

12 May 2022

Kewal Kiran Clothing

Very profitable revenue growth; retaining a Buy

Kewal Kiran ended FY22 with 15%/12% higher revenue/PAT than pre-Covid'19 (FY20). Revenue growth was driven by ~28% volume growth over FY20. Q4 FY22 revenue/EBITDA grew ~53%/~3x y/y, ahead of our estimates. With recovery setting in and revenue crossing pre-Covid levels, liquidity (cash & investments) is a comfortable Rs3,154m. We raise our FY23e/FY24e revenue ~2% each. We expect revenue/EBITDA/EPS CAGRs of 14%/16%/11% over FY22-24. We maintain our Buy rating, with a TP of Rs303 at 12x FY24e EV/EBITDA.

Strong revenue growth, EBITDA margin expansion. Kewal Kiran's Q4 FY22 revenue grew ~53% y/y to Rs1,696m powered by ~65% y/y volume growth to 1.86m pieces. The gross margin (incl. manufacturing expenses) expanded 250bps y/y to 43%. It was, however, lower than the pre-Covid-19 Q4 FY20 ~47% gross margin due to higher costs of raw materials and shift in the channel mix. EBITDA was up ~3x y/y to Rs322m; the EBITDA margin expanded ~980bps y/y to 19%, ~200bps higher than in Q4 FY20. PAT was up ~3x y/y to Rs247m.

Better working capital, strong liquidity position maintained. Working capital days (on sales) were lower y/y at 138 (vs. 164 a year back) led by lower debtor days (down 55 y/y to 103). Inventory days were 7 more y/y at 68 and payable days were lower at 32 vs. 55 a year back. OCF declined ~40% y/y to Rs569m despite better profitability, led by higher working capital (inventory) and FCF was ~49% lower y/y to Rs477m led by lower OCF and higher capex (up ~3x y/y). The company maintained its strong liquidity position with ~Rs3,154m in cash and cash equivalents at end-FY22. Its EBO count was 356 at end-FY22 vs. 322 a year earlier.

Valuation. We maintain our Buy on the stock, with a TP of Rs303 at 12x FY24e EV/EBITDA. **Risk:** Keener competition, trimming volume and realisation growth.

| Key financials (YE Mar) | FY20 | FY21 | FY22 | FY23e | FY24e |
|-------------------------|-------|-------|-------|-------|-------|
| Sales (Rs m) | 5,297 | 3,027 | 6,076 | 6,900 | 7,934 |
| Net profit (Rs m) | 730 | 198 | 816 | 867 | 1,015 |
| EPS (Rs) | 11.8 | 3.2 | 13.2 | 14.1 | 16.5 |
| PE (x) | 10.7 | 54.2 | 15.1 | 14.5 | 12.4 |
| EV / EBITDA (x) | 6.8 | 45.8 | 10.0 | 9.0 | 7.4 |
| PBV (x) | 1.7 | 2.5 | 2.6 | 2.5 | 2.3 |
| RoE (%) | 16.7 | 4.5 | 17.9 | 17.5 | 19.1 |
| RoCE (%) | 12.6 | 2.1 | 13.9 | 13.9 | 15.4 |
| Dividend yield (%) | 21.1 | 2.3 | 5.4 | 4.4 | 4.8 |
| Net debt / equity (x) | -0.3 | -0.5 | -0.5 | -0.4 | -0.5 |

Source: Company, Anand Rathi Research

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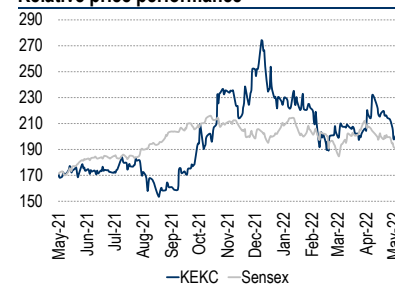
Rating: Buy
Target Price: Rs.303
Share Price: Rs.203

| Key data | KEKC IN / KKCL.BO |
|--------------------|--------------------|
| 52-week high / low | Rs.299 / 153 |
| Sensex / Nifty | 52930 / 15808 |
| 3-m average volume | \$0.3m |
| Market cap | Rs.13bn / \$161.9m |
| Shares outstanding | 62m |

| Shareholding pattern (%) | Mar '22 | Dec '21 | Sept '21 |
|--------------------------|---------|---------|----------|
| Promoters | 74.3 | 74.3 | 74.3 |
| - of which, Pledged | - | - | - |
| Free float | 25.8 | 25.8 | 25.8 |
| - Foreign institutions | 1.7 | 1.3 | 9.5 |
| - Domestic institutions | 6.0 | 6.0 | 9.8 |
| - Public | 18.1 | 18.4 | 6.5 |

| Estimates revision (%) | FY23e | FY24e |
|------------------------|-------|-------|
| Sales | 2.4 | 2.4 |
| EBITDA | 6.7 | (1.8) |
| EPS | 3.4 | (4.3) |

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY20 | FY21 | FY22 | FY23e | FY24e |
|-------------------------------|------------|------------|--------------|--------------|--------------|
| Net revenues | 5,297 | 3,027 | 6,076 | 6,900 | 7,934 |
| <i>Growth (%)</i> | 5.3 | -42.8 | 100.7 | 13.6 | 15.0 |
| Direct costs | 2,131 | 1,587 | 2,880 | 3,312 | 3,531 |
| SG&A | 2,215 | 1,254 | 2,196 | 2,430 | 3,050 |
| EBITDA | 951 | 187 | 1,000 | 1,158 | 1,353 |
| <i>EBITDA margins (%)</i> | 18.0 | 6.2 | 16.5 | 16.8 | 17.1 |
| - Depreciation | 82 | 67 | 70 | 96 | 104 |
| Other income | 175 | 170 | 170 | 179 | 188 |
| Interest expenses | 88 | 68 | 45 | 84 | 84 |
| PBT | 956 | 222 | 1,055 | 1,156 | 1,353 |
| <i>Effective tax rate (%)</i> | 24 | 12 | 22 | 25 | 25 |
| + Associates / (Minorities) | - | - | - | - | - |
| Net income | 730 | 198 | 816 | 867 | 1,015 |
| Adjusted income | 730 | 198 | 816 | 867 | 1,015 |
| WANS | 62 | 62 | 62 | 62 | 62 |
| FDEPS (Rs / sh) | 11.8 | 3.2 | 13.2 | 14.1 | 16.5 |
| <i>FDEPS growth (%)</i> | (9.0) | (72.9) | 312.2 | 6.2 | 17.0 |
| <i>Gross margins (%)</i> | 59.8 | 47.6 | 52.6 | 52.0 | 55.5 |

Fig 3 – Cash-flow statement (Rs m)

| Year-end: Mar | FY20 | FY21 | FY22 | FY23e | FY24e |
|-------------------------------|-------|------|-------|-------|-------|
| PBT | 1,040 | 272 | 1,080 | 1,061 | 1,249 |
| + Non-cash items | -64 | -3 | -14 | 96 | 104 |
| Oper. prof. before WC | 976 | 269 | 1,067 | 1,158 | 1,353 |
| - Incr. / (decr.) in WC | 237 | -739 | 265 | 474 | -16 |
| Others incl. taxes | 230 | 37 | 235 | 289 | 338 |
| Operating cash-flow | 509 | 971 | 567 | 395 | 1,031 |
| - Capex (tang. + intang.) | 112 | 27 | 92 | 155 | 168 |
| Free cash-flow | 398 | 944 | 475 | 241 | 863 |
| Acquisitions | - | - | - | - | - |
| - Div.(incl. buyback & taxes) | 564 | 369 | 370 | 548 | 602 |
| + Equity raised | - | -0 | - | - | - |
| + Debt raised | -55 | -416 | 302 | - | - |
| - Fin investments | -570 | -641 | -63 | - | - |
| - Misc. (CFI + CFF) | 83 | 51 | 32 | (94) | (103) |
| Net cash-flow | 264.8 | 749 | 437 | -212 | 364 |

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

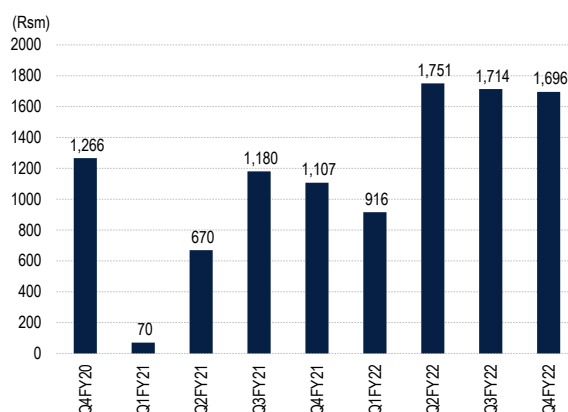
| Year-end: Mar | FY20 | FY21 | FY22 | FY23e | FY24e |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Share capital | 123 | 123 | 616 | 616 | 616 |
| Net worth | 4,459 | 4,328 | 4,782 | 5,101 | 5,514 |
| Debt (incl. Pref.) | 880 | 464 | 766 | 766 | 766 |
| Minority interest | - | - | - | - | - |
| DTL / (Assets) | 55 | 29 | - | - | - |
| Capital employed | 5,394 | 4,822 | 5,548 | 5,867 | 6,280 |
| Net tangible assets | 809 | 808 | 844 | 893 | 958 |
| Net intangible assets | 3 | 2 | 3 | 12 | 12 |
| Goodwill | - | - | - | - | - |
| CWIP (tang. & intang.) | 29 | 10 | 9 | 9 | 9 |
| Investments (strategic) | - | - | - | - | - |
| Investments (financial) | 1,960 | 1,322 | 1,471 | 1,471 | 1,471 |
| Current assets (ex cash) | 2,761 | 2,144 | 3,187 | 3,478 | 3,717 |
| Cash | 802 | 1,537 | 1,918 | 1,706 | 2,069 |
| Current liabilities | 971 | 1,002 | 1,883 | 1,701 | 1,956 |
| Working capital | 1,790 | 1,143 | 1,303 | 1,777 | 1,761 |
| Capital deployed | 5,394 | 4,822 | 5,548 | 5,867 | 6,280 |
| Contingent liabilities | - | - | - | - | - |

Fig 4 – Ratio analysis

| Year-end: Mar | FY20 | FY21 | FY22 | FY23e | FY24e |
|-----------------------------|-------|-------|------|-------|-------|
| P/E (x) | 10.7 | 54.2 | 15.1 | 14.5 | 12.4 |
| EV / EBITDA (x) | 6.8 | 45.8 | 10.0 | 9.0 | 7.4 |
| EV / Sales (x) | 1.2 | 2.8 | 1.6 | 1.5 | 1.3 |
| P/B (x) | 1.7 | 2.5 | 2.6 | 2.5 | 2.3 |
| RoE (%) | 16.7 | 4.5 | 17.9 | 17.5 | 19.1 |
| RoCE (%) - after tax | 12.6 | 2.1 | 13.9 | 13.9 | 15.4 |
| RoIC | 14.4 | 2.8 | 19.2 | 17.7 | 19.4 |
| DPS (Rs / sh) | 43.0 | 4.6 | 11.0 | 8.9 | 9.8 |
| Dividend yield (%) | 21.1 | 2.3 | 5.4 | 4.4 | 4.8 |
| Div. payout (%) - incl. DDT | 362.9 | 143.2 | 83.1 | 63.2 | 59.4 |
| Net debt / Equity (x) | -0.3 | -0.5 | -0.5 | -0.4 | -0.5 |
| Receivables (days) | 118 | 158 | 103 | 115 | 102 |
| Inventory (days) | 62 | 61 | 68 | 58 | 58 |
| Payables (days) | 34 | 44 | 32 | 36 | 36 |
| CFO : PAT % | 69.7 | 490.2 | 69.4 | 45.6 | 101.6 |

Source: Company, Anand Rathi Research

Fig 6 – Revenue trend



Source: Company

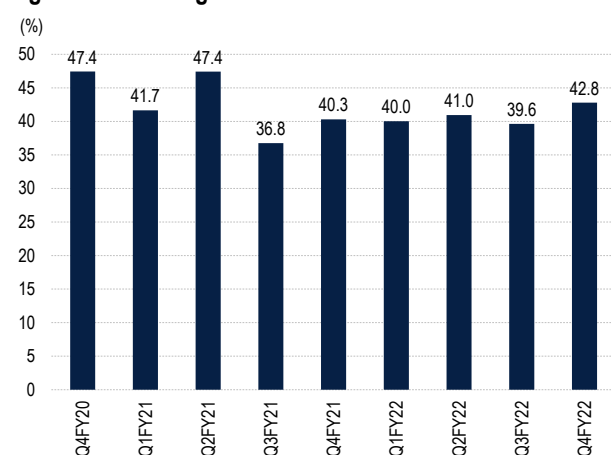
Q4 FY22 Result Highlights

Fig 7 – Financials

| (Rs m) | Q4 FY22 | Q4 FY21 | % Y/Y | Q3 FY22 | % Q/Q | FY22 | FY21 | % Y/Y |
|--------------------|---------|---------|--------|---------|--------|-------|-------|----------|
| Sales | 1,696 | 1,107 | 53.2 | 1,714 | -1.1 | 6,076 | 3,027 | 100.7 |
| Gross margins (%) | 42.8 | 40.3 | 250bps | 39.6 | 317bps | 41.0 | 40.5 | 44bps |
| EBITDA | 322 | 102 | 216.4 | 275 | 16.7 | 1,000 | 187 | 435.7 |
| EBITDA margins (%) | 19.0 | 9.2 | 978bps | 16.1 | 289bps | 16.5 | 6.2 | 1,030bps |
| Interest | 11 | 11 | -2.8 | 10 | 6.1 | 45 | 68 | -33.5 |
| Depreciation | 18 | 16 | 11.3 | 18 | -1.1 | 70 | 67 | 4.9 |
| Other income | 36 | 27 | 33.5 | 39 | -7.8 | 170 | 170 | -0.1 |
| PBT | 329 | 101 | 224.2 | 286 | 14.9 | 1,055 | 222 | 375.1 |
| Tax | 80 | 19 | 323.2 | 73 | 10.9 | 237 | 28 | 752.2 |
| Tax rate (%) | 24.5 | 18.7 | 579bps | 25.4 | -85bps | 22.5 | 12.3 | 1,018bps |
| PAT | 247 | 82 | 200.2 | 213 | 16.0 | 816 | 198 | 312.2 |
| EPS | 4.01 | 1.34 | 200.2 | 3.46 | 16.0 | 13.24 | 3.21 | 312.2 |

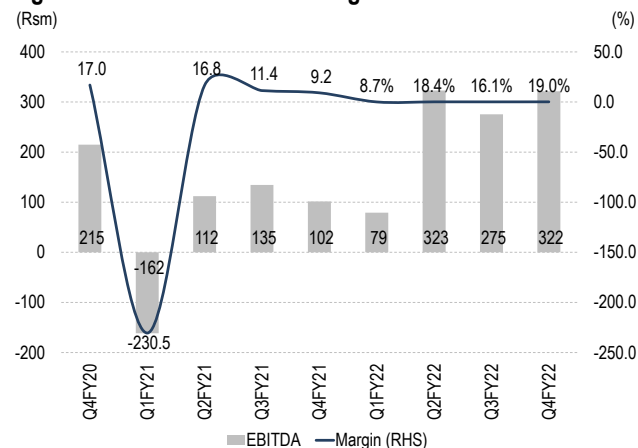
Source: Company

Fig 8 – Gross-margin trend



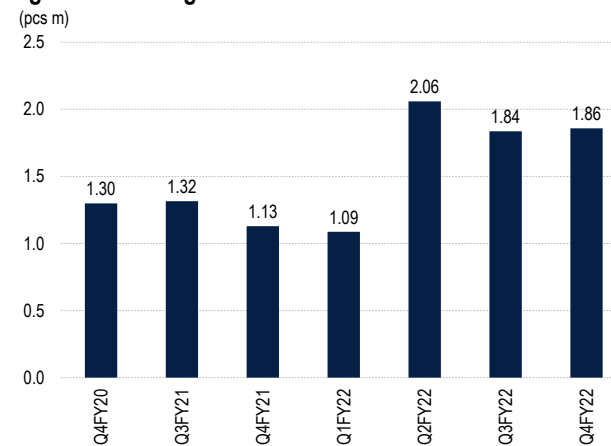
Source: Company

Fig 9 – EBITDA and EBITDA-margin trends



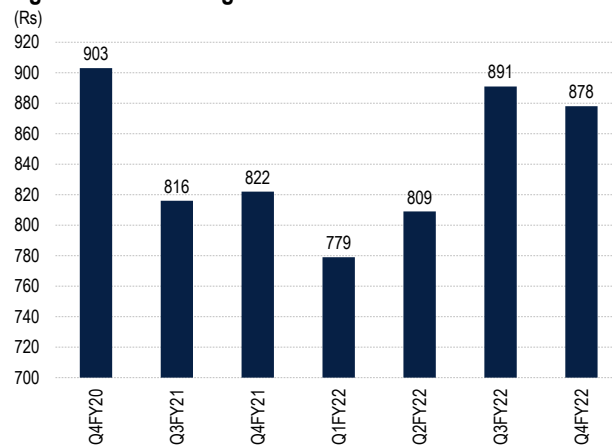
Source: Company

Fig 10 – Volume-growth trend



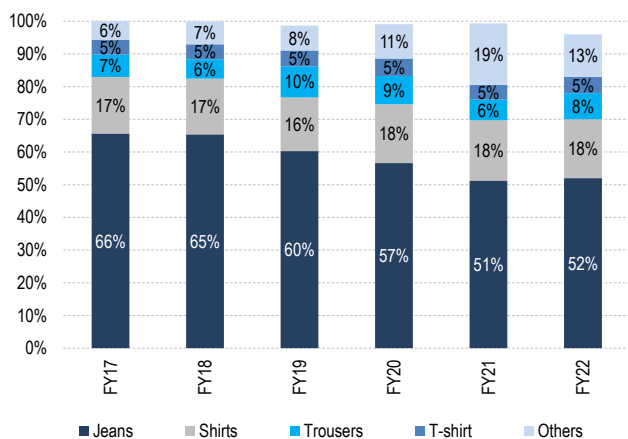
Source: Company Note: Q2 and Q1 FY22 are total volumes

Fig 11 – Realisation-growth trend



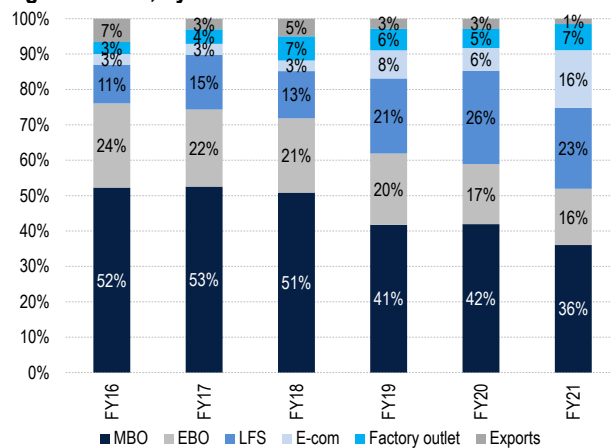
Source: Company Note: Q4 FY22 is implied realisation

Fig 12 – Sales break-up, by product



Source: Company

Fig 13 – Sales, by channel



Source: Company

Change in estimates

With sales surpassing our estimates, we raise our FY23e-FY24e revenue by ~2.4% each. We expect a ~14% revenue CAGR over FY22-24, driven by ~8%/5% volume/realisation CAGRs. Our FY23e EBITDA is ~7% higher as we expect operating leverage to kick in. We believe the EBITDA margin will be 16-17% ahead. Hence we reduce our FY24e EBITDA margin to 17.1%, from 17.8% earlier.

Fig 14 – Estimate revisions

| (Rs m) | Old | | New | | Change (%) | |
|---------|-------|-------|-------|-------|------------|-------|
| | FY23e | FY24e | FY23e | FY24e | FY23 | FY24 |
| Revenue | 6,737 | 7,747 | 6,900 | 7,934 | 2.4 | 2.4 |
| EBITDA | 1,085 | 1,378 | 1,158 | 1,353 | 6.7 | (1.8) |
| PAT | 841 | 1,063 | 867 | 1,015 | 3.1 | (4.6) |
| EPS | 13.6 | 17.2 | 14.1 | 16.5 | 3.4 | (4.3) |

Source: Anand Rathi Research

Valuation

We are still sanguine about the company for its better return ratios and comfortable liquidity. We have a Buy rating on it with a lower target of Rs303 (previously Rs306) at 12x FY24e EV/EBITDA.

Fig 15 – Valuation parameters

| | FY20 | FY21 | FY22 | FY23e | FY24e |
|-----------------|------|------|------|-------|-------|
| P/E (x) | 10.7 | 54.2 | 15.1 | 14.5 | 12.4 |
| EV / EBITDA (x) | 6.8 | 45.8 | 10.0 | 9.0 | 7.4 |
| EV / Sales (x) | 1.2 | 2.8 | 1.6 | 1.5 | 1.3 |
| RoIC (%) | 14.4 | 2.8 | 19.2 | 17.7 | 19.4 |
| RoE (%) | 16.7 | 4.5 | 17.9 | 17.5 | 19.1 |

Source: Company, Anand Rathi Research

Fig 16 – Valuation table (Rs m) – FY24e

| | |
|-------------------------------|-------------|
| EBITDA | 1,353 |
| Multiple (x) | 12.0 |
| Enterprise value | 16,240 |
| Net debt | (2,488) |
| Market cap | 18,728 |
| No. of shares outstanding (m) | 61.6 |
| Target price (Rs) | 303 |
| CMP (Rs) | 203.4 |
| Upside (%) | 48.9 |
| Total value | 302.9 |

Source: Anand Rathi Research

Risk

- Stiffer competition would trim volume and realisation growth.

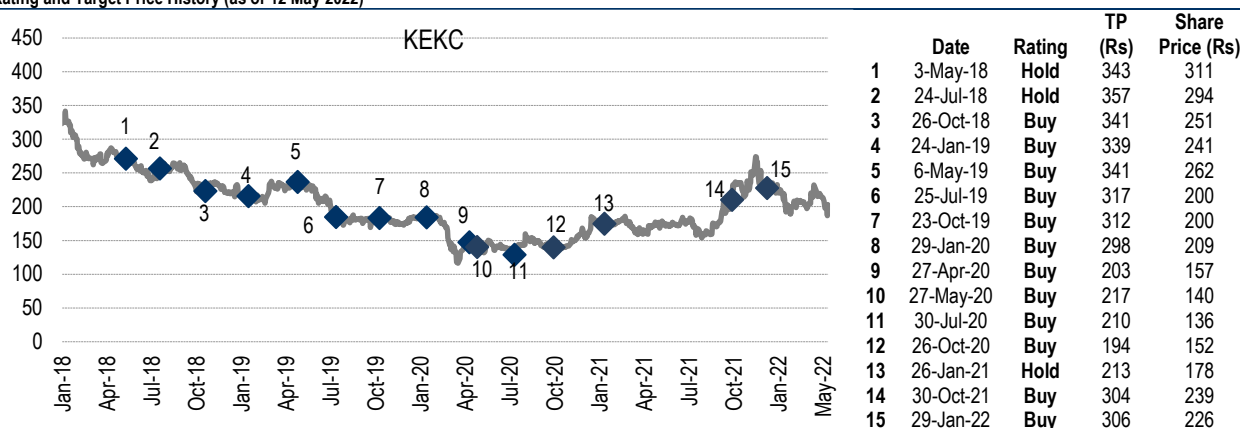
Appendix

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|---------------------------|------|-------|------|
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