

Rating matrix		
Rating	:	Hold
Target	:	₹ 1140
Target Period	:	12-18 months
Potential Upside	:	-9%

What's changed?		
Target	Changed from ₹ 1550 to ₹ 1140	
EPS FY19E	Changed from ₹ 69.7 to ₹ 67.4	
EPS FY20E	Changed from ₹ 77.5 to ₹ 71.2	
Rating	Unchanged	

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	152.3	167.5	-9.1	105.9	43.8
EBITDA	47.8	48.8	(2.1)	21.5	122.4
EBITDA (%)	31.4	29.2	225 bps	20.3	1111 bps
PAT	33.6	35.2	(4.6)	13.9	141.2

Key financials				
(₹ Crore)	FY17	FY18A	FY19E	FY20E
Net Sales	467	460	485	511
EBITDA	99	98	113	120
Net Profit	75	73	83	88
EPS (₹)	60.5	59.4	67.4	71.2

Valuation summary				
	FY17	FY18A	FY19E	FY20E
P/E	20.7	21.1	18.6	17.6
Target P/E	18.8	19.2	16.9	16.0
EV to EBITDA	15.4	15.6	13.7	13.1
Price to book	4.1	3.9	3.6	3.3
RONW (%)	19.9	18.3	19.2	19.0
ROCE (%)	22.7	20.6	21.7	21.5

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	1,546.8
Debt (FY18) (₹ Crore)	48.3
Cash (FY18) (₹ Crore)	62.5
EV (₹ Crore)	1,532.6
52 week H/L	2200 / 1250
Equity Capital (₹ Crore)	12.3
Face Value (₹)	10

Price performance				
	1M	3M	6M	12M
Kewal Kiran Clothing	-10.4	-15.5	-19.4	-34.1
Page Industries	-10.5	2.1	22.5	47.2
Arvind	-8.6	-25.4	-23.1	-19.0

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Kewal Kiran Clothing (KEWKIR)

₹ 1255

Revenue growth remains paramount...

- KKCL reported topline de-growth of 9.1% YoY to ₹ 152.3 crore (I-direct estimate: ₹ 160.3 crore) with volumes declining 8.6% to 15.2 lakh pieces and flattish realisation growth at ₹ 1000/ piece. KKCL has always refrained from giving heavy discounts. This, in turn, has impacted its volume offtake. Furthermore, sustained competition from e-commerce players (aggressive discounting) has severely impacted the revenue growth of the company
- Gross margins for the quarter (including manufacturing expense) improved 540 bps YoY to 54.1%. The significant margin expansion was on the back of better negotiations with raw material suppliers by making the payments upfront
- However, given the fixed cost nature of the business, decline in topline resulted in negative operating leverage. This restricted EBITDA margin expansion. Employee & selling expense (as percentage of sales) increased 197 bps & 79 bps YoY, respectively. Resultant EBITDA margins expanded 225 bps YoY to 31.4% (highest ever quarterly margin) vs. our estimate of 26.8%. Given the subdued performance, PAT for the quarter de-grew 4.6% YoY to ₹ 33.6 crore (I-direct estimate: ₹ 32.0 crore)

Lower offtake from multi branded outlets (MBOs) to Impact sales

MBOs, the major distribution channel in revenue terms, declined sharply by 28.6% YoY to ₹ 65.9 crore. The decline can be attributed to lower offtake by MBOs on account of stringent pricing policies with lower discount compared to peers. Revenues from retail channel (22% of sales) de-grew 7% YoY to ₹ 33 crore. Non traditional channel sales continue to grow at a rapid pace compared to its traditional channels. Sales through NCS grew 35% YoY to ₹ 27 crore, with contribution to revenues increasing 600 bps YoY to 18%. Revenues from the e-commerce channel (9% of sales) doubled to ₹ 14.3 crore.

New brand 'Immortal' to focus on lower price point product category

Among the portfolio of brands, KKCL's largest brand 'Killer' (60% of sales) reported flattish revenues growth, while Integrity brand (20% of sales) and Lawman brand (11% of sales) declined 16% and 39%, respectively. To counter the aggressive discounting by e-commerce players and other brands, the company has launched a new sub-brand, 'Immortal' under its existing brand Integrity. The basic ideology of launching the new brand is to capture lower price points compared to its existing portfolio. However, it is still at a nascent stage and would take time to scale up.

Revival in volume growth critical; recommend HOLD!

KKCL has been one of the most profitable Indian brands, generating healthy EBITDA margins (21%+) and having a strong cash position. However, sluggish revenue growth has been a major concern for KKCL. Revenues over the last five years (FY13-18) have grown at a moderate pace of 8.9%. Going forward, the company has affirmed its stance that it will not chase aggressive topline growth at the cost of diluting its EBITDA margins. Hence, we expect revenue growth to remain under pressure in the near term. We would be closely monitoring the traction in volume growth, which remains critical for a re-rating of the stock. We revise our estimate downwards for FY19, FY20E and expect revenue and PAT to grow at a CAGR of 5.4% and 9.4%, respectively, in FY18-20E. We have a **HOLD** rating on the stock with a revised target price of ₹ 1140 (16.0x FY20E EPS).

Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Revenue	152.3	160.3	167.5	-9.1	105.9	43.8	Volumes declined 8.6% YoY, while realisation remained flattish
Other Income	4.7	5.5	5.4	-12.7	3.3	45.0	
Raw Material Expense	56.3	68.9	71.4	-21.1	39.8	41.5	
Employee Expense	19.7	19.2	18.4	7.2	18.7	5.4	
Selling Expenses	7.0	6.4	6.4	9.3	5.7	24.2	
Manufacturing & Other Expense	21.4	22.8	22.5	-4.8	20.3	5.5	
EBITDA	47.8	43.0	48.8	-2.1	21.5	122.4	
EBITDA Margin (%)	31.4	26.8	29.2	225 bps	20.3	1111 bps	Higher EBITDA margins mainly on account of significant improvement in gross margins
Depreciation	1.7	1.4	1.4	20.8	1.5	13.7	
Interest	1.6	1.3	1.3	22.7	1.1	44.6	
PBT	49.2	45.8	51.5	-4.5	22.1	122.4	
Tax Outgo	15.6	13.7	16.3	-4.3	8.2	90.6	
PAT	33.6	32.0	35.2	-4.6	13.9	141.2	Subdued operational performance led to 4.6% PAT de-growth

Key Metrics

Apparel Volume (Lakh pcs)	15.2	15.9	16.7	-8.6	10.2	48.9	
Average Realisation (₹)	999.7	1,006.9	1,004.9	-0.5	1,035.4	-3.4	
Gross Margin (%)	54.1	47.8	48.8	537 bps	50.9	327 bps	

Source: Company, ICICI Direct Research

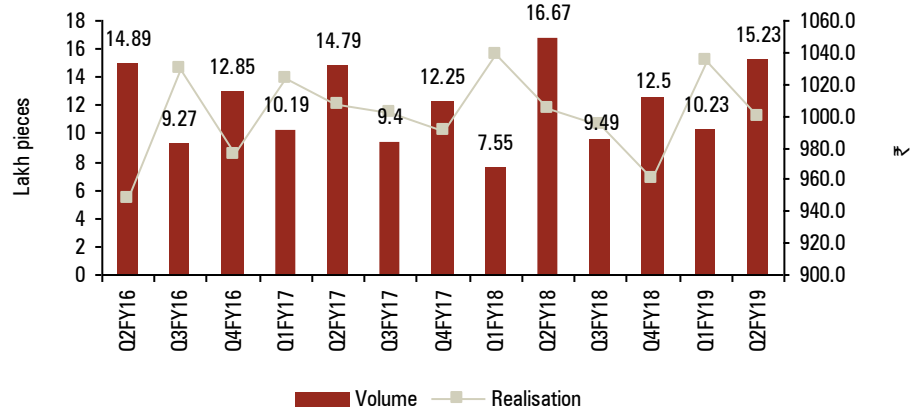
Change in estimates

(₹ Crore)	FY18A	Old	FY19E	% Change	Old	FY20E	% Change	Comments
			New			New		
Revenue	460.3	504.9	484.9	-4.0	551.7	510.9	-7.4	Revised our revenue and PAT estimates downwards for FY19 & FY20E
EBITDA	98.2	110.1	113.3	2.9	122.1	120.0	-1.7	
EBITDA Margin (%)	21.3	21.8	23.4	157 bps	22.1	23.5	135 bps	
PAT	73.2	85.9	83.0	-3.4	95.5	87.7	-8.2	
EPS (₹)	59.4	69.7	67.4	-3.4	77.5	71.2	-8.2	

Source: Company, ICICI Direct Research

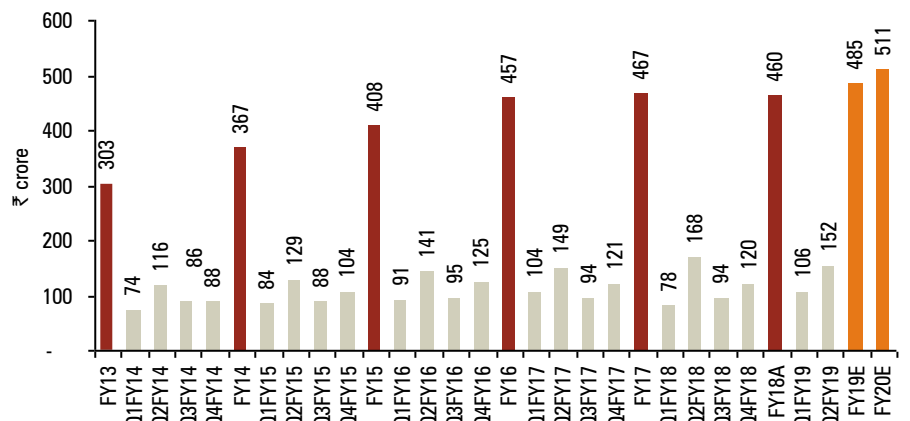
Financial story in charts:

Exhibit 1: Volume and realisation trend



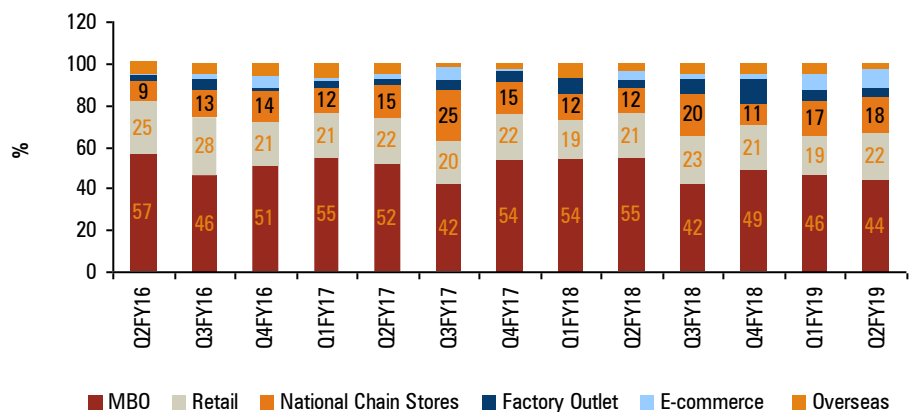
Source: Company, ICICI Direct Research

Exhibit 2: Topline trajectory



Source: Company, ICICI Direct Research

Exhibit 3: Channel-wise contribution to sales



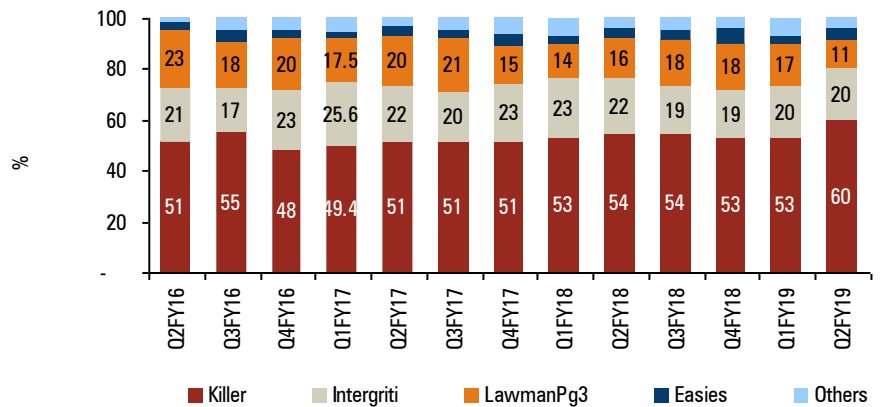
Source: Company, ICICI Direct Research

Volumes for H1FY19 grew 5.1% YoY to 25.5 lakh pieces with average realisation ~₹ 1000/piece

We anticipate revenues will grow at a CAGR of 5.4% in FY18-20E

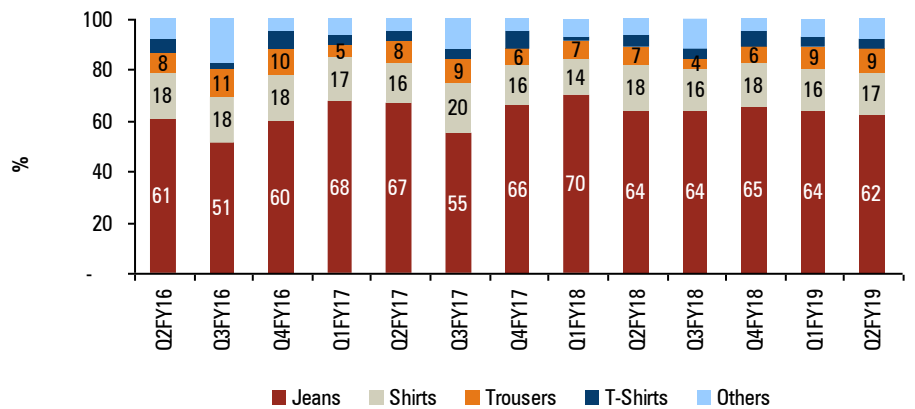
Non traditional channel sales continued to grow at a rapid pace compared to its traditional channels. Revenue from MBOs and exclusive retail stores declined 29% and 7%, respectively. National chain stores and e-commerce witnessed significant growth of 35% and 107%, respectively

Exhibit 4: Brand-wise contribution to sales



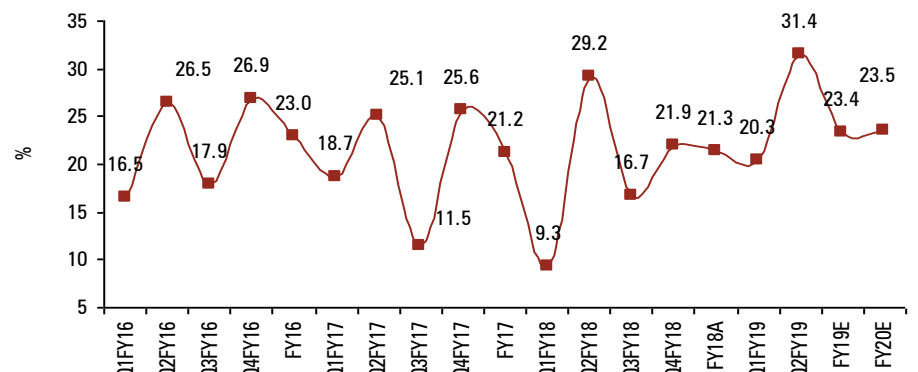
Source: Company, ICICI Direct Research

Exhibit 5: Product wise contribution to sales



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin trend



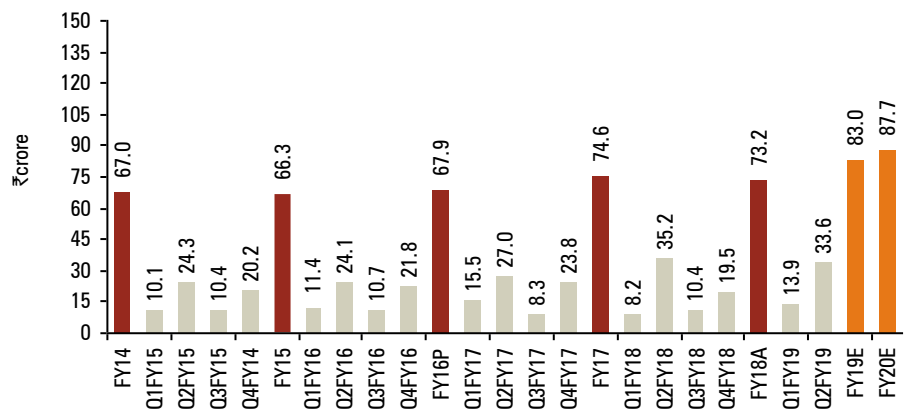
Source: Company, ICICI Direct Research

Among portfolio of brands, KKCL's largest brand 'Killer' (60% of sales) reported flattish revenues growth while Intergriti brand (20% of sales) and Lawman brand (11% of sales) declined 16% and 39%, respectively

Jeans remained the largest selling product

We anticipate EBITDA margins will be range bound between 22% and 24% for FY19/20E

Exhibit 7: Net profit trend



Source: Company, ICICI Direct Research

We anticipate PAT will grow at a CAGR of 9.4% in FY18-20E

Valuation

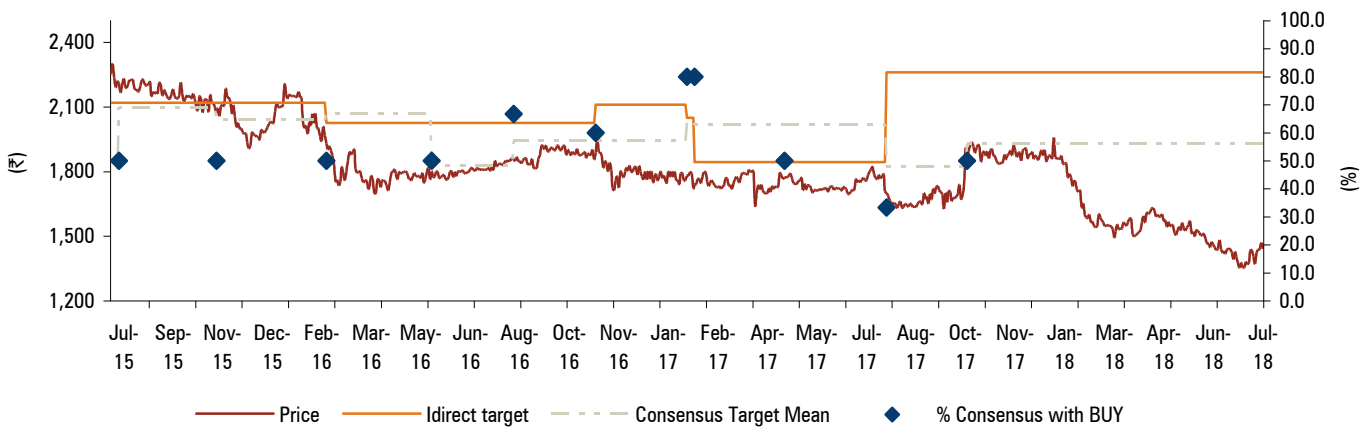
KKCL has been one of the most profitable Indian brands, generating healthy EBITDA margins (21%+) and having a strong cash position. However, sluggish revenue growth has been a major concern for KKCL. Revenues over the last five years (FY13-18) have grown at a moderate pace of 8.9%. Going forward, the company has affirmed its stance that it will not chase aggressive topline growth at the cost of diluting its EBITDA margins. Hence, we anticipate revenue growth will remain under pressure in the near term. We would be closely monitoring the traction in volume growth, which remains critical for a re-rating of the stock. We revise our estimate downwards for FY19, FY20E and expect revenue and PAT to grow at a CAGR of 5.4% and 9.4%, respectively, in FY18-20E. We have a **HOLD** recommendation on the stock with a revised target price of ₹ 1140 (16.0x FY20E EPS).

Exhibit 8: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	466.5	2.0	60.5	9.8	24.0	17.8	19.9	22.7
FY18A	460.3	(1.3)	59.4	(1.8)	24.4	18.1	18.3	20.6
FY19E	504.9	9.7	69.7	17.2	20.8	16.2	19.7	21.5
FY20E	551.7	9.3	77.5	11.2	18.7	14.8	20.2	22.2

Source: Company, ICICI Direct Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Feb-11	After four consecutive quarters of healthy growth, revenue growth slipped to 18.4% (₹ 54.7 crore)
Jun-11	Revenues grew at 52.7% YoY to ₹ 68.9 crore; apparel volumes increased 17% YoY to 8.2 lakh pieces
Sep-11	Revenue growth continues; KKCL reported 38.5% YoY growth led by 19.3% volume growth in the apparel segment (12.6 lakh pieces)
Dec-11	After strong growth in H1FY12, revenue growth flattish at 1.9% YoY (₹ 64.2 crore). Consequently, PAT de-grew 22.4% YoY to ₹ 8.8 crore
Jul-12	The company witnesses 13% revenue dip in H1FY13 to ₹ 147.4 crore
Nov-12	After two quarters of de-growth, revenues increase 19.6% YoY to ₹ 76.8 crore
Jun-13	After flattish FY13, Q1FY14 witnessed KKCL returning to the 30% growth trajectory with revenues increasing 30.6% YoY to ₹ 73.7 crore
Sep-13	Revenues increase 28.6% YoY to ₹ 189.5 crore in H1FY14
Dec-13	Despite weak Q3FY14 results, investors were optimistic about the longer term picture. Hence, the stock rallied
Jun-14	The stock continues the upward move on the back of strong investor optimism. Despite relatively lower revenue growth, investors continue to believe in the growth potential of the company
Mar-15	Posts increase in EBITDA margins after five consecutive quarters of de-growth
Mar-16	Revenues for FY16 rise 12% YoY to ₹ 453 crore mainly driven by a volume growth of 11%
Mar-17	Demonetisation weighs heavily on the performance of KKCL as it registers flattish volume growth in FY17

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Jain (Shantaben P)	31-Mar-18	49.9%	6.15	0.00
2	Nalanda Capital Pte Ltd	31-Mar-18	9.6%	1.18	-0.02
3	Jain (Dinesh P)	31-Mar-18	5.9%	0.73	0.00
4	Jain (Vikas P)	31-Mar-18	5.9%	0.72	0.00
5	Jain (Hemant P)	31-Mar-18	5.6%	0.69	0.00
6	Jain (Kewalchand P)	31-Mar-18	5.6%	0.69	0.00
7	Kotak Mahindra Asset Management Company Ltd.	31-Mar-18	3.5%	0.43	0.02
8	SBI Funds Management Pvt. Ltd.	31-Mar-18	3.2%	0.39	0.00
9	Aditya Birla Sun Life AMC Limited	31-Mar-18	2.0%	0.25	-0.01
10	PineBridge India Private Limited	31-Mar-18	1.5%	0.18	0.00

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoter	74.2	74.2	74.2	74.3	74.3
FII	12.9	12.7	12.3	11.9	11.9
DII	8.1	8.8	9.3	9.4	9.4
Others	4.9	4.3	4.3	4.4	4.4

Recent Activity

BUYS			SELLS		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Kotak Mahindra Asset Management Company Ltd.	0.49	0.02	Matthews International Capital Management, L.L.C.	-6.39	-0.28
Kewal Kiran Finance Pvt. Ltd.	0.09	0.00	Nalanda Capital Pte Ltd	-0.49	-0.02
Dimensional Fund Advisors, L.P.	0.03	0.00	Aditya Birla Sun Life AMC Limited	-0.28	-0.01
Jain (Dinesh P)	0.02	0.00			
Jain (Hemant P)	0.02	0.00			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18A	FY19E	FY20E
Total operating Income	466.5	460.3	504.9	551.7
Growth (%)	3.0	-1.3	9.7	9.3
Raw Material Expenses	202.0	193.5	205.9	222.2
Employee Expenses	59.2	65.1	73.7	80.0
Manufacturing Expenses	47.8	45.4	48.5	54.1
Selling Expenses	29.5	30.7	35.8	40.3
Other expenses	29.2	27.5	30.8	33.1
Total Operating Expenditure	367.7	362.1	394.8	429.6
EBITDA	98.8	98.2	110.1	122.1
Growth (%)	-5.0	-0.6	12.1	10.9
Depreciation	4.8	5.8	6.4	6.9
Interest	3.3	5.0	5.3	5.2
Other Income	17.5	21.1	27.8	30.3
PBT	108.3	108.6	126.2	140.3
Others	0.0	0.0	0.0	0.0
Total Tax	33.7	35.3	40.3	44.8
PAT	74.6	73.2	85.9	95.5
Growth (%)	9.8	-1.8	17.2	11.2
EPS (₹)	60.5	59.4	69.7	77.5

Source: Company, ICICI Direct Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18A	FY19E	FY20E
Profit After Tax	74.6	73.2	83.0	87.7
Add: Depreciation	4.8	5.8	6.8	7.4
(Inc)/dec in Current Assets	25.0	-33.2	-18.4	-10.1
Inc/(dec) in CL and Provisions	-8.7	21.2	-2.9	-0.2
Others	0.0	0.0	0.0	0.0
CF from operating activities	95.7	67.0	68.5	84.8
(Inc)/dec in Investments	-48.8	-25.2	-25.9	-38.2
(Inc)/dec in Fixed Assets	-7.8	-11.0	-15.7	-11.8
(Inc)/dec in CWIP	-4.6	-1.8	2.9	0.4
Others	-6.7	2.4	4.0	0.0
CF from investing activities	-67.9	-35.7	-34.7	-49.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	11.6	7.8	9.9	3.1
Others	2.2	-43.1	-50.5	-57.7
CF from financing activities	13.8	-35.3	-40.6	-54.6
Net Cash flow	41.6	-4.0	-6.8	-19.4
Opening Cash	24.7	66.4	62.5	55.7
Closing Cash	66.4	62.5	55.7	36.3

Source: Company, ICICI Direct Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18A	FY19E	FY20E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	362.2	387.3	422.7	460.6
Total Shareholders funds	374.5	399.6	435.0	472.9
Total Debt	40.5	48.3	48.5	46.9
Deferred Tax Liability	1.1	4.6	4.5	4.4
Other long term liabilities	-	1.6	1.6	1.7
Total Liabilities	416.2	454.1	489.6	525.8
Assets				
Gross Block	112.0	123.0	138.7	150.5
Less: Acc Depreciation	49.1	54.8	61.2	68.1
Net Block	63.0	68.2	77.5	82.4
Capital WIP	7.2	9.1	6.2	5.8
Total Fixed Assets	70.2	77.3	83.7	88.2
Investments	206.7	232.0	257.9	296.0
Inventory	51.3	52.9	58.1	63.5
Debtors	106.2	136.2	149.4	163.2
Loans and Advances	-	-	-	-
Other Current Assets	5.1	6.7	1.6	1.7
Cash	66.4	62.5	56.9	32.2
Total Current Assets	229.0	258.2	266.0	260.6
Creditors	39.5	43.5	45.1	45.7
Other current liabilities	36.4	52.3	50.5	50.4
Provisions	21.1	22.4	23.1	23.8
Total Current Liabilities	97.0	118.2	118.7	119.8
Net Current Assets	132.0	140.1	147.3	140.8
Others Non-current Assets	7.2	4.8	0.8	0.8
Application of Funds	416.2	454.1	489.6	525.8

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18A	FY19E	FY20E
Per share data (₹)				
EPS	60.5	59.4	67.4	71.2
Cash EPS	64.4	64.1	72.9	77.1
BV	303.9	324.3	350.7	375.0
Cash Per Share	53.9	50.7	45.2	29.4
Operating Ratios				
EBITDA Margin (%)	21.2	21.3	23.4	23.5
PBT Margin (%)	23.2	23.6	25.2	25.2
PAT Margin (%)	16.0	15.9	17.1	17.2
Inventory days	39.2	41.8	45.0	46.0
Debtor days	83.1	108.0	115.0	113.0
Creditor days	71.3	82.1	80.0	75.0
Return Ratios (%)				
RoE	19.9	18.3	19.2	19.0
RoCE	22.7	20.6	21.7	21.5
RoIC	29.7	25.2	24.5	22.0
Valuation Ratios (x)				
P/E	20.7	21.1	18.6	17.6
EV / EBITDA	15.4	15.6	13.7	13.1
EV / Net Sales	3.3	3.3	3.2	3.1
Market Cap / Sales	3.3	3.4	3.2	3.0
Price to Book Value	4.1	3.9	3.6	3.3
Solvency Ratios				
Debt/EBITDA	0.8	1.0	1.0	1.0
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	3.0	2.7	2.9	2.9
Quick Ratio	2.3	2.1	2.3	2.1

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Apparel)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Kewal Kiran Cloth.	1255	1140	Hold	1547	59.4	67.4	71.2	21.1	18.6	17.6	15.6	13.7	13.1	20.6	21.7	21.5	18.3	19.2	19.0
Page Industries	29310	28880	Hold	32692	311.1	410.8	526.0	94.2	71.3	55.7	64.3	50.3	39.8	57.2	60.8	63.4	41.0	44.2	45.8
Rupa & Company	277	470	Buy	2207	10.8	12.5	15.9	25.6	22.1	17.4	20.7	17.9	14.5	22.7	23.9	27.6	17.3	18.0	20.3
Vardhman Textiles	990	1200	Hold	5687	103.1	114.8	133.3	9.6	8.6	7.4	9.3	7.6	6.7	10.2	11.9	12.7	11.7	11.9	12.5
Arvind Ltd	328	500	Buy	8490	12.0	15.2	19.9	27.3	21.6	16.5	14.0	11.8	10.1	8.8	10.3	11.7	8.2	9.5	11.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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ANALYST CERTIFICATION

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