

26 October 2020

Kewal Kiran Clothing

Healthy fundamentals continue; maintaining a Buy

In line with our estimate, Kewal Kiran's Q2 revenue slid 59.5% y/y to Rs675m. At Rs112m, EBITDA was higher than we estimated on the better gross margin and more-than-anticipated reduced costs. Cash and equivalents of Rs2,471m suffice to meet required near-term liquidity. Cost reduction has been significant in H1; however, we expect expenses at previous levels as sales pick up. We lower our FY21e/FY22e revenue 7.7%/6% and EBITDA 9.3%/18.6% leading to a similar cut in EPS. We roll forward our valuation to FY23 and retain our Buy rating, with a lower target of Rs968 (earlier Rs1,052) at 12x FY23e EV/EBITDA (earlier 12x FY22e EV/EBITDA).

Gross margin lower y/y, cost savings continue. Kewal Kiran Q2 FY21 revenue plunged 59.5% y/y to Rs675m. The gross margin (incl. manufacturing expense) contracted 330bps y/y to 47.8%; sequentially, though, it improved (from 41.7% in Q1). We believe the change in channel mix and shift toward lower-margin products such as T-shirts and shirts (rather than denims) due to the present demand milieu has pared realisations. Significant cost savings continued on all fronts: employee costs down 40% y/y, admin & other exp. 48% y/y and S&D 75% lower y/y. This led to EBITDA of Rs112m, improving q/q (from a Rs162m loss in Q1), though y/y down 70%. PAT at Rs.92mn plummeted 71.1% y/y.

Improving cash flows, adequate liquidity. The company's liquidity is good (cash & equivalents: Rs1,675m, current investments: Rs796m). Short-term borrowings saw a 15% y/y reduction to Rs792m. Despite lower profitability in H1, OCF grew 12.8% y/y to Rs61m due to better management of working capital and lower tax. FCF was Rs47m (vs. a negative Rs64m a year ago) due to higher OCF and lower capex.

Valuation. We maintain our Buy recommendation, though with a lower target of Rs968 (earlier Rs1,052) at 12x FY23e EV/EBITDA. **Risk:** Keener competition trimming volume and realisation growth.

Key financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rs m)	5,029	5,297	3,217	4,774	5,281
Net profit (Rs m)	803	730	285	561	674
EPS (Rs)	65.1	59.3	23.1	45.5	54.7
PE (x)	19.6	10.6	32.8	16.7	13.9
EV / EBITDA (x)	13.6	6.8	22.3	10.4	9.1
PBV (x)	3.7	1.7	2.1	2.1	2.0
RoE (%)	19.4	16.7	6.4	12.5	14.5
RoCE (%)	14.5	12.6	4.0	9.1	10.8
Dividend yield (%)	4.5	5.7	3.3	4.8	5.3
Net debt / equity (x)	-0.1	-0.3	-0.3	-0.3	-0.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs 968

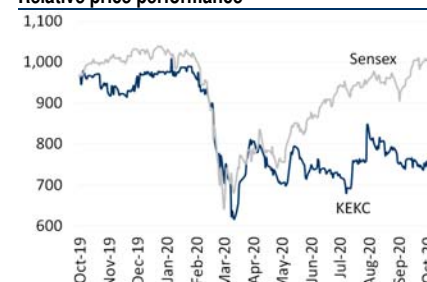
Share Price: Rs 758

Key data	KEKC IN / KKCL.BO
52-week high / low	Rs1099 / 566
Sensex / Nifty	40191 / 11781
3-m average volume	\$0m
Market cap	Rs9bn / \$122.7m
Shares outstanding	12m

Shareholding pattern (%)	Sep 20	Jun 20	Mar 20
Promoters	74.3	74.3	74.3
- of which, Pledged	-	-	-
Free float	25.8	25.8	25.8
- Foreign institutions	9.5	9.5	9.5
- Domestic institutions	11.8	11.8	11.7
- Public	4.5	4.5	4.6

Estimates revision (%)	FY21e	FY22e
Sales	-7.7	-6.0
EBITDA	-9.3	-18.6
EPS	-7.1	-18.9

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Net revenues	5,029	5,297	3,217	4,774	5,281
Growth (%)	9.2	5.3	-39.3	48.4	10.6
Direct costs	1,922	2,131	1,339	2,005	2,165
SG&A	1,984	2,215	1,521	2,014	2,211
EBITDA	1,123	951	357	755	905
EBITDA margins (%)	22.3	18.0	11.1	15.8	17.1
- Depreciation	81	82	96	104	112
Other income	220	175	184	193	203
Interest expenses	69	88	97	97	97
PBT	1,194	956	348	748	899
Effective tax rate (%)	33	24	18	25	25
+ Associates / (Minorities)	-	-	-	-	-
Net income	803	730	285	561	674
Adjusted income	803	730	285	561	674
WANS	12	12	12	12	12
FDEPS (Rs/ sh)	65.1	59.3	23.1	45.5	54.7
FDEPS growth (%)	9.5	(9.0)	(61.0)	96.6	20.3
Gross margins (%)	61.8	59.8	58.4	58.0	59.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT	1,251	1,040	261	651	793
+ Non-cash items	-94	-63	96	104	112
Oper. prof. before WC	1,157	976	357	755	905
- Incr. / (decr.) in WC	783	237	-219	-93	556
Others incl. taxes	380	230	63	187	225
Operating cash-flow	-7	509	513	661	124
- Capex (tang. + intang.)	116	112	186	173	181
Free cash-flow	-122	398	327	488	-57
Acquisitions					
- Div. (incl. buyback & taxes)	496	564	308	448	493
+ Equity raised	0	-	-	-	-
+ Debt raised	452	-55	-	-	-
- Fin investments	-138	-570	-	-	-
- Misc. (CFI + CFF)	56	83	(87)	(96)	(106)
Net cash-flow	-85	265.0	106	136	-444

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

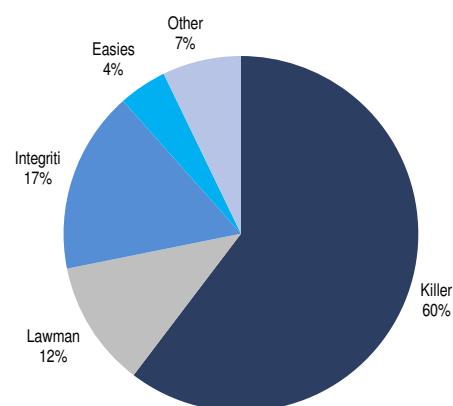
Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	123	123	123	123	123
Net worth	4,300	4,459	4,436	4,549	4,730
Debt (incl. pref.)	935	880	880	880	880
Minority interest	-	-	-	-	-
DTL / (Assets)	55	55	55	55	55
Capital employed	5,289	5,394	5,371	5,483	5,665
Net tangible assets	769	809	888	958	1,027
Net intangible assets	19	3	14	14	14
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	22	29	29	29	29
Investments (strategic)	-	-	-	-	-
Investments (financial)	2,367	1,960	1,960	1,960	1,960
Current assets (ex cash)	2,742	2,761	2,160	2,616	2,894
Cash	533	802	903	1,040	596
Current liabilities	1,163	971	584	1,133	855
Working capital	1,579	1,790	1,576	1,483	2,039
Capital deployed	5,289	5,394	5,371	5,483	5,665
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	19.6	10.6	32.8	16.7	13.9
EV / EBITDA (x)	13.6	6.8	22.3	10.4	9.1
EV / Sales (x)	3.0	1.2	2.5	1.6	1.6
P/B (x)	3.7	1.7	2.1	2.1	2.0
RoE (%)	19.4	16.7	6.4	12.5	14.5
RoCE (%) - after tax	14.5	12.6	4.0	9.1	10.8
RoIC	15.6	14.4	5.4	12.4	13.6
DPS (Rs / sh)	34.0	43.0	25.0	36.4	40.0
Dividend yield (%)	4.5	5.7	3.3	4.8	5.3
Div. payout (%) - incl. DDT	52.2	72.5	108.1	79.9	73.1
Net debt / Equity (x)	-0.1	-0.3	-0.3	-0.3	-0.2
Receivables (days)	129	118	130	129	129
Inventory (days)	60	62	65	60	60
Payables (days)	32	34	34	33	33
CFO : PAT %	-0.8	69.7	180.1	117.9	18.3

Source: Company, Anand Rathi Research

Fig 6 – Sales, by brands (FY20)



Source: Company

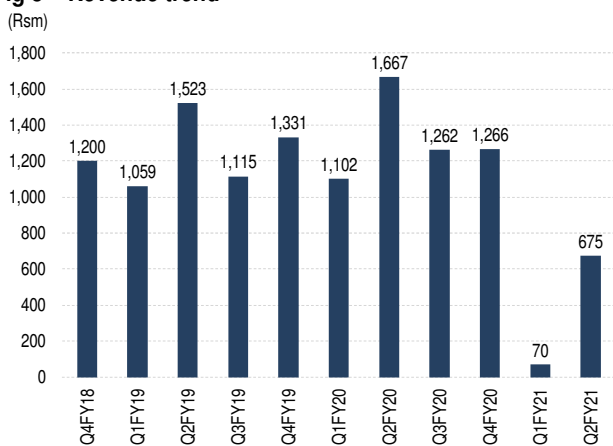
Q2 FY21 Result Highlights

Fig 7 – Financials

(Rs m)	Q2 FY21	Q2 FY20	% Y/Y	Q1 FY21	% Q/Q	H1 FY21	H1 FY20	% Y/Y
Sales	675	1,667	-59.5	70	862.6	745	2,768	-73.1
Gross margins (%)	47.8	51.1	-330bps	41.7	617bps	47.2	52.9	-567bps
EBITDA	112	378	-70.3	-162	-169.4	-49	603	-108.2
EBITDA margins (%)	16.6	22.7	-605bps	-230.5	NA	-6.6	21.8	NA
Interest	23	23	-2.1	20	15.7	43	45	-5.9
Depreciation	17	24	-31.3	18	-6.3	34	48	-29.3
Other income	42	64	-34.6	57	-25.7	99	82	20.2
PBT	115	395	-70.9	-142	-180.7	-27	591	-104.6
Tax	23	79	-70.4	-54	-143.3	-31	134	-122.9
Tax rate (%)	20.4	20.0	38bps	38.0	-1,765bps	112.0	22.6	NA
PAT	92	316	-71.1	-88	-203.7	3	458	-99.3
EPS	7.43	25.62	-71.0	-7.16	-203.7	0.27	37.09	-99.3

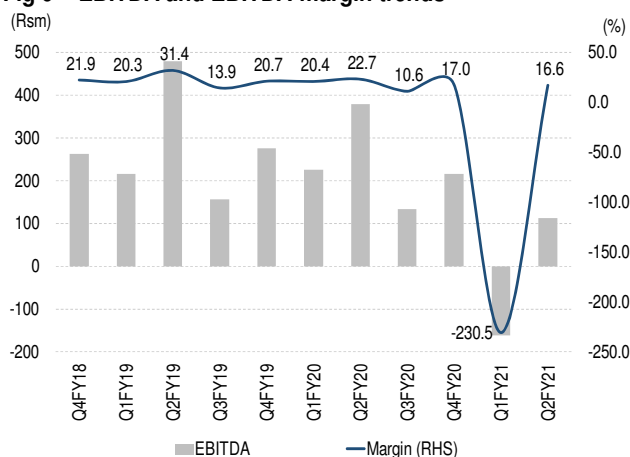
Source: Company

Fig 8 – Revenue trend



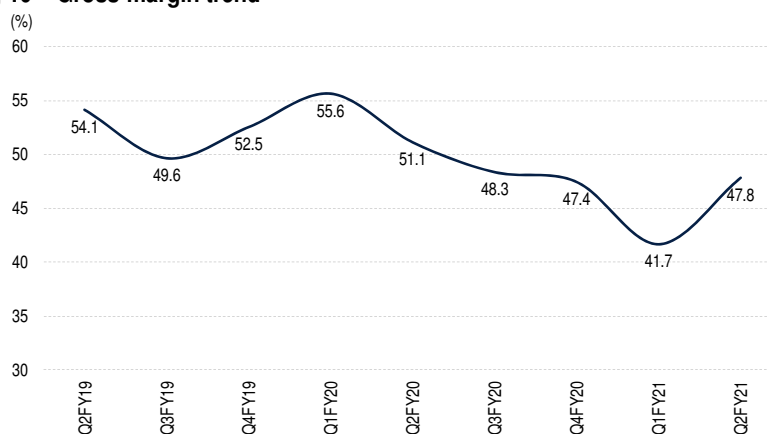
Source: Company

Fig 9 – EBITDA and EBITDA-margin trends



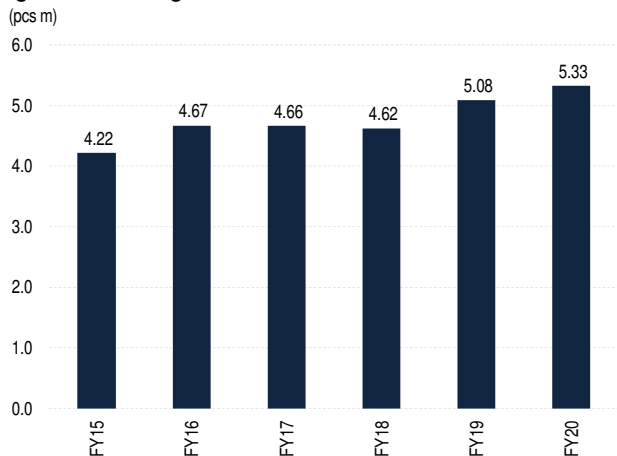
Source: Company

Fig 10 – Gross-margin trend



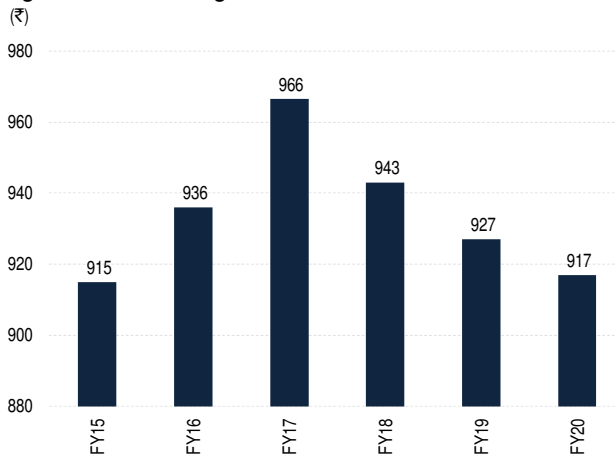
Source: Company

Fig 11 – Volume-growth trend



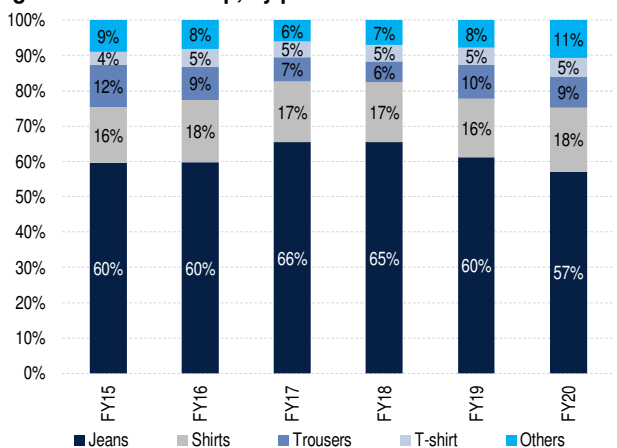
Source: Company

Fig 12 – Realisation-growth trend



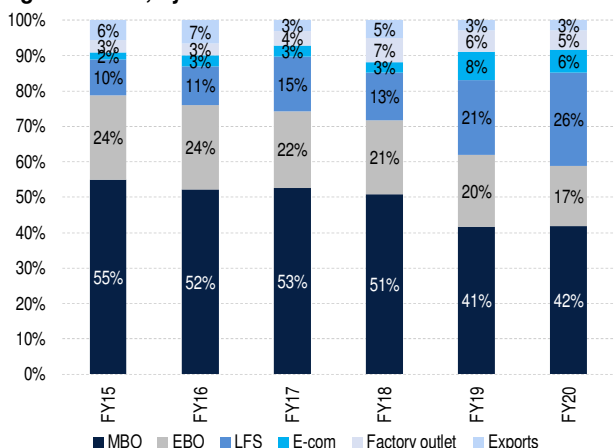
Source: Company

Fig 13 – Sales break-up, by product



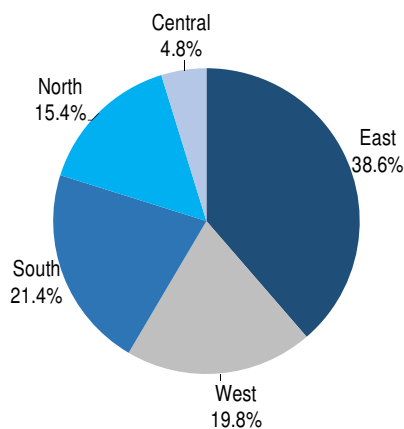
Source: Company

Fig 14 – Sales, by channel



Source: Company

Fig 15 – FY20 sales, by region



Source: Company

Change in estimates

We have reduced our FY21e/FY22e revenue 7.7%/6% as recovery could be slower than earlier expected.

The company's H1 operating costs have shrunk significantly. However, with operations ramping up, we expect costs (employee, S&D, etc.) to return from H2. Hence, factoring in all this and the slower pace of recovery, our FY21e/FY22e EBITDA are now 9.3% and 18.6% lower. And our EPS estimates down 7.1%/18.9%.

Fig 16 – Change in estimates

(Rs m)	Old estimates		New estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	3,486	5,080	3,217	4,774	-7.7	-6.0
EBITDA	394	928	357	755	-9.3	-18.6
PAT	307	691	285	561	-7.1	-18.9
EPS (Rs)	24.9	56.1	23.1	45.5	-7.1	-18.9

Source: Anand Rathi Research

Valuation

We are still sanguine about the company for its better return ratios and comfortable liquidity. We maintain our Buy, with a target of Rs968 (previously Rs1,052) at 12x FY23e EV/EBITDA. (earlier 12x FY22e EV/EBITDA).

Fig 17 – Valuation parameters

	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	19.6	10.6	32.8	16.7	13.9
EV / EBITDA (x)	13.6	6.8	22.3	10.4	9.1
EV / Sales (x)	3.0	1.2	2.5	1.6	1.6
RoC (%)	15.6	14.4	5.4	12.4	13.6
RoE (%)	19.4	16.7	6.4	12.5	14.5

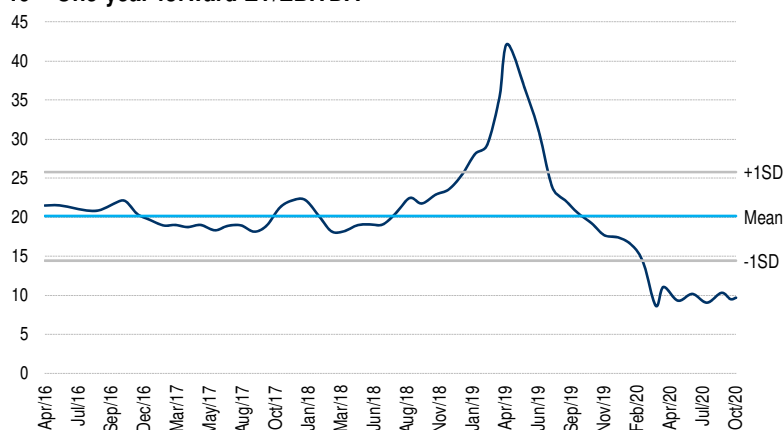
Source: Company, Anand Rathi Research

Fig 18 – Valuation table (Rs m)

EBITDA	905
Multiple (x)	12
Enterprise value	10,856
Net debt	(1,083)
Market cap	11,939
No. of shares outstanding (m)	12.3
Target price (Rs)	968
CMP (Rs)	758.0
Upside (%)	27.7%

Source: Anand Rathi Research

Fig 19 – One-year-forward EV/EBITDA



Source: Bloomberg, Company

Risk

- Stiffer competition would trim volume and realisation growth.

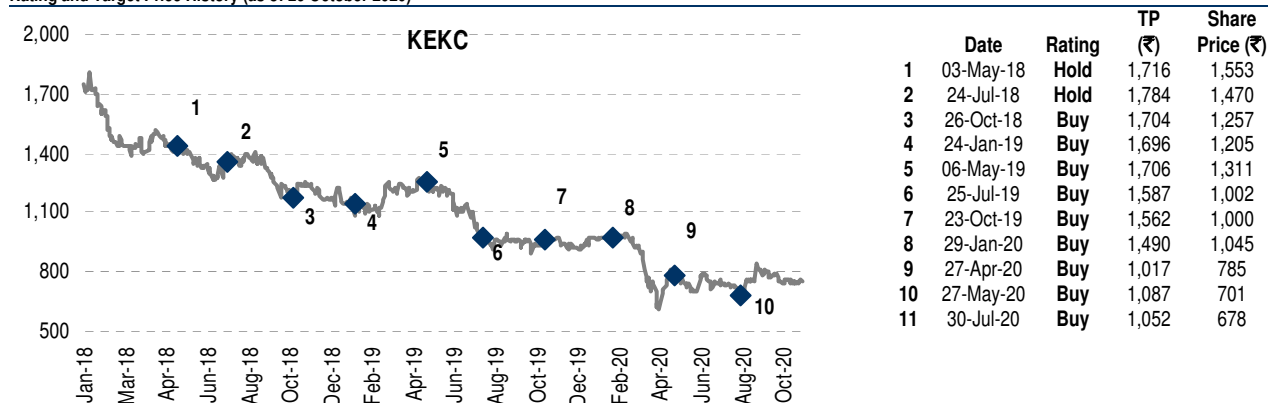
Appendix

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