



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Kewal Kiran Clothing Q2FY23 consolidated revenues came in at ₹ 226 Cr, up 29.3% YoY and 45.8% QoQ.
- PBIDT for Q2FY23 stood at 50 Cr, up 55% YoY and 72% QoQ.
- PBIDTM for Q2FY23 came at 22%, 400 bps YoY and 300 bps QoQ.
- PAT for Q2FY23 stood at ₹39 Cr, up 44% YoY and up 77% QoQ.
- The clothing brand expanded its own retail network and added 38 stores in Q2FY23 (H1FY23: 63 stores added)

2. MANAGEMENT COMMENTARY:

- 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%
- Looking to enhance revenue growth through equal participation in new age channels of national chain stores and e-commerce while maintaining focus on profitability

3. SEGMENTAL ANALYSIS:

- Q2FY23- Jeans: (57%), Shirts (23%), Trousers (8%), T-Shirts (4%), Others (8%)
- H1FY23- Jeans: (54%), Shirts (21%), Trousers (8%), T-Shirts (5%), Others (12%)

4. CONCALL SUMMARY

- 41 stores are currently under development which could be added in H2FY23 in the ratio of 9: 1::FOFO:COCO model stores. 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
- Planning to enhance its expenditure on marketing and brand promotion to provide higher visibility to its brands across various channels

5. OTHER DEVELOPMENTS:

- 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.
- Explore new avenues of growth with focus on new range of products viz. topwear, jackets and winter wear segment.

6. VALUATION AND OUTLOOK:

The company is aiming to generate revenue CAGR of over 20% during FY2022-FY2027 led by an ambitious growth plan coupled with consistent margin consistency will help in improving cash flows in the coming years. FY23-24 will be a strong year for the company with healthy order book.

With a strong growth outlook, we initiate a “BUY” rating on the stock and value the stock at 24.9x FY24 EPS to arrive at the target of 600.

RECOMMENDATION - BUY

CMP –509
TARGET – 600(+18%)

Industry	Textile
NSE CODE	KKCL
BSE CODE	532732
Market Cap (₹ Cr)	3,077
Shares Outstanding (in Cr)	6.16
52 wk High/Low (₹)	527/180
P/E	29.4
P/BV	6.2
Face Value (₹)	10.00
Book Value (₹)	82.24
EPS (FY22) (₹)	14.00
Dividend Yield (%)	9.51
Debt / Equity	0.16
Interest Coverage	24.31

SHAREHOLDING PATTERN

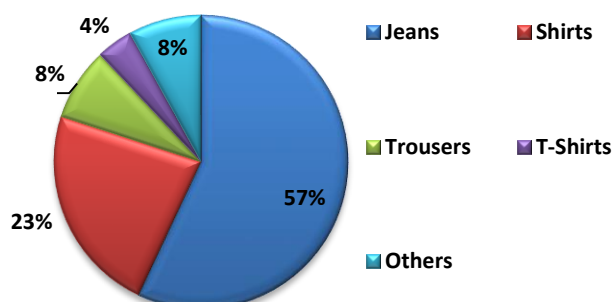
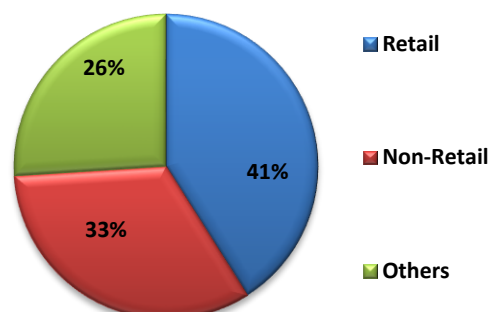
	Sept 22	June 22	Mar 21
Promoters	74.25	74.25	74.25
MF/ DII	5.35	5.90	6.01
FII/FPI	3.95	1.87	1.66
Retail & Others	16.21	17.98	18.08
Promoter	0.00	0.00	0.00
Pledging			

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022	2023E	2024E
Crore			
Sales	607.61	811.4	1,054.8
Sales Gr. (%)	100.71	34	30
EBITDA	100.03	178.5	232.1
EBITDA %	19.26	22.0	22.0
PAT	82.18	126.6	153.4
EPS (₹)	13.33	20.6	24.9
EPS Gr. (%)	243.84	54.1	21.2
BV/Sh. (₹)	77.57	80	82
Ratios			
RoE (%)	17.96	22.3	24.4
RoCE (%)	21.28	23.0	25.1
Valuation			
P/E (x)	14.98	26.3	24.1
P/BV (x)	2.58	6.7	7.3
EV/EBITDA	9.49	15.8	13.3

Historical & Industrial Val Ratios

Historical P/E	28.84
Industry P/E	23.83
Historical P/B	6.07
Industry P/B	4.06


REVENUE SPLIT (Q2 FY23)
Segmental Mix (Q2 FY23)

Channel Mix (Q2 FY23)

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21		FY22						FY22	FY23E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
Net sales	111	92	175	171	170	155	226	282	608	811
YoY change (%)	-12.6	1206	159.5	45.2	53.2	68.8	29.3	25	34	30
Total Expenditures	101	84	143	144	137	125	176	220	633	823
EBITDA	10	8	32	28	32	29	50	62	179	232
Margins (%)	9	9	18	16	19	19	22	22	22	22
Depreciation	2	2	2	2	2	2	2	2	8	8.7
Interest	1	1	1	1	1	1	1	1	6.1	6.1
Other income	3	4	6	4	4	0	6	6	18	20
PBT	10	9	35	29	33	26	52	65	164	197
Rate (%)	19	2	23	25	24	18	25	25	23	23
Adjusted PAT	8	9	27	21	25	22	39	49	127	127
EPS in Rs	1.3	1.4	4.4	3.5	4.0	3.5	6.4	7.4	20.6	24.6

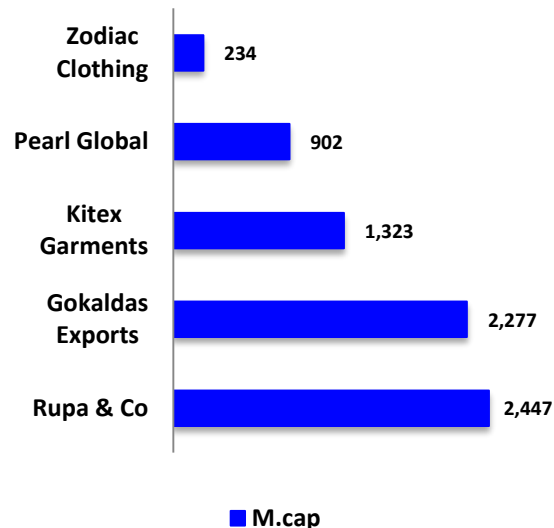
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- Branded apparel and retail companies witnessed good momentum in July and August 2022, driven by higher footfalls, higher demand and push in sales through EOSS (end of season sales).
- The recent festive season was one of the strongest for companies after two years as they were affected by pandemic-led restrictions. Thus, H2FY2023 revenue growth for branded apparel and retail companies will be led by higher demand during festive & wedding season and higher ticket purchases.
- Higher traction on e-commerce platform, strong retail space expansion strategy and sustained product portfolio expansion will help post consistent growth in the medium term for retail companies. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

Key Players in Textile-Apparel Space



PEER PERFORMANCE

(₹ Cr)

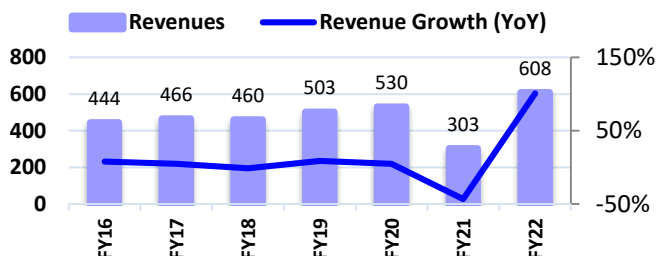
Particulars	Kewal Kiran Clothing Ltd.	Rupa & Co Ltd.	Gokaldas Exports Ltd.	Kitex Garments Ltd.	Pearl Global Industries Ltd.
Market Cap	3,077.9	2,452.9	2,227.5	1,324.0	976.5
EBITDA MARGIN %	19.3	18.9	12.1	25.1	7.0
PAT MARGIN %	13.5	13.0	6.5	15.9	2.6
ROCE %	21.3	25.1	22.1	22.3	14.4
ROE %	18.0	23.8	24.2	16.6	12.6
P/E TTM	28.8	17.9	12.6	9.7	9.5
P/B TTM	6.1	2.8	3.0	1.5	1.6
EV/EBITDA	19.8	12.6	8.2	1.5	1.5
Current Ratio	2.0	2.3	2.1	6.1	1.4
Dividend Yield %	3.8	1.0	-	0.8	1.1
Int Coverage	29.4	8.7	7.2	33.4	3.3
EPS TTM(₹)	13.3	24.1	19.9	18.8	31.5
3 Y Sales CAGR%	13	3	-43	17	15

Source: Company, Hem Securities Research.

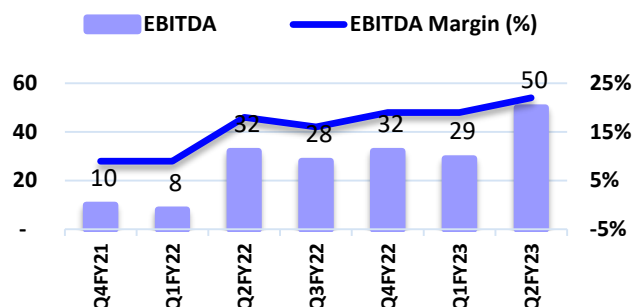


STORY IN CHARTS

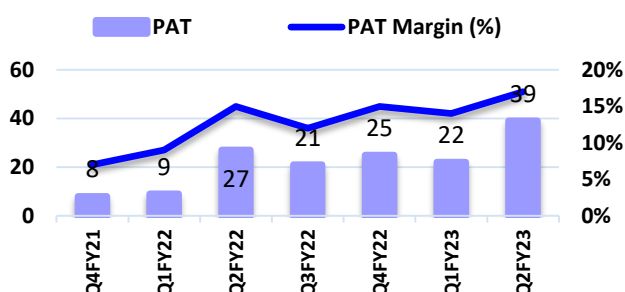
Revenue



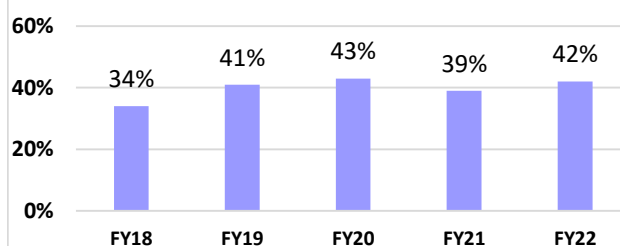
EBITDA & EBITDA Margin



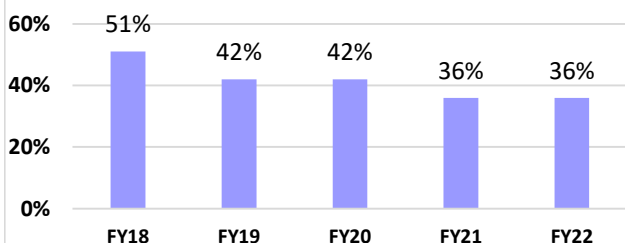
PAT & PAT Margin



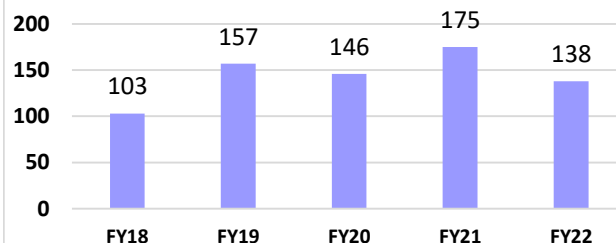
Retail Channel Performance



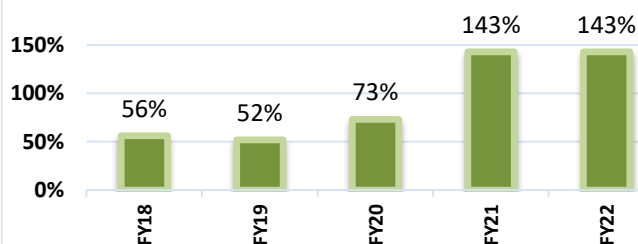
Non-Retail Channel Performance



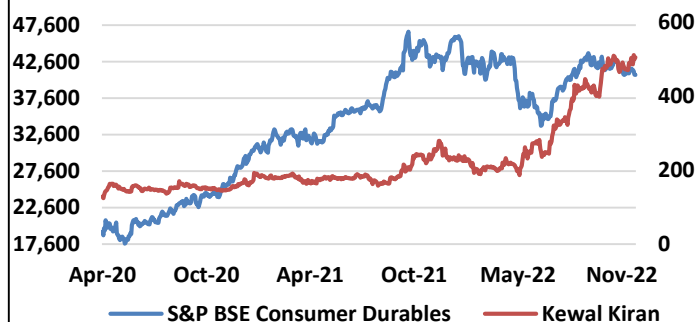
Net Working Capital Days



Dividend Payout (%)



Kewal Kiran Vs S&P BSE Consumer Durables





INVESTMENT RATIONALE:

- KKCL is well placed to benefit from robust demand owing to its diversified product portfolio and established distribution network. Many regional brands and unorganized apparel players are financially stressed owing to impact of pandemic, which is beneficial for organized players.
- The company enjoys a debt free status (D/E: 0.1x) with cash & investments worth 338 crore
- KEKC expects to achieve 110-120 working capital days in FY23 vs 138 days YoY. KEKC opened 38 new stores in Q2FY23, taking the total store count to 419 as of end-Sep'22 and aims to add 40 stores in H2FY23. Further, management guided to
- Double the EBO stores by FY25 in the ratio of 9: 1::FOFO:COCO model stores. With an established brand franchise in Menswear segment, KEKC intends to explore new avenues of growth with focus on new range of products viz. topwear, jackets and winter wear segment.
- The company 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 is well placed to benefit from demand revival owing to strong brand portfolio and pan-India store and distribution network.

RISK / NEGATIVE FACTORS:

- Rise in cotton fabric prices: Any increase in fabric prices would affect profitability and earnings growth of the company.
- Slowdown in discretionary consumption: Any slowdown in discretionary consumption would act as a key risk to demand of the consumer discretionary division.

COMPANY RECAP

- KKCL is a branded apparel player with a strong bouquet of brands (owned brands 'Killer', 'Lawman Pg 3', 'Integriti' 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
- Reported a strong revenue performance and registered its highest ever quarterly revenues in Q2.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	460.5	502.9	529.7	302.7	607.6	811.4	1,054.8
Growth YoY (%)	-1.3	9.2	5.3	-42.9	100.7	34	30
Total Expenditure	362.3	390.6	434.6	284.1	507.6	633	823
(%) of sales	78.7	77.7	82.1	93.8	83.5	78.0	78.0
EBITDA	98.2	112.3	95.1	18.7	100.0	178.5	232.1
EBITDA Growth (%)	2.6	12.6	-16.1	-68.3	227.8	78	30
EBITDA Margin (%)	25.8	26.7	21.3	11.8	19.3	22.0	22.0
Depreciation	5.8	8.1	8.2	6.7	7.0	8	8.7
EBIT	113.5	126.3	104.4	29.0	110.0	170.5	223.4
EBIT Growth (%)	1.8	11.2	-17.3	-72.2	279.3	55	31
Net Interest Expenses	5.0	6.9	8.8	6.8	4.5	6.1	6.1
Other Income	21.1	22.0	17.5	17.0	17.0	18	20
Earnings before Taxes	108.6	119.4	95.6	22.2	105.5	164.4	197.3
EBT Margin (%)	23.5	23.7	18.1	7.3	17.4	20	19
Tax-Total	35.3	39.1	22.6	2.8	23.7	37.8	45.4
Rate of tax (%)	32.5	32.7	23.6	12.5	22.5	23	23
Net Profit	73.3	80.3	73.0	19.4	81.8	126.6	152
PAT Growth (%)	-1.8	9.6	-9.1	-73.4	321.2	55	20
PAT Margin (%)	15.9	16.0	13.8	6.4	13.5	15.6	14.4
Minority Interest	0.0	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	73.2	80.3	7.4	23.9	82.2	126.6	152
EPS	11.9	13.0	11.9	3.9	13.3	20.6	24.9
EPS Growth (%)	-1.8	9.7	-9.0	-67.3	243.8	54.1	20

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	12	12	12	12	62
Reserves	387	418	434	421	416
Net Worth	399	430	446	433	478
Borrowings	48	93	88	50	82
Other Liabilities	109	122	102	100	183
Total Liabilities & Equity	556	645	636	582	743
Fixed Assets	70	82	83	82	86
CWIP	9	2	3	1	1
Investments	230	235	195	131	140
Other Assets	248	325	356	368	516
Total Assets	556	645	636	582	743

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	15.85	15.97	13.79	6.42	13.46
EBITDA margin (%)	25.82	26.71	21.26	11.80	19.26
EBIT margin (%)	24.57	25.11	19.71	9.58	18.11
ROE (%)	18.95	19.37	16.68	4.42	17.96
ROCE (%)	26.34	26.01	19.75	5.73	21.28
Working Capital & liquidity ratios					
Payables (Days)	93.05	101.27	96.86	109.83	66.83
Inventory (Days)	41.12	49.34	59.65	84.76	49.13
Receivables (Days)	89.60	108.28	120.11	182.03	90.69
Current Ratio (x)	2.23	1.98	2.69	3.18	2.37
Valuations Ratios					
EV/sales (x)	4.04	3.22	1.48	3.19	1.83
EV/EBITDA (x)	15.60	12.04	6.97	27.02	9.49
P/E (x)	25.62	19.65	10.65	44.87	14.98
P/BV (x)	4.70	3.67	1.74	2.48	2.58
Dividend Yield (%)	2.17	2.66	6.81	2.64	9.51
Return on Assets (%)	13.70	13.37	11.40	3.19	12.35
Leverage Ratio					
Debt/Equity (x)	0.12	0.22	0.20	0.11	0.16

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	56	0	51	97	57
CF from Investing Activities (B)	-14	3	46	62	-2
CF from Financing Activities (C)	-46	-11	-70	-85	-12
Net Cash Flow	-4	-8	27	74	43
Add: Opening Bal.	66	62	53	80	154
Closing Balance	62	53	80	154	196

Source: Company, Hem Securities Research.

**RATING CRITERIA**

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8/12/22	BUY	600(+18%)

DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. 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 HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.



HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: AARUSHI LUNIA

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.