Kewal Kiran Clothing (KEWKIR)

CMP: ₹ 690

Target: ₹ 755 (10%)

Target Period: 12 months

HOLD

July 30, 2020

Maintaining b/s strength amid low demand scenario

Store closures owing to Covid-19 disruptions and nearly non-existent demand for jeans as a category (\sim 60% of sales) led revenues to decline significantly by 94% YoY to ₹ 7.0 crore in Q1FY21. Gross margins declined sharply to 41.7% vs. 55.6% in Q1FY20. Cost control measures restricted EBITDA losses, to a certain extent. Employee expenses declined 30% YoY to ₹ 10.7 crore while the company significantly curtailed selling & distribution expenses (₹ 1.1 crore vs. ₹ 16.9 crore in Q1FY20). Subsequently, KKCL reported EBITDA loss of ₹ 16.2 crore vs. EBITDA profit of ₹ 22.5 crore. Other income grew 2.1x YoY to ₹ 5.7 crore (up 47% QoQ). Net loss was at ₹ 8.8 crore vs. 14.1 crore in Q1FY20. On the balance sheet front, trade receivables declined 24% YoY to ₹ 130.3 crore leading to release in cashflows. The company continues to be net cash positive, with cash and investments worth ₹ 227.5 crore as on Q1FY21.

Uptick in discretionary spending, festive season critical for recovery in revenue growth

With minimal social gatherings and people preferring to work from home, discretionary spending on categories such as jeans and shirts were significantly hit during the quarter. While the company has over the years gradually diversified its product portfolio from jeans towards other categories (share of jeans down from ~70% in Q1FY17 to 60% currently), still majority of revenues are derived from the jeans category. We expect the near term pain to sustain and the recovery to be elongated given the challenging scenario. We note that in the previous quarter (Q4FY20), revenues from MBO channels (~46% of sales) had increased significantly by 19.2% YoY, leading to excess inventory in trade channels. Hence, primary sales are expected to pick up only when the cash cycle starts to improve for retailers. We expect the product mix in FY21E to shift more towards t-shirts category resulting into decline in blended realisations and gross margins. Demand revival during the festive season (Q3FY21) will be a key monitorable to watch.

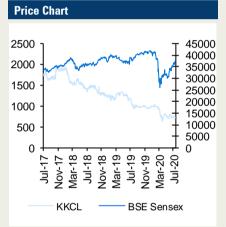
Valuation and Outlook

KKCL has been conservative in its approach and has always given more prominence to balance sheet strength. The company has virtually debt free status (D/E: 0.2x) with cash and investments worth ₹ 227.5 crore. Factoring in the performance of Q1FY21 and weak consumer sentiments, we revise our earnings estimates downwards for FY21 and FY22E by \sim 39% and 7%, respectively. We anticipate RoCE will revert back to its FY20 levels (\sim 16.5%) by FY22E. Given the unprecedented and challenging scenario, we downgrade the stock from BUY to **HOLD** with a revised target price of ₹ 755 (13.0x FY22E EPS, previous target price: ₹ 820).



CICI direct

Particulars	
Particular	Amount
Market Capitalisation (₹Crore)	850.4
Debt (FY 20) (₹Crore)	88.0
Cash & Investments (FY 20)	277.1
EV (₹Crore)	661.3
52 w eek H/L	1314 / 572
Equity Capital (₹Crore)	12.3
Face Value (₹	10



Research Analyst

Bharat Chhoda bharat.chhoda@icicisecurities.com

Cheragh Sidhwa cheragh.sidhwa@icicisecurities.com

Key Financial Summary						
(₹Crore)	FY18	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	460.3	502.4	529.7	353.3	517.5	-1.2%
EBITDA	98.2	112.3	95.1	42.5	94.0	-0.6%
PAT	73.2	80.3	73.0	31.8	71.6	-1.0%
P/E (x)	11.6	10.6	11.6	26.7	11.9	
EV/Sales (x)	1.3	1.3	1.2	1.8	1.3	
EV/EBITDA (x)	6.2	5.8	7.0	15.0	7.0	
RoCE (%)	20.6	19.9	16.3	6.8	16.5	
RoE (%)	18.3	18.7	16.4	7.3	16.0	

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 1: Profit & Loss Statement				
(Year-end March)	FY19	FY20A	FY21E	FY22E
Total operating Income	502.4	529.7	353.3	517.5
Growth (%)	9.2	5.4	-33.3	46.4
Raw Material Expenses	241.2	262.1	185.4	256.8
Gross margins	52.0	50.5	47.5	50.4
Employee Expenses	75.1	71.5	60.1	68.3
Admin Expenses	32.8	33.1	37.1	41.4
Selling Expenses	40.9	68.0	28.3	56.9
Total Operating Expenditure	390.1	434.6	310.8	423.4
EBIT DA	112.3	95.1	42.5	94.0
Growth (%)	14.4	-15.3	-55.3	121.2
Depreciation	8.1	8.2	8.6	9.0
Interest	6.9	8.8	7.0	6.1
Other Income	22.0	17.5	15.5	16.6
PBT	119.4	95.6	42.5	95.5
Others	0.0	0.0	0.0	0.0
Total Tax	39.1	22.6	10.7	24.0
PAT	80.3	73.0	31.8	71.6
Growth (%)	9.7	-9.1	-56.5	125.0
EPS (₹)	65.2	59.3	25.8	58.1

Source: Company	ICICI Direct Research

Exhibit 2: Cash Flow Statement						
(Year-end March)	FY19	FY20A	FY21E	FY22E		
Profit After Tax	80.3	73.0	31.8	71.6		
Add: Depreciation	8.1	8.2	8.6	9.0		
(Inc)/dec in Current Assets	-72.2	0.4	38.2	-42.0		
Inc/(dec) in CL and Provisio	-3.2	-22.4	-14.2	15.1		
0 thers	0.0	0.0	0.0	0.0		
CF from operating activit	13.0	59.2	64.4	53.7		
(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		
0 thers	-1.4	-0.6	6.0	0.0		
CF from investing activit	-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	-24.4	3.7		
Others	-48.8	-54.0	-40.3	-61.3		
CF from financing activities	-3.7	-59.4	-64.7	-57.6		
Net Cash flow	-9.2	26.9	-4.2	-16.8		
Opening Cash	62.5	53.3	80.2	76.0		
Closing Cash	53.3	80.2	76.0	59.1		

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	425.5	435.8
Total Shareholders funds	430.5	446.4	437.8	448.1
Total Debt	93.5	88.0	63.6	67.3
Deferred Tax Liability	5.5	5.5	5.4	5.4
Other long term liabilities	1.4	4.5	4.6	4.7
Total Liabilities	530.8	544.4	511.5	525.4
Assets				
Gross Block	141.8	153.7	162.5	173.3
Less: Acc Depreciation	62.9	71.1	79.7	88.7
Net Block	78.9	82.6	82.8	84.6
Capital WIP	2.2	2.9	2.0	2.0
Total Fixed Assets	81.1	85.4	84.8	86.6
Investments	237.2	196.9	198.8	200.8
Inventory	83.1	90.0	87.1	92.1
Debtors	177.7	170.9	140.4	177.2
Loans and Advances	-	-	-	-
Other Current Assets	7.2	6.6	1.8	2.0
Cash	53.3	80.2	76.0	59.1
Total Current Assets	321.2	347.8	305.3	330.5
Creditors	44.7	49.8	34.5	48.5
Other current liabililites	39.4	22.6	23.1	23.5
Provisions	30.8	20.1	20.7	21.3
Total Current Liabilities	114.9	92.5	78.3	93.4
Net Current Assets	206.3	255.2	227.0	237.1
Others Non-current Assets	6.2	6.9	0.9	0.9
Application of Funds	530.8	544.4	511.5	525.4

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY19	FY20A	FY21E	FY22E
Per share data (₹)				
EPS	65.2	59.3	25.8	58.1
Cash EPS	71.7	65.9	32.8	65.4
BV	349.3	362.2	355.2	363.6
Cash Per Share	43.2	65.1	61.6	48.0
DPS	34.0	43.0	28.0	42.5
Operating Ratios				
EBITDA Margin (%)	22.4	18.0	12.0	18.2
PBT Margin (%)	23.8	18.0	12.0	18.5
PAT Margin (%)	16.0	13.8	9.0	13.8
Inventory days	60.4	62.0	90.0	65.0
Debtor days	129.1	117.8	145.0	125.0
Creditor days	67.7	69.4	68.0	69.0
Return Ratios (%)				
RoE	18.7	16.4	7.3	16.0
RoCE	19.9	16.3	6.8	16.5
Valuation Ratios (x)				
P/E	10.6	11.6	26.7	11.9
EV / EBITDA	5.8	7.0	15.0	7.0
EV / Net Sales	1.3	1.2	1.8	1.3
Market Cap / Sales	1.7	1.6	2.4	1.6
Price to Book Value	2.0	1.9	1.9	1.9
Solvency Ratios				
Debt/EBITDA	1.5	1.9	3.0	1.4
Debt / Equity	0.2	0.2	0.1	0.2
Current Ratio	3.8	4.8	5.3	4.6
Quick Ratio	2.8	3.6	3.8	3.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%; Reduce: -15% to -5%;

Sell: <-15%



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

ANALYST CERTIFICATION

We /l, Bharat Chhoda, MBA, Cheragh Sidhwa, MBA Research Analysts, authors and the names subscribed to this report; hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number — INH00000990, ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers is insultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or comanaging public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.