.6	73.2	79.6	87.6
EPS (Rs.)	55.1	60.5	59.4	64.6	71.1
P/E (x)	30.6	27.9	28.4	26.1	23.7
EV/EBITDA (x)	17.3	15.9	15.4	13.6	12.1
RoE (%)	21.7	22.2	18.9	19.3	19.7
RoCE (%)	21.5	19.3	17.3	18.2	18.9

#### Results (Standalone)

				Rs cr	
Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Net Sales	120.0	124.1	(3.3)	94.4	27.2
COGS	52.9	56.3	(6.1)	38.4	37.8
Staff cost	16.0	13.1	21.8	15.3	4.0
Selling & Administrative Expenses	13.3	5.0	-	16.5	(19.3)
Other expenses	11.6	18.6	(37.4)	8.5	37.2
Operating profit	26.3	31.1	(15.5)	15.7	67.0
Other income	5.9	4.3	36.4	3.5	65.3
Interest	1.2	0.7	76.1	1.5	(21.3)
Depreciation	1.5	1.3	16.7	1.5	2.7
PBT	29.4	33.4	(12.0)	16.3	80.7
Tax	9.9	9.7	2.8	5.9	68.1
PAT	19.5	23.8	(18.0)	10.4	87.9
EPS	15.8	19.3	(18.0)	8.4	87.9
Gross profit margin (%)	55.9	54.6	132 BPS	59.3	(340)BPS
Operating profit margin (%)	21.9	25.1	(318)BPS	16.7	523BPS

**Brand-wise revenue performance****Rs cr**

<b>Brand wise Revenue break-up</b>	<b>Q4FY18</b>	<b>Q4FY17</b>	<b>YoY (%)</b>
Killer	62.6	61.8	1.4
Integriti	22.7	27.8	-19
Page 3 Lawman	21.5	18.6	16
Easies	7.1	5.9	21
Others	4.7	6.9	-31
Total	118.7	120.9	-2

**Channel-wise revenue performance****Rs cr**

<b>Channel wise Revenue break-up</b>	<b>Q4FY18</b>	<b>Q4FY17</b>	<b>YoY (%)</b>
MBO	57.8	65.0	-11
Retail (K- Lounge)	24.7	26.6	-7
National Chain Stores (LFS)	12.9	18.2	-29
Factory outlet	12.6	6.3	101
Exports	6.7	3.4	100
E-commerce	4.0	1.5	159
Total	118.7	120.9	-2

**Cash flows snapshot****Rs cr**

<b>Cash-Flows</b>	<b>FY18</b>
Cash Flow from Operating Activity	55.57
Cash Flow from Investing Activity	-14.02
Cash Flow from Financing Activity	-45.57
Cash & Cash Equivalent - Closing	61.54

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