

# Stock Update

Mixed performance, stable volume growth to be watched for

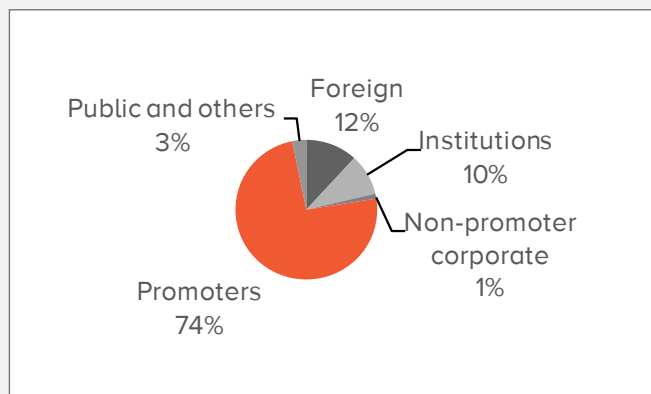
## Kewal Kiran Clothing

Reco: Hold | CMP: Rs1,221

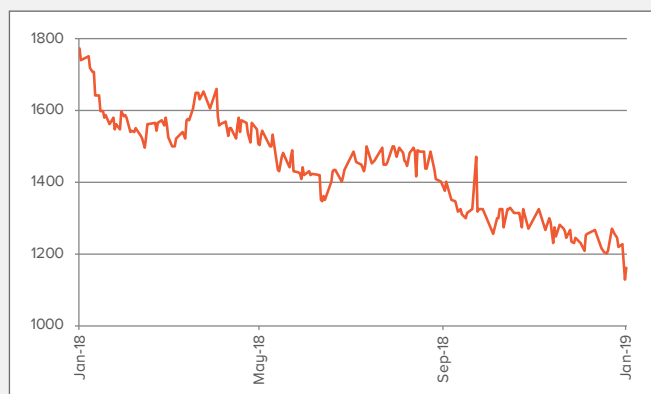
### Company details

Price target:	Rs1,415
Market cap:	Rs1,505 cr
52-week high/low:	Rs1838/1100
NSE volume: (No of shares)	472
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	-6.3	-8.2	-20.5	-33.5
Relative to Sensex	-7.3	-14.2	-19.5	-34.3

### Key points

- Revenue rose 17.7% due to strong volume growth; OPM impacted by higher operating expenses:** For Q3FY2019, Kewal Kiran Clothing Limited (KKCL) reported a robust 17.7% increase in its topline to Rs. 111.1 crore, aided by 21.75% growth in volumes due to the festive season. On the other hand, realisation fell by 3% y-o-y to Rs. 900 per unit. Despite higher cotton prices during the quarter, gross margin declined marginally by ~12 BPS to 59.2% due to better negotiations with raw-material suppliers, bulk purchasing power and by making upfront payments. However, due to rise in employee cost (up 18% y-o-y), selling and administration expenses (up ~30% y-o-y, the company had to offer some discounts to channel partners to boost volumes) and manufacturing and operating expenses (up 28% y-o-y), there was a 270 BPS decline in operating margin to ~14% in Q3FY2019. Operating profit came in at Rs. 15.5 crore, flat on a y-o-y basis. Despite the rise in interest cost and depreciation charges up by 40.7% y-o-y and 62% y-o-y, PAT increased by 22.2% y-o-y to Rs. 12.7 crore (in line with our expectation of Rs. 12.3 crore), as other income doubled on a y-o-y basis to Rs. 7.1 crore (due to maturity of debt instruments).
- Killer, Integrity and Easies witnessed robust double-digit growth; National chain stores and factory outlets grew strongly, while retail saw a dip in performance:** The flagship brand of KKCL, *Killer*, recorded strong revenue of Rs. 59.2 crore, up 20% y-o-y (the brand contributes 54% to the total revenue of KKCL). Among the other brands, *Integrity* (second largest brand that contributes 22% to the total revenue of KKCL) posted robust 44% y-o-y growth to Rs. 24.9 crore, *Lawman* reported a decline of 14% y-o-y to Rs. 15.1 crore, while *Easies* grew by 30% y-o-y to Rs. 5.1 crore. On the product front, jeans (which continues to be the dominant product and contributes 54% to total sales) reported a marginal increase in revenue by 2.4%, while trousers (contributing 13% to total sales) more than doubled to Rs. 14.6 crore during the quarter. On channel basis, MBO (largest channel with 40% share in revenue) reported a 13% y-o-y increase in revenue. Revenue through national chain stores and factory outlets grew by 60% and 42%, respectively, while that from retail fell by 24% during the quarter. Overseas sales halved during the quarter, while e-commerce revenue grew 2.6 times during the quarter.

- ♦ **Outlook – Revenue for FY2019 to be volume driven with OPM expected at above 20%:** KKCL's Q3FY2019 revenue grew strongly due to volume-driven growth during the festive season. However, there was a dip in realisations (similar to the past few quarters as the company does not offer heavy discounts to its customers). Demand has been steady for the company and the overall demand environment for apparel players is seeing a positive trajectory. KKCL does not want to compromise on margins and has maintained the target of achieving OPM at above 20% for FY2019. As far as volumes are concerned, there has been a volatility seen in the past few quarters. Hence, steady volume growth in the coming quarters will be a key thing to watch out for. The new brands *Immortal* (targeting lower price point products) and *Desi Belle* (acquired in Q2FY2019) are at a very nascent stage but have been performing as per management's expectations.
- ♦ **Steady volume growth remains the key trigger; Maintain Hold:** Q3FY2019 witnessed strong performance by the company mainly because of higher volume offtake. Going forward, management has affirmed its stance of maintaining OPM and is confident of decent topline growth because of improving demand environment. We have fine-tuned our earnings estimates for FY2019 and FY2020 due to 9MFY2019 numbers and have introduced FY2021 numbers in this note. Though 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, the key trigger for the company in the near term would be consistent and steady volume growth. Thus, we maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 1,415 valuing it at ~17x its FY2021E EPS. Investors with a long-term view and looking for a lean balance sheet company can stay invested in the stock.

**Valuations (Standalone)**

	Rs cr				
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net sales	477.1	461.9	501.3	536.4	579.3
Operating Profit	98.8	98.2	113.5	126.1	137.3
OPM (%)	20.7	21.3	22.6	23.5	23.7
Adjusted Net Profit	74.6	73.2	81.6	91.2	100.5
EPS (Rs.)	60.5	59.4	66.2	74.0	81.5
P/E (x)	20.0	20.3	18.2	16.3	14.8
EV/EBITDA (x)	10.8	10.4	8.7	7.5	6.4
RoE (%)	22.2	18.9	19.7	20.3	20.4
RoCE (%)	19.3	17.3	18.7	19.6	19.7

**Results (Standalone)**

	Rs cr				
Particulars	Q3FY19	Q3FY18	YoY (% chng)	Q2FY19	QoQ (% chng)
Net Sales	111.1	94.4	17.7	152.3	(27.0)
COGS	45.3	38.4	18.1	56.3	(19.6)
Staff cost	18.1	15.3	18.1	19.7	(8.0)
Selling & Administrative Expenses	21.3	16.5	29.6	14.9	43.1
Other expenses	10.8	8.5	28.0	13.5	(19.9)
Operating profit	15.5	15.7	(1.3)	47.8	(67.5)
Other income	7.1	3.5	100.0	4.7	49.4
Interest	2.1	1.5	40.7	1.6	30.2
Depreciation	2.4	1.5	62.0	1.7	39.7
PBT	18.1	16.3	11.0	49.2	(63.3)
Tax	5.4	5.9	(8.6)	15.6	(65.5)
PAT	12.7	10.4	22.2	33.6	(62.2)
EPS (Rs.)	10.3	8.4	22.2	27.2	(62.2)
GPM (%)	59.2	59.3	(12)bps	63.0	(378)bps
OPM (%)	14.0	16.7	(270)bps	31.4	-

**Brand-wise revenue performance**

			Rs cr
Brand wise Revenue break-up	Q3FY19	Q3FY18	YoY (%)
Killer	59.2	49.5	19.6
Integriti	24.9	17.2	44
Page 3 Lawman	15.1	17.5	-14
Easies	5.1	3.9	30
Others	6.0	5.1	17
<b>Total</b>	<b>110.2</b>	<b>93.2</b>	<b>18</b>

**Channel-wise revenue performance**

			Rs cr
Channel wise Revenue break-up	Q3FY19	Q3FY18	YoY (%)
MBO	44.6	39.5	13
Retail (K- Lounge)	15.9	21.0	-24
National Chain Stores (LFS)	29.4	18.4	60
Factory outlet	9.6	6.8	42
Exports	2.1	4.3	-51
E-commerce	8.4	3.2	163
<b>Total</b>	<b>110.2</b>	<b>93.2</b>	<b>18</b>

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