

Moderate performance amid tough scenario...

Kewal Kiran Clothing (KKCL) reported moderate revenue growth of 4.0% YoY to ₹ 110.2 crore. The topline growth was mainly driven by volume growth of 6.8% YoY to 10.9 lakh pieces. A rejig in product mix (higher sales of tops compared to jeans) and spike in sales from non-traditional channel (national chain stores) translated into a decline in realisations by 2.6% YoY to ₹ 1008/piece. Gross margins enhanced significantly by 470 bps YoY to 52.5% on the back of enhanced bargaining power and timely payment to fabric vendors. However, a sharp spike in selling and distribution expense (up ~3x) led EBITDA margins to come in at a constant 20.4% YoY. KKCL hosted a dealer's event in Goa, which led to higher selling expenses (half of the expense would be accounted for in Q2FY20). Lower fixed maturity plan (FMP) yield led to a decline in other income (down 46% YoY). Subsequently, PAT grew 1.6% YoY to ₹ 14.1 crore.

NCS outperforms traditional channels....

In the product mix, revenue from the jeans segment (62% of revenue) remained constant YoY at ₹ 67.5 crore whereas revenue from shirts (17% of sales) and T-shirts (5% of sales) grew 10% YoY to ₹ 18.1 crore and 18% YoY to ₹ 5.2 crore, respectively. Multi branded outlets (MBOs), the major distribution channel in revenue terms (38%), continued to remain under stress owing to liquidity concerns (revenues declining 11.5% YoY to ₹ 41.9 crore). Sales through national chain stores grew 46% YoY to ₹ 26.1 crore, with contribution to revenues increasing 700 bps YoY to 24%. Though NCS has been one of the fastest growing channels for KKCL, MBOs continue to remain prominent, since it is the most profitable of all trade channels.

Total debt to remain at FY19 level

The management expects working capital days to remain elevated (at similar levels of FY19). However, with the company having robust cash & investments (~₹ 270 crore), it does not foresee further increase in working capital debt. The debt/equity ratio is comfortably placed at 0.2x.

Valuation & Outlook

Factoring in the Q1FY20 performance, we revise our revenue and earnings estimates downwards for FY20, FY21E. Pick-up in Q2FY20 revenue growth remains vital for KKCL in achieving double digit revenue growth for FY20. KKCL has been one of the most profitable brands generating EBITDA margins (21%+) and having a robust balance sheet with cash & investments worth ~₹ 270 crore. The management is undertaking several initiatives to accelerate revenue growth while maintaining its current margin profile. We model revenue CAGR of 10% over FY19-21E, with EBITDA margins expected to remain range bound at 22%. The stock price has corrected sharply by ~20% since our last result update, making it available at valuations of 13.8x FY21E earnings. We have a **BUY** recommendation on the stock with a revised target price of ₹ 1235 (16.0x FY21E EPS).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,269.5
Debt (FY19) (₹ Crore)	93.5
Cash & Investments (FY19)	290.4
EV (₹ Crore)	1,072.5
52 week H/L	1560 / 1005
Equity Capital (₹ Crore)	12.3
Face Value (₹)	10

Key Highlights

- Reported volume growth of 6.8% YoY while realisations remained flattish
- Non-traditional channels such as NCS grew 46% YoY to ₹ 26.1 crore
- Lower FMP yield led to decline in other income (down 46% YoY)
- Maintain BUY with revised target price of ₹ 1235

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19A	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	466.5	460.3	502.4	553.6	612.0	10.4%
EBITDA	98.8	98.2	112.3	121.4	133.7	9.1%
PAT	74.6	73.2	80.3	83.5	94.9	8.7%
P/E (x)	17.0	17.3	15.8	15.2	13.4	
EV/Sales (x)	2.2	2.2	2.1	1.9	1.7	
EV/EBITDA (x)	10.5	10.4	9.5	8.8	7.9	
RoCE (%)	22.7	20.6	19.9	20.4	21.3	
RoE (%)	19.9	18.3	18.7	18.3	19.4	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	110.2	114.0	105.9	4.0	133.1	-17.2	Volumes grew 6.8% YoY while realisations declined 2.6% YoY to ₹ 1008/piece
Other Income	1.8	6.5	3.3	-45.6	6.9	-74.1	Lower FMP yields led to decline in other income
Raw Material Expense	41.1	42.7	39.8	3.3	50.8	-19.0	
Employee Expense	15.3	19.4	18.7	-17.9	18.6	-17.6	
Selling Expenses	16.9	10.3	5.7	199.1	14.8	14.6	Higher cash discounts and rebates led to a significant spike in selling expenses
Manufacturing & Other Expense	14.4	21.0	20.3	-29.2	21.5	-33.1	
EBITDA	22.5	20.8	21.5	4.5	27.5	-18.3	
EBITDA Margin (%)	20.4	18.2	20.3	9 bps	20.7	-27 bps	Significant expansion in gross margins, negated the impact of higher selling expenses
Depreciation	2.4	2.4	1.5	58.2	2.4	2.5	
Interest	2.2	1.9	1.1	96.4	2.0	7.8	
PBT	19.6	22.9	22.1	-11.3	30.0	-34.5	
Tax Outgo	5.5	7.6	8.2	-33.0	9.8	-44.2	
PAT	14.1	15.4	13.9	1.6	20.1	-29.8	Higher depreciation and finance expense impacted PAT growth

Key Metrics

Apparel Volume (Lakh pcs)	10.9	11.4	10.2	6.8	13.8	-20.9
Average Realisation (₹)	1,008.1	1,004.3	1,035.4	-2.6	963.9	4.6
Gross Margin (%)	55.6	51.6	50.9	477 bps	52.5	311 bps

Source: Company, ICICI Direct Research

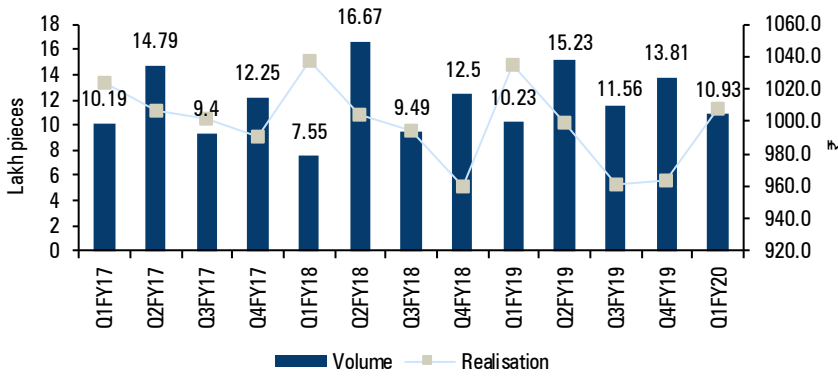
Exhibit 2: Change in estimates

(₹ Crore)	FY19A	FY20E			FY21E		
		Old	New	% Change	Old	New	% Change
Revenue	502.4	559.8	553.6	-1.1	628.6	612.0	-2.6
EBITDA	112.3	123.2	121.4	-1.5	139.8	133.7	-4.3
EBITDA Margin (%)	22.4	22.0	21.9	-9 bps	22.2	21.9	-39 bps
PAT	80.3	87.3	83.5	-4.3	101.0	94.9	-6.0
EPS (₹)	65.2	70.8	67.8	-4.3	82.0	77.0	-6.1

Source: Company, ICICI Direct Research

Financial story in charts

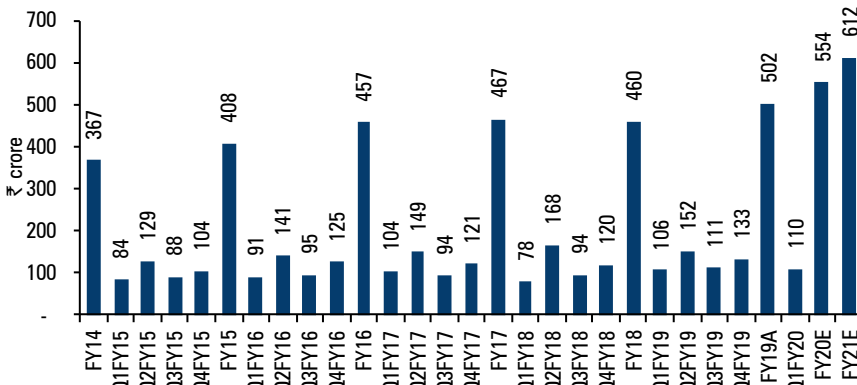
Exhibit 3: Volume & realisation trend



For FY19, volumes grew 10% YoY to 50.8 lakh pieces while realisations de-grew marginally by 0.8% YoY to ₹ 988/piece

Source: Company, ICICI Direct Research

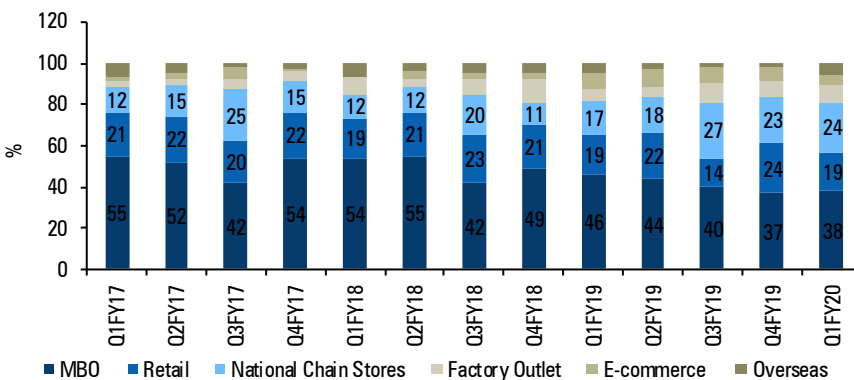
Exhibit 4: Topline trajectory



We anticipate revenues will grow at a CAGR of 10% in FY19-21E, mainly driven by volume growth

Source: Company, ICICI Direct Research

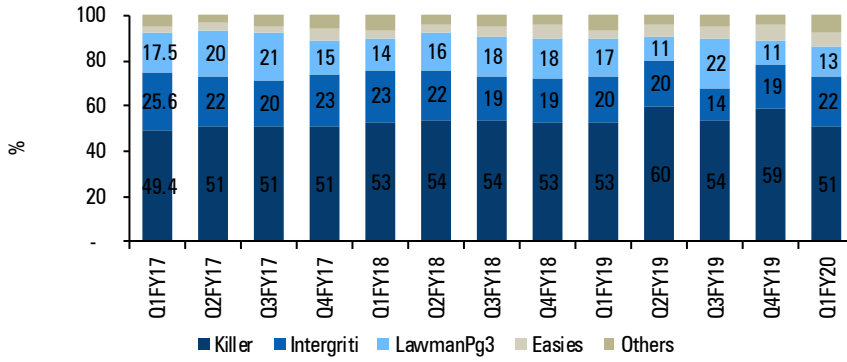
Exhibit 5: Channel wise contribution to sales



Non-traditional channel sales continued to grow at a rapid pace compared to its traditional channels. In Q1FY20, NCS grew 46% YoY while revenues from MBO channel de-grew 11.5% and retail channel grew marginally by 3%

Source: Company, ICICI Direct Research

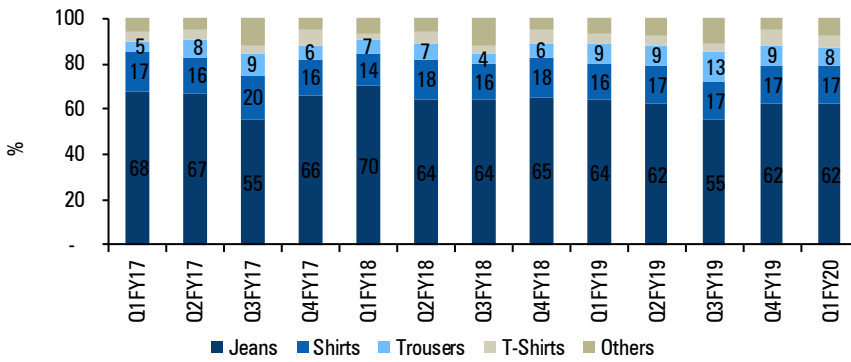
Exhibit 6: Brand wise contribution to sales



Among the portfolio of brands, in Q1FY20 KKCL's flagship brand 'Killer' (51% of sales) reported flattish revenue growth of 1%, while 'Intergriti' brand (22% of sales) reported revenue growth of 17%. Revenues from 'Lawman' brand (13% of sales) declined 21% YoY

Source: Company, ICICI Direct Research

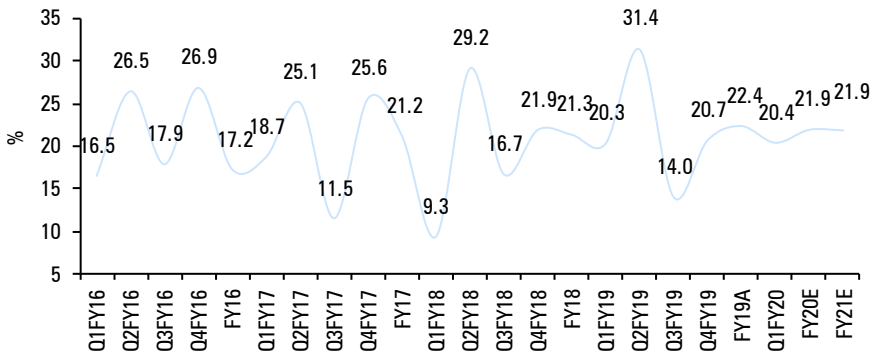
Exhibit 7: Product wise contribution to sales



Jeans remains the most profitable and largest selling product (62% of revenues). Revenue from trouser segment (8% of revenues) de-grew 2% YoY to ₹ 9.1 crore in Q1FY20

Source: Company, ICICI Direct Research

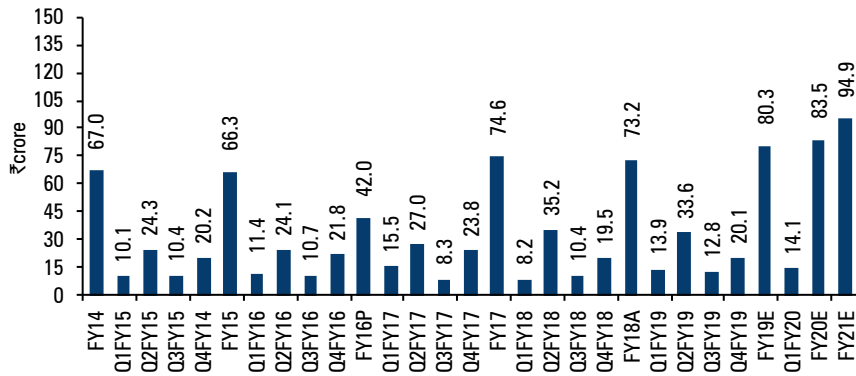
Exhibit 8: EBITDA margin trend



EBITDA margin to be range bound at ~22% in FY20-21E

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Net profit trend



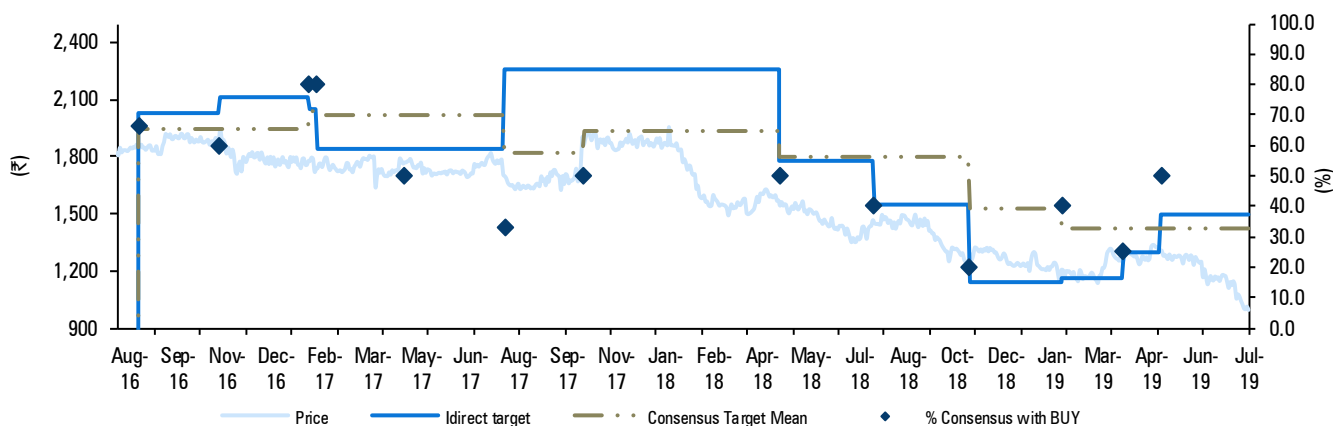
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	460.3	(1.3)	59.4	(1.8)	17.3	10.4	18.3	20.6
FY19A	502.4	9.2	65.2	9.7	15.8	9.5	18.7	19.9
FY20E	553.6	10.2	67.8	4.0	15.2	8.8	18.3	20.4
FY21E	612.0	10.5	77.0	13.6	13.4	7.9	19.4	21.3

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Jain (Shantaben P)	30-Jun-19	49.9%	6.15	0.00
2	Nalanda Capital Pte Ltd	30-Jun-19	7.1%	0.88	0.00
3	Jain (Dinesh P)	30-Jun-19	5.9%	0.73	0.00
4	Jain (Vikas P)	30-Jun-19	5.9%	0.72	0.00
5	Jain (Hemant P)	30-Jun-19	5.6%	0.69	0.00
6	Jain (Kewalchand P)	30-Jun-19	5.6%	0.69	0.00
7	SBI Funds Management Pvt. Ltd.	30-Jun-19	5.6%	0.69	0.00
8	Kotak Mahindra Asset Management Company Ltd.	30-Jun-19	3.9%	0.48	0.00
9	Aditya Birla Sun Life AMC Limited	31-Mar-19	2.0%	0.24	0.00
10	PineBridge India Private Limited	30-Jun-19	1.5%	0.18	0.00

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

BUYS			SELLS		
Investor name	Value (Mn)	Shares (Mn)	Investor name	Value (Mn)	Shares (Mn)
Kotak Mahindra Asset Management Company Ltd.	0.04	0.00	DSP Investment Managers Pvt. Ltd.	-0.02	0.00

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	74.3	74.3	74.3	74.3	74.3
FII	12.1	12.0	12.0	9.5	9.5
DII	9.4	9.4	9.5	11.9	11.8
Others	4.3	4.3	4.2	4.4	4.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
Total operating Income	460.3	502.4	553.6	612.0
Growth (%)	-1.3	9.2	10.2	10.5
Raw Material Expenses	238.8	241.2	260.6	290.4
Gross margins	48.1	52.0	52.9	52.6
Employee Expenses	65.1	75.1	77.5	82.6
Admin Expenses	30.7	32.8	36.0	41.6
Selling Expenses	27.5	40.9	58.1	63.7
Total Operating Expenditure	362.1	390.1	432.3	478.3
EBITDA	98.2	112.3	121.4	133.7
Growth (%)	-0.6	14.4	8.0	10.2
Depreciation	5.8	8.1	9.1	10.0
Interest	5.0	6.9	8.0	7.7
Other Income	21.1	22.0	19.4	21.4
PBT	108.6	119.4	123.6	137.4
Others	0.0	0.0	0.0	0.0
Total Tax	35.3	39.1	40.1	42.5
PAT	73.2	80.3	83.5	94.9
Growth (%)	-1.8	9.7	4.0	13.6
EPS (₹)	59.4	65.2	67.8	77.0

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
Profit After Tax	73.2	80.3	83.5	94.9
Add: Depreciation	5.8	8.1	9.1	10.0
(Inc)/dec in Current Assets	-33.2	-72.2	-25.0	-29.2
Inc/(dec) in CL and Provisions	21.2	-3.2	5.5	7.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	67.0	13.0	73.2	83.1
(Inc)/dec in Investments	-25.2	-5.2	-2.4	-2.4
(Inc)/dec in Fixed Assets	-11.0	-18.7	-15.9	-16.4
(Inc)/dec in CWIP	-1.8	6.8	0.2	0.0
Others	2.4	-1.4	5.4	0.0
CF from investing activities	-35.7	-18.5	-12.6	-18.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	7.8	45.2	0.7	-2.3
Others	-43.1	-48.8	-57.7	-61.4
CF from financing activities	-35.3	-3.7	-57.1	-63.7
Net Cash flow	-3.9	-9.2	3.5	0.6
Opening Cash	66.4	62.5	53.3	56.8
Closing Cash	62.5	53.3	56.8	57.4

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	387.3	418.2	444.0	477.6
Total Shareholders funds	399.6	430.5	456.3	490.0
Total Debt	48.3	93.5	94.1	91.8
Deferred Tax Liability	4.6	5.5	5.4	5.3
Other long term liabilities	1.6	1.4	1.4	1.4
Total Liabilities	454.1	530.8	557.2	588.5
Assets				
Gross Block	123.0	141.8	157.6	174.0
Less: Acc Depreciation	54.8	62.9	72.0	82.1
Net Block	68.2	78.9	85.6	91.9
Capital WIP	9.1	2.2	2.0	2.0
Total Fixed Assets	77.3	81.1	87.6	93.9
Investments	232.0	237.2	239.5	241.9
Inventory	52.9	83.1	94.0	102.3
Debtors	136.2	177.7	197.2	218.0
Loans and Advances	-	-	-	-
Other Current Assets	6.7	7.2	1.7	1.8
Cash	62.5	53.3	56.8	57.4
Total Current Assets	258.2	321.2	349.7	379.5
Creditors	43.5	44.7	48.6	54.1
Other current liabilities	52.3	39.4	40.2	41.0
Provisions	22.4	30.8	31.7	32.7
Total Current Liabilities	118.2	114.9	120.5	127.8
Net Current Assets	140.1	206.3	229.3	251.7
Others Non-current Assets	4.8	6.2	0.8	0.9
Application of Funds	454.1	530.8	557.2	588.5

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19A	FY20E	FY21E
Per share data (₹)				
EPS	59.4	65.2	67.8	77.0
Cash EPS	64.1	71.7	75.2	85.2
BV	324.3	349.3	370.3	397.5
Cash Per Share	50.7	43.2	46.1	46.6
Operating Ratios				
EBITDA Margin (%)	21.3	22.4	21.9	21.9
PBT Margin (%)	23.6	23.8	22.3	22.5
PAT Margin (%)	15.9	16.0	15.1	15.5
Inventory days	41.8	60.4	62.0	61.0
Debtor days	108.0	129.1	130.0	130.0
Creditor days	66.5	67.7	68.0	68.0
Return Ratios (%)				
RoE	18.3	18.7	18.3	19.4
RoCE	20.6	19.9	20.4	21.3
Valuation Ratios (x)				
P/E	17.3	15.8	15.2	13.4
EV / EBITDA	10.4	9.5	8.8	7.9
EV / Net Sales	2.2	2.1	1.9	1.7
Market Cap / Sales	2.8	2.5	2.3	2.1
Price to Book Value	3.2	2.9	2.8	2.6
Solvency Ratios				
Debt/EBITDA	1.0	1.5	1.6	1.4
Debt / Equity	0.1	0.2	0.2	0.2
Current Ratio	2.7	3.8	3.9	4.0
Quick Ratio	2.1	2.8	2.9	2.9

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Apparel)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Kewal Kiran Cloth.	1,030	1,235	Buy	1,270	65.2	67.8	77.0	15.8	15.2	13.4	9.5	8.8	7.9	19.9	20.4	21.3	18.7	18.3	19.4
Page Industries (PAGIND)	19,100	19,000	Hold	21,304	353.2	386.7	463.8	54.1	49.4	41.2	35.7	32.3	27.8	69.1	64.8	62.7	50.8	45.6	45.0
Rupa & Co	204	265	Reduce	1,624	9.3	9.9	10.8	21.9	20.6	18.9	16.1	15.4	14.4	18.1	16.8	16.9	13.6	13.2	13.2
Vardhman Textiles	912	1,230	Hold	5,243	129.4	130.0	154.1	7.0	7.0	5.9	6.8	6.1	5.2	12.9	12.4	13.9	13.1	12.0	12.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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