

Kewal Kiran Clothing (KEWKIR)

₹ 1210

Weak margins offset strong topline growth...

- KKCL reported healthy revenue growth 17.7% YoY to ₹ 111.1 crore (I-direct estimate: ₹ 107.0 crore). The topline was mainly driven by volume growth of 21.8% YoY to 11.6 lakh pieces. The strong volume offtake was largely attributed to higher discounts provided in the quarter. In the backdrop of the same, average realisations de-grew 3.4% YoY to ₹ 961/piece
- Higher discounting impacted gross margins negatively, which contracted 90 bps YoY to 49.5% (Q2FY19: 54.1%). Furthermore, higher cash discounts and rebates to dealers led to significant spike in selling & distribution expense (up 65% YoY to ₹ 13.5 crore). Consequently, EBITDA margins contracted 270 bps YoY to 14.0%
- Depreciation & finance cost increased 62% and 41% YoY, respectively. Higher other income (up 102% YoY to ₹ 7.2 crore) and lower taxation rate (30% vs. 36% in Q3FY18) aided PAT growth. Subsequently, PAT for the quarter grew 23% YoY to ₹ 12.8 crore
- On the balance sheet front, the company witnessed a spike in net working capital cycle, with debtor days increasing ~17 days to 125 days. Subsequently, short-term debt increased 77% YoY to ₹ 86 crore (debt/equity: 0.2x)

Non-traditional channel sales growth outpaces traditional channels

Sluggish revenue growth has been a major concern for KKCL as it has always refrained from giving heavy discounts. To address this issue, the management has now started participating in discounting activities across its product range. The management said it had to modify its strategy given the aggressive competitive scenario. However, it does not want to make it a practice over a longer term as it is margin dilutive. Higher discounting distribution channel like NCS and e-commerce continued to grow at a rapid pace compared to its traditional channels. Sales through NCS grew 60% YoY to ₹ 29 crore, with contribution to revenues increasing 700 bps YoY to 20%. Revenues from the e-commerce channel (8% of sales) grew 2.6x to ₹ 8.4 crore. MBOs, the major distribution channel in revenue terms (40%) grew moderately by 13% YoY to ₹ 44.6 crore while sales through EBOs fell sharply by 24% YoY to ₹ 15.9 crore.

Revenue growth revives, sustenance key; recommend HOLD

Revenues over the last five years (FY13-18) have grown at a moderate pace of 8.9%. On a YTD basis, revenue growth was at 9% YoY to ₹ 370 crore, with EBITDA margins expanding 190 bps to 23.0%. With the management now changing its stance towards offering higher discounts, we anticipate volume offtake will pick up pace, going forward. Factoring in the performance of 9MFY19, we revise our revenue estimate upwards for FY19, FY20E by ~2%, ~7%, respectively. However, margins could remain soft on account of higher proportion of discounted products. Hence, we trim our EBITDA margin estimate by ~60 bps and ~120 bps for FY19E and FY20E, respectively. KKCL has a strong balance sheet, with debt/equity ratio comfortably placed at 0.2x and having a strong cash position. The 9MFY19 balance sheet witnessed some deterioration in working capital as trade receivables increased 26% to ₹ 171 crore. We model revenue and PAT CAGR of 9% and 10%, respectively, in FY18-20E. We would be closely monitoring the traction in volume growth, which remains critical for a re-rating of the stock. We have a **HOLD** rating on the stock with a revised target price of ₹ 1160 (16.0x FY20E EPS).

Rating matrix		
Rating	:	Hold
Target	:	₹ 1160
Target Period	:	12-18 months
Potential Upside	:	-4%

What's changed?	
Target	Changed from ₹ 1140 to ₹ 1160
EPS FY19E	Changed from ₹ 67.4 to ₹ 66.3
EPS FY20E	Changed from ₹ 71.2 to ₹ 72.2
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	111.1	94.4	17.7	152.3	-27.0
EBITDA	15.5	15.7	(1.3)	47.8	-67.5
EBITDA (%)	14.0	16.7	-270 bps	31.4	-1743 bps
PAT	12.8	10.4	23.0	33.6	-62.0

Key financials				
(₹ Crore)	FY17	FY18A	FY19E	FY20E
Net Sales	467	460	497	547
EBITDA	99	98	113	122
Net Profit	75	73	82	89
EPS (₹)	60.5	59.4	66.3	72.2

Valuation summary				
	FY17	FY18A	FY19E	FY20E
P/E	20.0	20.4	18.2	16.8
Target P/E	19.2	19.5	17.5	16.1
EV to EBITDA	14.8	15.0	13.3	12.5
Price to book	4.0	3.7	3.5	3.2
RONW (%)	19.9	18.3	19.0	19.3
ROCE (%)	22.7	20.6	20.7	21.4

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	1,491.3
Debt (FY18) (₹ Crore)	48.3
Cash (FY18) (₹ Crore)	62.5
EV (₹ Crore)	1,477.1
52 week H/L	1830 / 1100
Equity Capital (₹ Crore)	12.3
Face Value (₹)	10

Price performance				
	1M	3M	6M	12M
Kewal Kiran Clothing	-0.7	-6.1	-16.9	-29.8
Page Industries	-2.6	-17.2	-18.7	4.8
Raymond	-4.5	23.4	-4.8	-29.1

Research Analysts	
Bharat Chhoda	bharat.chhoda@icicisecurities.com
Cheragh Sidhwa	cheragh.sidhwa@icicisecurities.com

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	111.1	106.9	94.4	17.7	152.3	-27.0	Volumes grew 21.8% YoY while realisations declined 3.4%
Other Income	7.2	3.6	3.5	102.3	4.7	51.1	
Raw Material Expense	45.3	41.7	38.4	18.1	56.3	-19.6	
Employee Expense	18.1	19.8	15.3	18.1	19.7	-8.0	
Selling Expenses	13.5	7.5	8.2	64.8	7.0	92.0	Higher cash discounts and rebates led to significant spike in selling expenses
Manufacturing & Other Expense	18.7	16.8	16.8	11.6	21.4	-12.7	
EBITDA	15.5	21.2	15.7	-1.3	47.8	-67.5	
EBITDA Margin (%)	14.0	19.8	16.7	-270 bps	31.4	-1743 bps	Decline in gross margins and higher selling expenses led to EBITDA margin contraction
Depreciation	2.4	1.8	1.5	62.0	1.7	39.7	
Interest	2.1	1.5	1.5	40.7	1.6	30.2	
PBT	18.2	21.4	16.3	11.5	49.2	-63.1	
Tax Outgo	5.4	7.1	5.9	-8.8	15.6	-65.6	
PAT	12.8	14.4	10.4	23.0	33.6	-62.0	Higher other income and lower taxation rate aided PAT growth
Key Metrics							
Apparel Volume (Lakh pcs)	11.6	10.7	9.5	21.8	15.2	-24.1	
Average Realisation (₹)	961.2	996.5	994.5	-3.4	999.7	-3.9	
Gross Margin (%)	49.5	52.5	50.4	-90 bps	54.1	-465 bps	

Source: Company, ICICI Direct Research

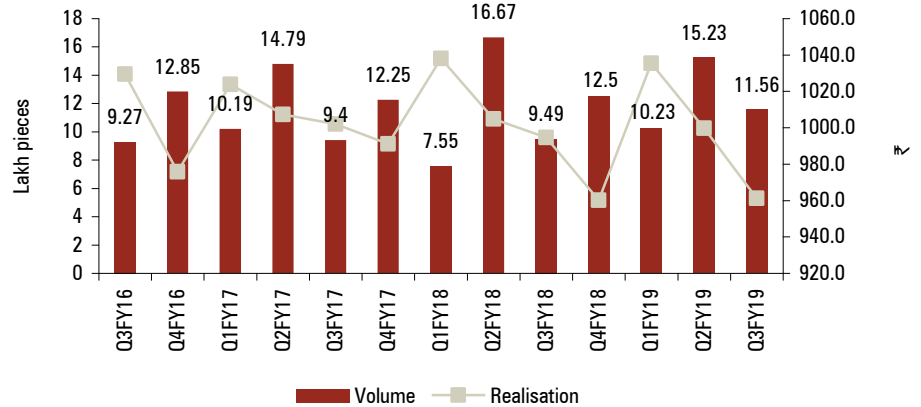
Change in estimates

	FY18A		FY19E			FY20E	
(₹ Crore)		Old	New	% Change	Old	New	% Change
Revenue	460.3	484.9	496.9	2.5	510.9	547.5	7.2
EBITDA	98.2	113.3	113.3	0.0	120.0	122.3	1.9
EBITDA Margin (%)	21.3	23.4	22.8	-57 bps	23.5	22.3	-116 bps
PAT	73.2	83.0	81.7	-1.5	87.7	89.0	1.5
EPS (₹)	59.4	67.4	66.3	-1.6	71.2	72.2	1.4

Source: Company, ICICI Direct Research

Financial story in charts

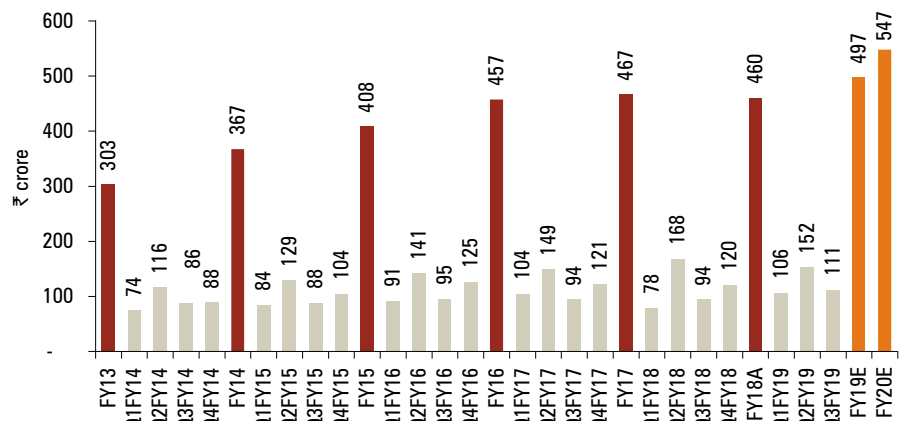
Exhibit 1: Volume and realisation trend



Volumes for 9MFY19 grew 9.8% YoY to 37.0 lakh pieces with average realisation ~₹ 998/piece

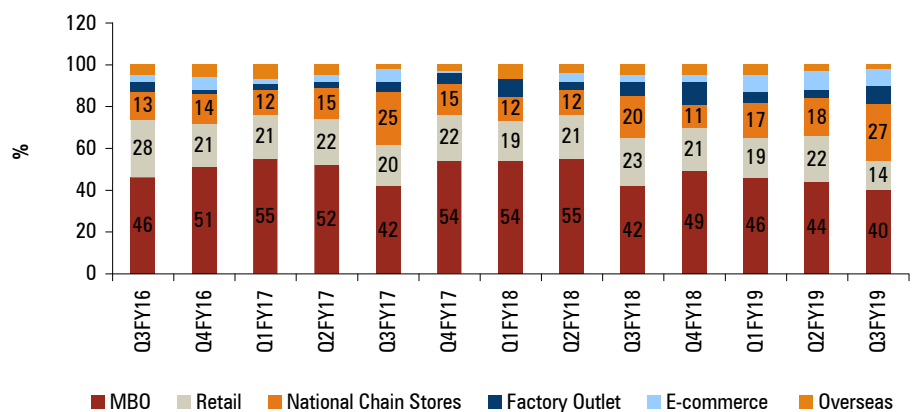
Source: Company, ICICI Direct Research

Exhibit 2: Topline trajectory



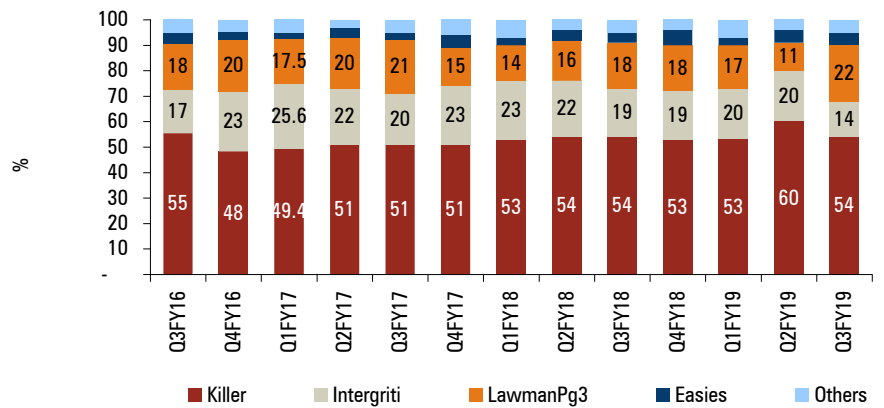
Source: Company, ICICI Direct Research

Exhibit 3: Channel-wise contribution to sales

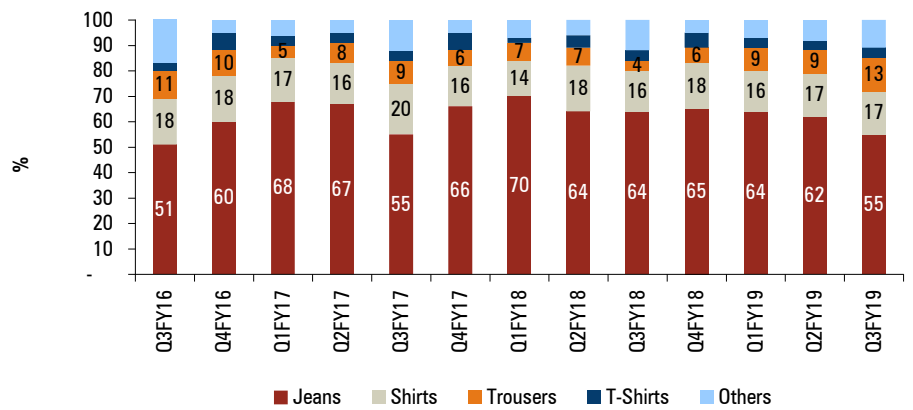


Source: Company, ICICI Direct Research

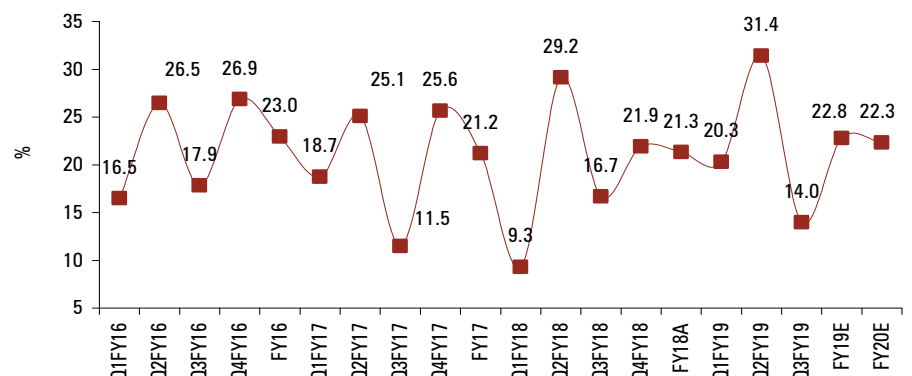
Non traditional channel sales continued to grow at a rapid pace compared to its traditional channels

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


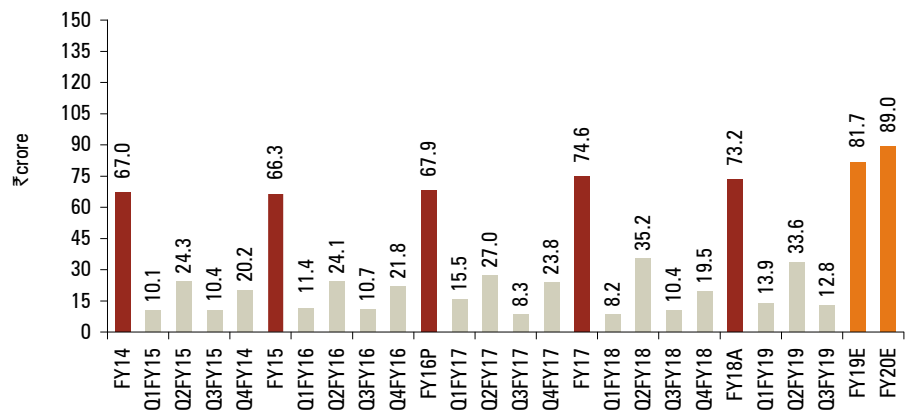
Source: Company, ICICI Direct Research

Among the portfolio of brands, KKCL's largest brand 'Killer' (54% of sales) reported healthy revenue growth of 20%, while 'Intergriti' brand (22% of sales) reported revenue growth of 44%. Revenues from 'Lawman' brand (14% of sales) declined 14% YoY

Jeans remained the largest selling product

We anticipate EBITDA margins will be range bound between 23% and 22% for FY19 and FY20E

Exhibit 7: Net profit trend



Source: Company, ICICI Direct Research

We anticipate PAT will grow at a CAGR of 10.2% in FY18-20E

Valuation

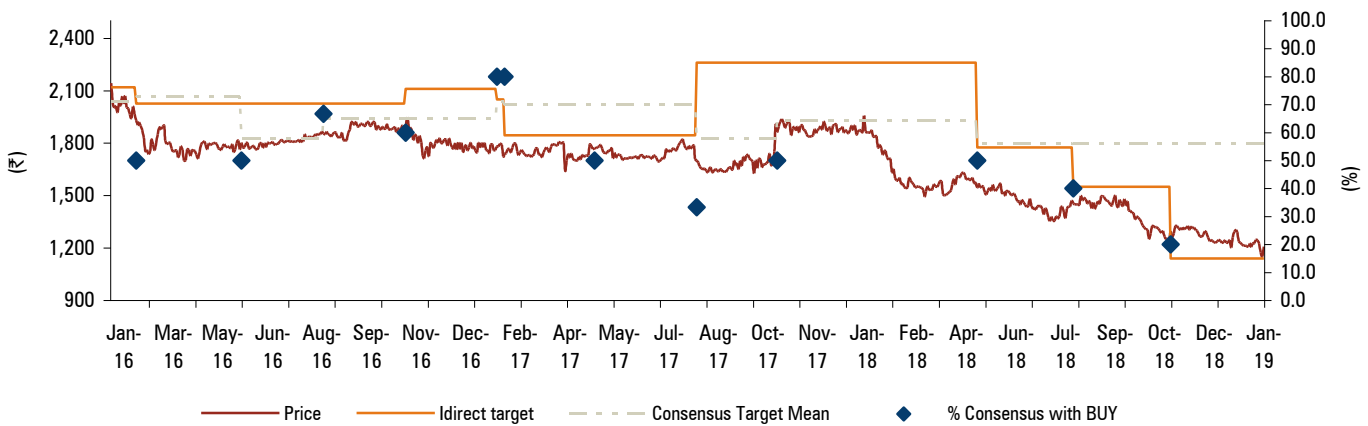
Revenues over the last five years (FY13-18) have grown at a moderate pace of 8.9%. On a YTD basis, revenue growth was at 9% YoY to ₹ 370 crore, with EBITDA margins expanding 190 bps to 23.0%. With the management now changing its stance towards offering higher discounts, we anticipate volume offtake will pick up pace, going forward. Factoring in the performance of 9MFY19, we revise our revenue estimate upwards for FY19, FY20E by 2%, 7%, respectively. However, margins could remain soft on account of higher proportion of discounted products. Hence, we trim our EBITDA margin estimate by 60 bps and 120 bps for FY19E and FY20E, respectively. KKCL has a strong balance sheet, with debt/equity ratio comfortably placed at 0.2x and having a strong cash position. The 9MFY19 balance sheet witnessed some deterioration in working capital as trade receivables increased 26% to ₹ 171 crore. We model revenue and PAT CAGR of 9% and 10%, respectively, in FY18-20E. We would be closely monitoring the traction in volume growth, which remains critical for a re-rating of the stock. We have a **HOLD** rating on the stock with a revised target price of ₹ 1160 (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	20.0	14.8	19.9	22.7
FY18A	460.3	(1.3)	59.4	(1.8)	20.4	15.0	18.3	20.6
FY19E	496.9	8.0	66.3	11.6	18.2	13.3	19.0	20.7
FY20E	547.5	10.2	72.2	8.9	16.8	12.5	19.3	21.4

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-Dec-18	49.9%	6.15	0.00
2	Nalanda Capital Pte Ltd	31-Dec-18	9.6%	1.18	0.00
3	Jain (Dinesh P)	31-Dec-18	5.9%	0.73	0.00
4	Jain (Vikas P)	31-Dec-18	5.9%	0.72	0.00
5	Jain (Hemant P)	31-Dec-18	5.6%	0.69	0.00
6	Jain (Kewalchand P)	31-Dec-18	5.6%	0.69	0.00
7	Kotak Mahindra Asset Management Company Ltd.	31-Dec-18	3.8%	0.47	0.02
8	SBI Funds Management Pvt. Ltd.	31-Dec-18	3.2%	0.39	0.00
9	Aditya Birla Sun Life AMC Limited	31-Dec-18	2.0%	0.24	0.00
10	PineBridge India Private Limited	31-Dec-18	1.5%	0.18	0.00

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	74.2	74.3	74.3	74.3	74.3
FII	12.3	11.9	11.9	11.9	11.9
DII	9.3	9.4	9.4	9.4	9.5
Others	4.3	4.4	4.4	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.	0.28	0.02	Aditya Birla Sun Life AMC Limited	-0.07	0.00
			DSP Investment Managers Pvt. Ltd.	0.00	0.00
			Investment Managers	8	0.215438

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	496.9	547.5					
Growth (%)	3.0	-1.3	8.0	10.2					
Raw Material Expenses	202.0	193.5	194.8	218.3					
Employee Expenses	59.2	65.1	72.6	79.4					
Manufacturing Expenses	47.8	45.4	47.7	53.7					
Admin Expenses	29.5	30.7	32.3	35.6					
Selling Expenses	29.2	27.5	36.3	38.3					
Total Operating Expenditure	367.7	362.1	383.6	425.2					
EBITDA	98.8	98.2	113.3	122.3					
Growth (%)	-5.0	-0.6	15.3	7.9					
Depreciation	4.8	5.8	7.6	8.3					
Interest	3.3	5.0	8.0	7.8					
Other Income	17.5	21.1	22.4	24.6					
PBT	108.3	108.6	120.1	130.8					
Others	0.0	0.0	0.0	0.0					
Total Tax	33.7	35.3	38.3	41.8					
PAT	74.6	73.2	81.7	89.0					
Growth (%)	9.8	-1.8	11.6	8.9					
EPS (₹)	60.5	59.4	66.3	72.2					

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	418.6	449.9					
Total Shareholders funds	374.5	399.6	430.9	462.2					
Total Debt	40.5	48.3	79.5	71.2					
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	516.5	539.5					
Assets									
Gross Block	112.0	123.0	138.7	150.5					
Less: Acc Depreciation	49.1	54.8	62.4	70.7					
Net Block	63.0	68.2	76.3	79.8					
Capital WIP	7.2	9.1	6.2	5.8					
Total Fixed Assets	70.2	77.3	82.5	85.6					
Investments	206.7	232.0	257.9	296.0					
Inventory	51.3	52.9	61.3	66.0					
Debtors	106.2	136.2	163.4	174.0					
Loans and Advances	-	-	-	-					
Other Current Assets	5.1	6.7	1.6	1.7					
Cash	66.4	62.5	65.5	37.3					
Total Current Assets	229.0	258.2	291.7	279.1					
Creditors	39.5	43.5	42.7	47.8					
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	116.3	122.0					
Net Current Assets	132.0	140.1	175.4	157.1					
Others Non-current Assets	7.2	4.8	0.8	0.8					
Application of Funds	416.2	454.1	516.5	539.5					

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore				
(Year-end March)	FY17	FY18A	FY19E	FY20E					
Profit After Tax	74.6	73.2	81.7	89.0					
Add: Depreciation	4.8	5.8	7.6	8.3					
(Inc)/dec in Current Assets	25.0	-33.2	-30.5	-15.5					
Inc/(dec) in CL and Provisions	-8.7	21.2	-1.9	5.7					
Others	0.0	0.0	0.0	0.0					
CF from operating activities	95.7	67.0	57.0	87.5					
(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	31.2	-8.3					
Others	2.2	-43.1	-50.5	-57.7					
CF from financing activities	13.8	-35.3	-19.3	-66.1					
Net Cash flow	41.6	-4.0	3.0	-28.1					
Opening Cash	24.7	66.4	62.5	65.5					
Closing Cash	66.4	62.5	65.5	37.3					

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18A	FY19E	FY20E
Per share data (₹)				
EPS	60.5	59.4	66.3	72.2
Cash EPS	64.4	64.1	72.5	78.9
BV	303.9	324.3	349.6	375.0
Cash Per Share	53.9	50.7	53.1	30.3
Operating Ratios				
EBITDA Margin (%)	21.2	21.3	22.8	22.3
PBT Margin (%)	23.2	23.6	24.2	23.9
PAT Margin (%)	16.0	15.9	16.4	16.3
Inventory days	39.2	41.8	45.0	44.0
Debtor days	83.1	108.0	120.0	116.0
Creditor days	71.3	82.1	80.0	80.0
Return Ratios (%)				
RoE	19.9	18.3	19.0	19.3
RoCE	22.7	20.6	20.7	21.4
RoIC	29.7	25.2	23.1	21.6
Valuation Ratios (x)				
P/E	20.0	20.4	18.2	16.8
EV / EBITDA	14.8	15.0	13.3	12.5
EV / Net Sales	3.1	3.2	3.0	2.8
Market Cap / Sales	3.2	3.2	3.0	2.7
Price to Book Value	4.0	3.7	3.5	3.2
Solvency Ratios				
Debt/EBITDA	0.8	1.0	1.4	1.2
Debt / Equity	0.1	0.1	0.2	0.2
Current Ratio	3.0	2.7	3.1	2.8
Quick Ratio	2.3	2.1	2.5	2.2

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Apparel)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Kewal Kiran Cloth.	1210	1160	Hold	1491	59.4	66.3	72.2	20.4	18.2	16.8	15.0	13.3	12.5	20.6	20.7	21.4	18.3	19.0	19.3
Page Industries (PAGIND)	23423	27200	Hold	26068	311.1	400.7	495.1	75.3	58.5	47.3	53.0	42.8	34.9	57.2	59.0	60.1	41.0	43.3	43.8
Rupa & Co	355	370	Buy	2827	10.8	12.5	14.2	32.8	28.5	24.9	17.1	15.1	13.2	22.7	23.1	24.4	17.3	17.9	18.4
Vardhman Textiles	1069	1220	Hold	6144	103.1	120.7	135.3	10.4	8.9	7.9	8.9	7.0	6.3	10.2	12.7	13.1	11.7	12.6	12.8

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;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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