

# Kewal Kiran Clothing (KEWKIR)

CMP: ₹ 492

Target: ₹ 580 (18%)

Target Period: 12 months

BUY

October 25, 2022

## Strong revenue growth; margins surprise positively...

**About the stock:** KKCL is a branded apparel player with a strong bouquet of brands (owned brands 'Killer', 'Lawman Pg 3', 'Integrati' and 'Easies') across various price points. The company's product portfolio is primarily focused on men's casual wear and it has also entered the women's and kids wear. On the financial front, KKCL has exhibited consistent double digit margins with a healthy balance sheet and strong return ratios, though revenue growth has been constrained owing to the company's policy of not resorting to excessive discounting like many of its peers.

- KKCL has exhibited a strong margin profile over the last decade with average margin in excess of 20%, better than most peers in the branded apparel space

**Q2FY23 Results:** Reported a strong revenue performance and registered its highest ever quarterly revenues in Q2.

- Standalone revenue for Q2FY23 increased 29% YoY to ₹ 226 crore (up 46% QoQ). Gross margin improved 40 bps YoY to 41.4% but still continued to be lower than pre-Covid average of ~ 50%
- EBITDA margin was a positive surprise and improved 370 bps YoY to 22.1% (Q2FY22: 18.4%, Q1FY23: 19%). EBITDA was at ₹ 50 crore vs. ₹ 32.3 crore in Q2FY22 (Q1FY23: ₹ 29 crore)
- Consequently, PAT was at ₹ 39.1 crore vs. ₹ 27.1 crore in Q2FY22 (Q1FY23: ₹ 21.6 crore)

**What should investors do?** KKCL's stock price has appreciated by 120% in the last one year (three year CAGR of 30%). It has one of the best margin profiles among branded apparel players with a healthy b/s. We believe KKCL is well placed to benefit from demand revival owing to strong brand portfolio and pan-India store and distribution network.

- We have a **BUY** rating on the stock

**Target Price and Valuation:** We value KKCL at ₹ 580 i.e. 26x FY24E earnings.

### Key triggers for future price performance:

- KKCL is well placed to benefit from robust demand owing to its diversified product portfolio and established distribution network. Many regional brands and unorganised apparel players are financially stressed owing to impact of pandemic, which is beneficial for organised players like KKCL
- The company has a virtually debt free status (D/E: 0.2x) with cash & investments worth ₹ 338 crore
- We model revenue, earnings CAGR of 22%, 29% in FY22-24E, respectively

**Alternate Stock Idea:** Apart from KKCL, we like Siyaram Silk Mills.

- Siyaram's strong brand portfolio and presence in Tier II/tier III towns would enable it to benefit from a shift from unorganised to organised players
- We have a BUY rating with a target price of ₹ 665



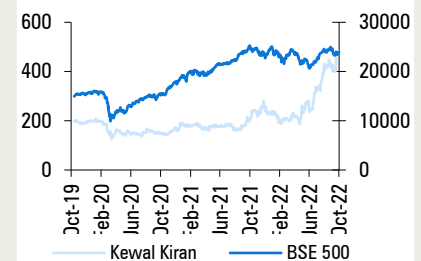
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	3,032.9
Debt (FY22) (₹ Crore)	76.6
Cash & Investments (FY22)	337.4
EV (₹ Crore)	2,772.1
52 week H/L	509/ 180
Equity Capital (₹ Crore)	61.6
Face Value (₹)	2

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	74.3	74.3	74.3	74.3	74.3
FII	9.5	1.3	1.7	1.9	4.0
DII	9.8	6.0	6.0	5.9	5.4
Others	6.4	18.4	18.0	17.9	16.4

### Price Chart



### Recent event & key risks

- Added 38 new stores in Q2FY23
- **Key Risk:** (i) Slower ramp up of store network (ii) Inability to pass on input cost hike may subdue profit margins

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### Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	502.4	529.7	302.7	-7.8%	607.6	785.6	912.2	22.5%
EBITDA	112.3	95.1	18.7	-24.9%	100.0	145.4	173.7	31.8%
Adjusted PAT	80.3	73.0	19.4	-14.3%	81.7	114.3	137.0	29.5%
P/E (x)	32.4	35.6	134.0		31.9	22.8	19.0	
EV/EBITDA (x)	21.4	25.4	126.6		23.4	16.5	13.8	
RoCE (%)	19.9	16.3	2.5		16.8	23.0	25.1	
RoE (%)	18.7	16.4	4.5		17.1	22.3	24.4	

## Key takeaways of Q2FY23 results

- KKCL reported a strong revenue recovery registering the highest ever revenue in Q2FY23 (three year CAGR of 14%). Revenue growth was supported by primary sales owing to robust store addition. The trend in secondary sales will be the key monitorable, going ahead
- The retail business share, which had declined in FY21 to 39% had recovered to 42% in FY22 and continued to remain stable at 42% for Q2FY23. During pre-Covid period, the share used to be around 42-43%
- The company has renewed focus towards increasing the number of brand focused EBOs with a dual purpose of enhancing visibility and expanding retail footprint. KKCL expanded its own retail network and added 38 stores in Q2FY23 (H1FY23: 63 stores added). As on September 30, 2022, total number of retail stores was at 419 stores covering a total retail space of 2,70,000 square feet. On the new store development front, there are 41 stores under development, which could be added in H2FY23. From a long term perspective, the management indicated it is aiming to double the EBO count by FY25 with majority of the expansion being on asset light franchise basis
- On product wise performance, revenue share of jeans improved from 53% in Q2FY22 to 57% in Q2FY23 while revenue share of shirts increased from 22% to 23%. Revenue share of T-shirts remained stable at 4% in in Q2FY23
- The company is looking to enhance revenue growth through equal participation in new age channels of national chain stores and e-commerce while maintaining focus on profitability
- The company has inducted experienced professionals to head their different brands and channels for a focused growth strategy for each of the brands and channels
- During the pandemic, KKCL had reduced its marketing expenditure due to subdued demand. However, with normalisation of business scenario, the company is planning to enhance its expenditure on marketing and brand promotion to provide higher visibility to its brands across various channels
- The company has increased support towards the distribution channel in order to provide higher incentive for distribution channel stakeholders to perform better
- KKCL is focusing on streamlining its supply chain policy and maintaining optimum working capital levels. It has organised trade shows twice a year, which aids in better supply chain planning

**KKCL continues to be one of the most profitable branded apparel players in India with a strong presence in the branded menswear category. From a strategy perspective, the company is planning to continue its asset light store expansion, which would be driven by franchisee outlets across India. Also, the company is expanding its presence in select national chain stores and e-commerce platforms, which would enable it to acquire newer set of customers. Also, to fuel revenue growth, KKCL is planning to continue to expand its product portfolio and garner higher consumer wallet share. KKCL is further strengthening its own digital and e-commerce platform to capitalise on its brand strengths and thereby provide an omni-channel access across its EBO network. We believe the initiatives are positive for providing the required thrust to its revenue trajectory and expect the company to register revenue, earnings CAGR of 22%, 29% in FY22-24E, respectively, with return ratios in excess of 20%+.**

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Total operating Income</b>	<b>302.7</b>	<b>607.6</b>	<b>785.6</b>	<b>912.2</b>
Growth (%)	-42.9	100.7	29.3	16.1
Raw Material Expenses	180.0	358.7	443.8	497.7
Gross margins	40.5	41.0	43.5	45.4
Employee Expenses	52.6	79.8	102.1	118.6
Admin Expenses	32.8	35.4	47.1	54.7
Selling Expenses	18.6	33.7	47.1	67.5
Total Operating Expenditure	284.0	507.6	640.2	738.5
<b>EBITDA</b>	<b>18.7</b>	<b>100.0</b>	<b>145.4</b>	<b>173.7</b>
Growth (%)	-80.4	435.8	45.3	19.4
Depreciation	6.7	7.0	9.3	9.9
Interest	6.8	4.5	7.1	8.2
Other Income	17.0	16.9	23.6	27.4
PBT	22.2	105.3	152.6	182.9
Others	0.0	0.0	0.0	0.0
Total Tax	2.8	23.7	38.3	45.9
<b>PAT</b>	<b>19.4</b>	<b>81.7</b>	<b>114.3</b>	<b>137.0</b>
Growth (%)	-73.4	320.4	40.0	19.9
<b>EPS (₹)</b>	<b>3.2</b>	<b>13.2</b>	<b>18.5</b>	<b>22.2</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit After Tax	19.4	81.7	114.3	137.0
Add: Depreciation	6.7	7.0	9.3	9.9
(Inc)/dec in Current Assets	70.3	-105.0	-108.4	-66.0
Inc/(dec) in CL and Provisions	-9.5	85.6	33.8	13.6
Others	9.8	-12.4	0.0	0.0
<b>CF from operating activities</b>	<b>96.7</b>	<b>56.9</b>	<b>49.0</b>	<b>94.5</b>
(Inc)/dec in Investments	66.1	-9.7	-1.4	-1.4
(Inc)/dec in Fixed Assets	-6.4	-11.8	-22.3	-12.7
(Inc)/dec in CWIP	1.9	0.1	-0.1	0.0
Others	0.9	19.4	-0.7	0.0
<b>CF from investing activities</b>	<b>62.4</b>	<b>-2.1</b>	<b>-24.5</b>	<b>-14.2</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-41.6	30.2	2.0	12.7
Others	-43.6	-41.7	-81.1	-89.1
CF from financing activities	-85.2	-11.6	-79.1	-76.4
Net Cash flow	73.9	43.3	-54.7	3.8
Opening Cash	79.8	153.7	197.0	142.3
<b>Closing Cash</b>	<b>153.7</b>	<b>197.0</b>	<b>142.3</b>	<b>146.1</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	12.3	61.6	61.6	61.6
Reserve and Surplus	420.5	416.4	450.7	498.6
Total Shareholders funds	432.8	478.0	512.3	560.3
Total Debt	46.4	76.6	78.6	91.2
Deferred Tax Liability	2.9	(0.4)	(0.5)	(0.6)
Other long term liabilities	3.1	4.4	4.5	4.6
<b>Total Liabilities</b>	<b>485.3</b>	<b>558.7</b>	<b>594.9</b>	<b>655.5</b>
<b>Assets</b>				
Gross Block	160.1	171.9	194.2	207.0
Less: Acc Depreciation	77.8	85.9	94.2	104.1
Net Block	82.3	86.0	100.0	102.9
Capital WIP	1.0	0.9	1.0	1.0
Total Fixed Assets	83.3	86.9	101.0	103.9
Investments	130.8	140.5	141.9	143.3
Inventory	50.6	113.0	139.9	162.4
Debtors	131.0	170.9	269.0	312.4
Loans and Advances	-	-	-	-
Other Current Assets	16.0	18.7	2.1	2.3
Cash	153.7	197.0	142.3	146.1
Total Current Assets	351.4	499.6	553.3	623.2
Creditors	36.5	53.4	83.9	94.1
Other current liabilities	13.9	14.9	15.2	15.5
Provisions	32.5	100.2	103.2	106.3
Total Current Liabilities	83.0	168.6	202.3	215.9
Net Current Assets	268.4	331.0	351.0	407.3
Others Non-current Assets	2.9	0.3	1.0	1.0
<b>Application of Funds</b>	<b>485.3</b>	<b>558.7</b>	<b>594.9</b>	<b>655.5</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	3.2	13.2	18.5	22.2
Cash EPS	4.2	14.4	20.1	23.8
BV	70.2	77.6	83.1	90.9
Cash Per Share	24.9	32.0	23.1	23.7
DPS	6.0	11.0	13.0	14.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	6.2	16.5	18.5	19.0
PBT Margin (%)	7.3	17.3	19.4	20.0
PAT Margin (%)	6.4	13.4	14.5	15.0
Inventory days	95.0	72.0	65.0	65.0
Debtor days	180.0	125.0	125.0	125.0
Creditor days	68.0	69.0	69.0	69.0
<b>Return Ratios (%)</b>				
RoE	4.5	17.1	22.3	24.4
RoCE	2.5	16.8	23.0	25.1
<b>Valuation Ratios (x)</b>				
P/E	156.2	37.1	26.5	22.1
EV / EBITDA	149.7	27.7	19.4	16.3
EV / Net Sales	9.2	4.6	3.6	3.1
Market Cap / Sales	10.0	5.0	3.9	3.3
Price to Book Value	7.0	6.3	5.9	5.4
<b>Solvency Ratios</b>				
Debt/EBITDA	5.0	1.5	1.1	1.1
Debt / Equity	0.1	0.2	0.2	0.2
Current Ratio	7.0	7.3	5.6	5.7
Quick Ratio	6.0	5.7	4.2	4.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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