

Strong balance sheet helps to tide over crisis...

Kewal Kiran Clothing (KKCL) reported a moderate set of Q4FY20 numbers. Revenue de-grew 4.9% YoY (flat sequentially) to ₹ 126.6 crore, mainly owing to volumes declining 6% to 13.0 lakh pieces. Jeans category (59% of sales) declined 10% YoY to ₹ 73.4 crore whereas revenue from shirt segment (21% of sales) grew 15% YoY to ₹ 25.8 crore. Owing to an unfavourable product mix, gross margins declined 510 bps YoY to 47.4%. However, controlled operating expenses and lower selling expense led EBITDA margins to decline 370 bps YoY to 17.0%. EBITDA de-grew 22% to ₹ 21.5 crore. Subsequently, PBT de-grew 28% to ₹ 21.7 crore while PAT de-grew 22% to ₹ 15.8 crore owing to a lower tax rate (27% vs. 33%).

Covid-19 impact subdues FY20 volume growth

For FY20, revenue growth was at 5% YoY to ₹ 530.0 crore. The revenue growth for 9MFY20 was ~ 9% while revenue decline in Q4FY20 impacted the FY20 performance. Revenue growth was mainly driven by 5% volume growth to 53.2 lakh pieces with average realisation remaining flat at ₹ 995 per piece. Prior to the Covid-19 impact in Q4FY20, the management had highlighted that the underlying market was weak, primarily on account of de-stocking at the distributor level owing to liquidity concerns. The advent of Covid-19 further exacerbated market condition due to store closures leading to a standstill demand scenario. KKCL has always been conservative in its approach and has always given more prominence to balance sheet strength. In a lower demand scenario, KKCL is likely to conserve cash and do minimal maintenance capex of ~ ₹ 5-10 crore.

Focus on enhancing share of new distribution channels

On the segmental front, core 'jeans' category (57% of sales) has been an underperformer over the last few years (declined 1% in FY20). Incremental revenue growth has been derived from categories such as shirts (16% of sales, up 15% in FY20) and T-shirts (5% of sales, up 17% in FY20). On the distribution front, national chain stores (NCS) has been one of the fastest growing channels with share of contribution increasing from 21% in FY19 to 26% in FY20 owing to network expansion. Sales from traditional channels have remained steady with share of revenue from MBO channel remaining constant at 42% in FY20 while share of exclusive brand outlets has declined from 20% in FY19 to 17% in FY20.

Valuation & Outlook

EBITDA margins for FY20 have dipped to 18% (vs. 22.4 in FY19). In a bid to sustain double digit topline growth, the management has alluded at a possibility of dilution in margin profile to a range of 18-19%. Despite the same, KKCL remains one of the most profitable branded apparel players with a robust balance sheet with cash & investments worth ~₹ 275 crore. Owing to Covid-19 impact, we revise our earnings estimates downwards. However, we maintain **BUY** rating on the stock with a revised target price of ₹ 820 (13.0x FY22E EPS).

Key Financial Summary

(₹Crore)	FY18	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	460.3	502.4	529.7	476.6	569.6	3.7%
EBITDA	98.2	112.3	95.1	70.3	101.4	3.3%
PAT	73.2	80.3	73.0	52.9	77.7	3.2%
P/E (x)	12.0	11.0	12.1	16.7	11.3	
EV/Sales (x)	1.4	1.4	1.3	1.4	1.2	
EV/EBITDA (x)	6.5	6.1	7.3	9.7	6.7	
RoCE (%)	20.6	19.9	16.3	11.3	16.8	
RoE (%)	18.3	18.7	16.4	11.5	16.4	

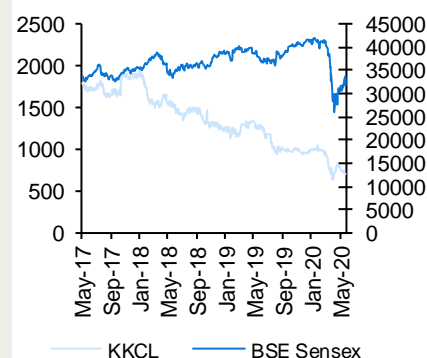
Source: ICICI Direct Research, Company



Particulars

Particular	Amount
Market Capitalisation (₹Crore)	881.2
Debt (FY 20) (₹Crore)	88.0
Cash & Investments (FY 20)	277.1
EV (₹Crore)	692.2
52 week H/L	1314 / 572
Equity Capital (₹Crore)	12.3
Face Value (₹)	10

Price Chart



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Financial summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
Total operating income	502.4	529.7	476.6	569.6
Growth (%)	9.2	5.4	-10.0	19.5
Raw Material Expenses	241.2	262.1	239.6	278.5
Gross margins	52.0	50.5	49.7	51.1
Employee Expenses	75.1	71.5	71.5	74.1
Admin Expenses	32.8	33.1	33.4	39.3
Selling Expenses	40.9	68.0	62.0	76.3
Total Operating Expenditure	390.1	434.6	406.4	468.2
EBITDA	112.3	95.1	70.3	101.4
Growth (%)	14.4	-15.3	-26.1	44.3
Depreciation	8.1	8.2	8.6	9.2
Interest	6.9	8.8	7.7	6.7
Other Income	22.0	17.5	16.7	18.2
PBT	119.4	95.6	70.6	103.8
Others	0.0	0.0	0.0	0.0
Total Tax	39.1	22.6	17.7	26.0
PAT	80.3	73.0	52.9	77.7
Growth (%)	9.7	-9.1	-27.6	47.0
EPS (₹)	65.2	59.3	42.9	63.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20A	FY21E	FY22E
Profit After Tax	80.3	73.0	52.9	77.7
Add: Depreciation	8.1	8.2	8.6	9.2
(Inc)/dec in Current Assets	-72.2	0.4	-4.6	-26.3
Inc/(dec) in CL and Provisions	-3.2	-22.4	-4.1	9.1
Others	0.0	0.0	0.0	0.0
CF from operating activities	13.0	59.2	52.8	69.7
(Inc)/dec in Investments	-5.2	40.3	-2.0	-2.0
(Inc)/dec in Fixed Assets	-18.7	-11.9	-8.8	-10.9
(Inc)/dec in CWIP	6.8	-0.6	0.9	0.0
Others	-1.4	-0.6	6.0	0.0
CF from investing activities	-18.5	27.1	-3.9	-12.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	45.2	-5.4	-2.2	-11.7
Others	-48.8	-54.0	-40.3	-61.3
CF from financing activities	-3.7	-59.4	-42.5	-73.0
Net Cash flow	-9.2	26.9	6.3	-16.2
Opening Cash	62.5	53.3	80.2	86.5
Closing Cash	53.3	80.2	86.5	70.3

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20A	FY21E	FY22E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	418.2	434.1	446.6	463.0
Total Shareholders funds	430.5	446.4	458.9	475.4
Total Debt	93.5	88.0	85.8	74.1
Deferred Tax Liability	5.5	5.5	5.4	5.3
Other long term liabilities	1.4	4.5	4.6	4.7
Total Liabilities	530.8	544.4	554.7	559.4
Assets				
Gross Block	141.8	153.7	162.5	173.3
Less: Acc Depreciation	62.9	71.1	79.7	88.9
Net Block	78.9	82.6	82.8	84.4
Capital WIP	2.2	2.9	2.0	2.0
Total Fixed Assets	81.1	85.4	84.8	86.4
Investments	237.2	196.9	198.8	200.8
Inventory	83.1	90.0	94.0	101.4
Debtors	177.7	170.9	176.3	195.1
Loans and Advances	-	-	-	-
Other Current Assets	7.2	6.6	1.8	2.0
Cash	53.3	80.2	86.5	70.3
Total Current Assets	321.2	347.8	358.7	368.8
Creditors	44.7	49.8	44.6	52.7
Other current liabilities	39.4	22.6	23.1	23.5
Provisions	30.8	20.1	20.7	21.3
Total Current Liabilities	114.9	92.5	88.4	97.5
Net Current Assets	206.3	255.2	270.2	271.3
Others Non-current Assets	6.2	6.9	0.9	0.9
Application of Funds	530.8	544.4	554.7	559.4

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20A	FY21E	FY22E
Per share data (₹)				
EPS	65.2	59.3	42.9	63.1
Cash EPS	71.7	65.9	49.9	70.5
BV	349.3	362.2	372.3	385.7
Cash Per Share	43.2	65.1	70.2	57.0
DPS	34.0	43.0	28.0	42.5
Operating Ratios				
EBITDA Margin (%)	22.4	18.0	14.7	17.8
PBT Margin (%)	23.8	18.0	14.8	18.2
PAT Margin (%)	16.0	13.8	11.1	13.6
Inventory days	60.4	62.0	72.0	65.0
Debtor days	129.1	117.8	135.0	125.0
Creditor days	67.7	69.4	68.0	69.0
Return Ratios (%)				
RoE	18.7	16.4	11.5	16.4
RoCE	19.9	16.3	11.3	16.8
Valuation Ratios (x)				
P/E	11.0	12.1	16.7	11.3
EV / EBITDA	6.1	7.3	9.7	6.7
EV / Net Sales	1.4	1.3	1.4	1.2
Market Cap / Sales	1.8	1.7	1.8	1.5
Price to Book Value	2.0	2.0	1.9	1.9
Solvency Ratios				
Debt/EBITDA	1.5	1.9	2.4	1.5
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	3.8	4.8	5.3	4.8
Quick Ratio	2.8	3.6	3.9	3.5

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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