ANAND RATHI

India I Equities

Retail

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

12 February 2025

Kewal Kiran Clothing

Kraus acquisition drives growth amid standalone slowdown; retaining a Buy

Rating: **Buy**
Target Price (12-mth): Rs.690
Share Price: Rs.553

Kewal Kiran's Q3 revenue grew 27.5% y/y on *Kraus'* acquisition. Standalone sales growth was muted at 0.8% y/y. Some of the revenue loss was on *Lawman* brand's discontinuation from MBO channel; the brand will focus on retail channel ahead. *Kraus'* Q3 sales were Rs534m, and the EBITDA margin was 19.7%. SSSG (EBO) was ~14%. 57 (net) EBOs were added in Q3, with 27 *Killer* and 29 *Lawman* EBOs. In FY26, 50-60/40-50 EBOs for *Killer/Lawman,* respectively, would be added. Q3 ended with inventory at Rs2.04bn, in line with historical levels. Per management, with current inventory, it can deliver double-digit growth ahead. Total debt was Rs1.1bn and cash and cash equivalents at Rs3bn. With production schedules streamlined, the company has guided to double-digit revenue growth in Q4 and FY26. EBITDA margin to sustain at 18-20%. We lower our FY25e-27e revenue 4.7% each year, led by slower growth in the standalone business. Our EBITDA estimate is 7.9% lower on avg. each year. We retain our Buy, with a 12-mth TP of Rs690 (earlier Rs803), 15x FY27e EV/EBITDA (16x FY27e EV/EBITDA).

Kraus' consolidation drove growth. Q3 consolidated sales (incl. Kraus) grew 27.5% y/y to Rs2.6bn, led by 28.5% y/y volume growth. Realisation was flat y/y at Rs678/piece. The gross margin fell 191bps y/y to 41.4%, led by higher discounts and inability to hike prices. EBITDA rose ~21% y/y to Rs469m, while the margin dipped 101bps y/y to 18.4%. PAT fell 26% y/y to Rs246m on lower other income (down 83% y/y to Rs16m on unrealised MTM loss).

Higher retail channel contribution, working capital. Retail channel's contribution rose to ~55% in 9M (~47% in 9M FY24). Non-retail channel's contribution fell to ~46% (~53% in 9M FY24). Product-wise, jeans' share fell to 48.1% (52.3% in 9M FY24) and shirts to 19.5% (21.5%); trousers came at 12% (7.8%), t-shirts 4.2% (3.7%) and others 16.2% (14.7%). Net WC days rose to 163 in 9M (102 at end-FY24) on 43/48 higher inventory/receivable days. The increase in inventory is in line with the company's strategy to normalise, after its FY24 attempt to move to real-time inventory model.

Valuation. We retain our Buy rating, with a lower TP of Rs690, 15x FY27e EV/EBITDA. **Risks:** Keener competition could hurt volumes, realisation growth; fluctuation in RM prices.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	7,795	8,605	9,438	10,896	12,691
Net profit (Rs m)	1,190	1,541	1,397	1,720	1,959
EPS (Rs)	19.3	25.0	22.7	27.9	31.8
P/E (x)	21.6	26.8	24.4	19.8	17.4
EV / EBITDA (x)	15.3	21.2	19.1	14.2	11.7
P/BV (x)	4.7	6.1	4.6	4.0	3.5
RoE (%)	23.2	25.2	19.6	21.5	21.6
RoCE (%)	18.9	20.2	14.2	17.6	18.9
Dividend yield (%)	1.2	0.3	1.9	2.1	2.4
Net debt / equity (x)	(0.5)	(0.6)	(0.3)	(0.3)	(0.3)

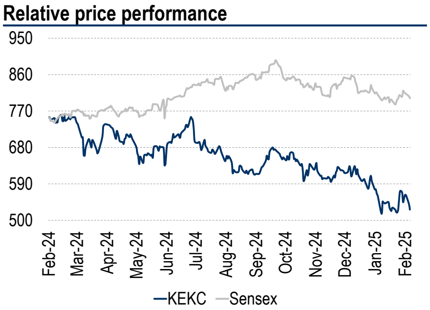
Source: Company, Anand Rathi Research

Key data	KEKC IN / KKCL.BO
52-week high / low	Rs779 / 497
Sensex / Nifty	76171 / 23045
3-m average volume	$0.3m
Market cap	Rs.34bn / $395.4m
Shares outstanding	62m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	74.3	74.3	74.3
- of which, Pledged	-	-	-
Free float	25.7	25.7	25.7
- Foreign institutions	2.1	2.8	2.8
- Domestic institutions	7.2	6.8	6.9
- Public	16.5	16.1	16.0

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	(4.7)	(4.7)	(4.7)
EBITDA	(8.4)	(7.8)	(7.5)
EPS	7.0	(1.8)	(5.9)

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	7,795	8,605	9,438	10,896	12,691
Growth (%)	28.3	10.4	9.7	15.4	16.5
Direct costs	3,723	4,266	4,483	5,066	5,838
SG&A	2,553	2,568	3,309	3,649	4,260
EBITDA	**1,519**	**1,771**	**1,646**	**2,180**	**2,593**
EBITDA margins (%)	19.5	20.6	17.4	20.0	20.4
- Depreciation	87	104	277	297	309
Other income	202	369	518	414	332
Interest expenses	64	44	4	4	4
PBT	1,570	1,993	1,883	2,294	2,612
Effective tax rate (%)	24	23	26	25	25
+ Associates / (Minorities)	-1	-1	-	-	-
Net income	1,190	1,541	1,397	1,720	1,959
Adjusted income	1,190	1,541	1,397	1,720	1,959
WANS	62	62	62	62	62
FDEPS (Rs)	19.3	25.0	22.7	27.9	31.8
FDEPS growth (%)	45.8	29.4	(9.3)	23.2	13.9
Gross margins (%)	52.2	50.4	52.5	53.5	54.0

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	616	616	616	616	616
Net worth	5,470	6,757	7,492	8,483	9,640
Debt (incl. Pref.)	508	25	25	25	25
Minority interest	-	-	1,671	1,671	1,671
DTL / (Assets)	-	43	43	43	43
Capital employed	**5,978**	**6,825**	**9,231**	**10,222**	**11,379**
Net tangible assets	1,077	1,157	1,171	1,334	1,393
Net intangible assets	3	2	1,284	1,284	1,284
Goodwill	-	-	1,177	1,177	1,177
CWIP (tang. & intang.)	13	-	-	-	-
Investments (strategic)	-	-	-	-	-
Investments (financial)	1,537	1,781	1,781	1,781	1,781
Current assets (excl. cash)	3,834	3,241	5,249	6,060	7,058
Cash	1,705	2,192	1,096	1,521	2,122
Current liabilities	2,190	1,547	2,527	2,934	3,436
Working capital	1,644	1,694	2,723	3,126	3,623
Capital deployed	**5,978**	**6,825**	**9,230**	**10,222**	**11,379**
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	1,608	2,000	1,368	1,883	2,284
+ Non-cash items	(41)	(145)	277	297	309
Oper. prof. before WC	1,567	1,854	1,646	2,180	2,593
- Incr. / (decr.) in WC	466	101	917	403	497
Others incl. taxes	350	396	486	573	653
Operating cash-flow	751	1,358	243	1,203	1,444
- Capex (tang. + intang.)	237	94	146	459	369
Free cash-flow	514	1,264	96	744	1,075
Acquisitions			(1,044)	-	-
- Div.(incl. buyback & taxes)	493	246	663	729	802
+ Equity raised	-	-	-	-	-
+ Debt raised	50	(350)	-	-	-
- Fin investments	(36)	30	-	-	-
- Misc. (CFI + CFF)	59	44	(514)	(410)	(328)
Net cash-flow	48	594	(1,096)	426	601

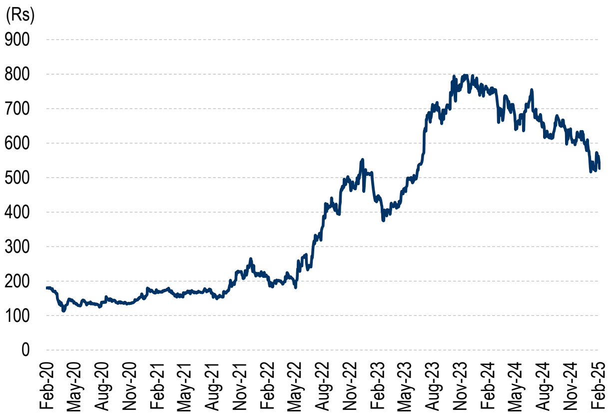
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	21.6	26.8	24.4	19.8	17.4
EV / EBITDA (x)	15.3	21.2	19.1	14.2	11.7
EV / Sales (x)	3.0	4.4	3.3	2.8	2.4
P/B (x)	4.7	6.1	4.6	4.0	3.5
RoE (%)	23.2	25.2	19.6	21.5	21.6
RoCE (%) - after tax	18.9	20.2	14.2	17.6	18.9
RoIC	40.3	42.7	25.7	27.5	30.0
DPS (Rs)	5.0	2.0	10.7	11.8	13.0
Dividend yield (%)	1.2	0.3	1.9	2.1	2.4
Div. payout (%) - incl. DDT	25.9	8.0	47.4	42.4	40.9
Net debt / Equity (x)	(0.5)	(0.6)	(0.3)	(0.3)	(0.3)
Receivables (days)	80	86	102	102	102
Inventory (days)	78	35	90	90	90
Payables (days)	23	18	36	36	36
CFO : PAT (%)	63.1	88.1	17.4	69.9	73.7

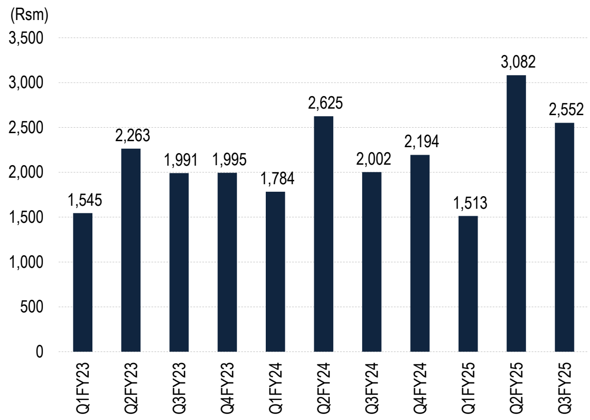
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue trend



Source: Company

Q3/ 9M FY25 results highlights

Consolidated revenue grew 27.5% y/y to Rs2.6bn, led by Kraus Jeans' consolidation. The gross margin (incl. manufacturing expenses) contracted 191bps y/y to 41.4%. Employee and other expenses grew ~39%/3% y/y, respectively. EBITDA grew 20.8% y/y to Rs469m, while the EBITDA margin contracted 101bps y/y to 18.4%. Depreciation/interest expenses rose 3.7x/2.7x y/y. Other income dipped 83% y/y to Rs16m. PBT declined 19.6% y/y to Rs357m. The tax rate stood at 26.8% vs. 25% a year ago. PAT (post minority interest) declined 26% y/y to Rs246m.

For 9M FY25, consolidated revenue grew 11.5% y/y to Rs7.1bn. The gross margin (incl. manufacturing exp) was 42.4%, down 55bps y/y. EBITDA increased ~3% y/y to Rs1.4bn, while the EBITDA margin contracted 164bps y/y to 19.4%. PAT (post minority) dipped ~1% y/y to Rs.1.2bn. 9M net working capital days were higher at 163 (vs. 158/117 in H1 FY25/9M FY24, respectively). Inventory days increased to 78 (66/45 as of H1 FY25/9M FY24). Debtor days were 134 (141/95 in H1 FY25/ 9M FY24). Payable days were 49 (49/23 as of H1 FY25/9M FY24). Cash and cash equivalents: Rs3bn vs. Rs3.3bn as of H1 FY25 (Rs3.8bn as of end-FY24). Debt was Rs1.1bn vs. Rs618m as of H1 FY25 (Rs24.8m as of end-FY24).

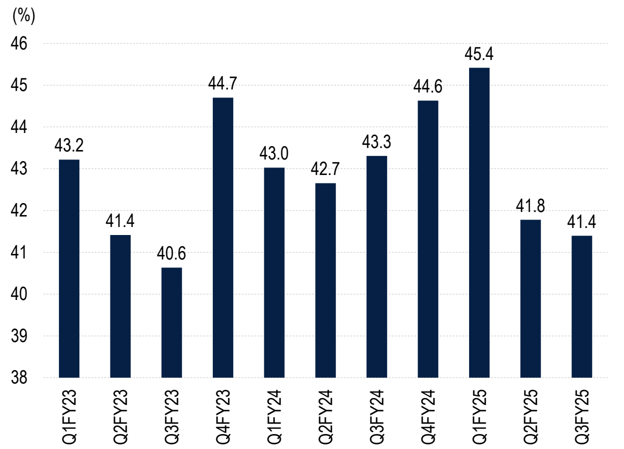
Standalone revenue grew 0.8% y/y to Rs2bn. The gross margin contracted 258bps y/y to 40.7%. EBITDA declined 6.2% y/y to Rs364m and the EBITDA margin, 135bps y/y to 18.1%. PAT fell 30.6% y/y to Rs231m. 9M net working capital days were 147 (140/117 as of H1 FY25/9M FY24). Inventory days increased to 70 (56/45 as of H1 FY25/9M FY24).

Fig 7 – Q3 and 9M FY25 results (consolidated)

(Rs m)	Q3 FY25	Q3 FY24	Y/Y %	Q2 FY25	Q/Q %	9M FY25	9M FY24	Y/Y %
Revenue	2,552	2,002	27.5	3,082	-17.2	7,146	6,411	11.5
Gross margins, %	41.4	43.3	-191bps	41.8	-38bps	42.4	43.0	-55bps
Employee expenses	366	264	38.8	374	-2.0	992	784	26.4
Other expenses	221	215	2.8	275	-19.6	655	623	5.1
EBITDA	469	389	20.8	640	-26.6	1,385	1,347	2.8
EBITDA margins, %	18.4	19.4	-101bps	20.7	-235bps	19.4	21.0	-164bps
Interest	31	12	170.4	28	13.1	66	38	73.4
Depreciation	97	26	270.3	93	5.3	218	78	179.9
Other income	16	93	-83.0	343	-95.4	466	287	62.6
PBT	357	443	-19.6	862	-58.6	1,566	1,517	3.2
Tax	96	111	-13.7	186	-48.4	377	352	7.2
Tax rate, %	26.8	25.0	182bps	21.5	532bps	24.1	23.2	90bps
PAT	246	332	-26.0	655	-62.5	1,153	1,166	-1.1

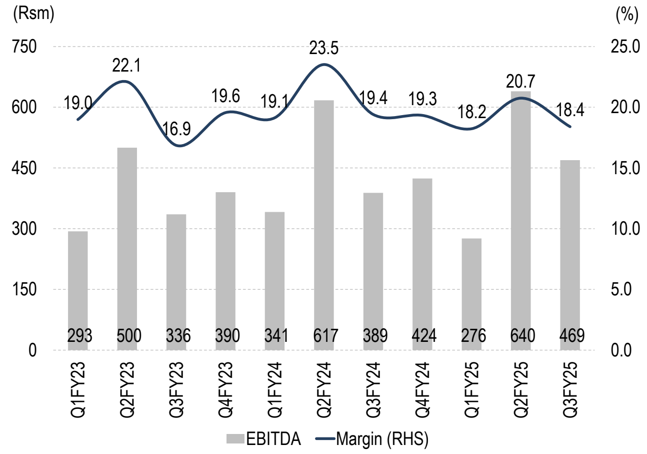
Source: Company

Fig 8 – Gross-margin trend



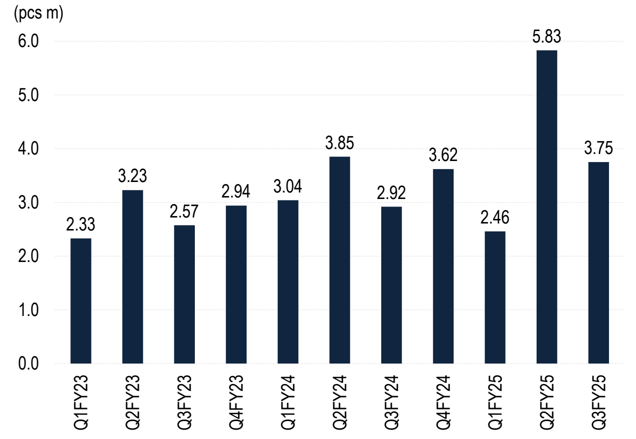
Source: Company *Note: Includes manufacturing expenses*

Fig 9 – EBITDA and EBITDA margin trends



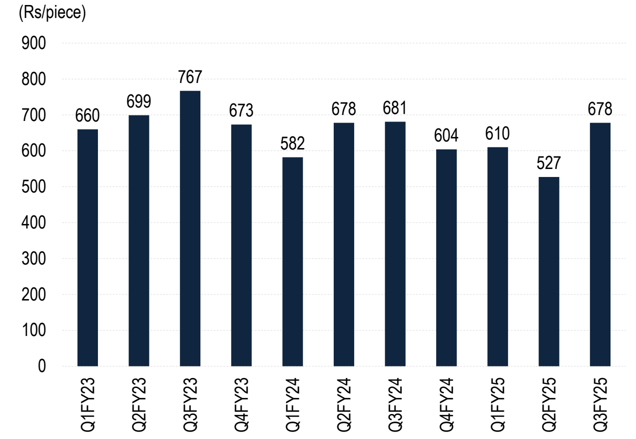
Source: Company

Fig 10 – Volume growth trend



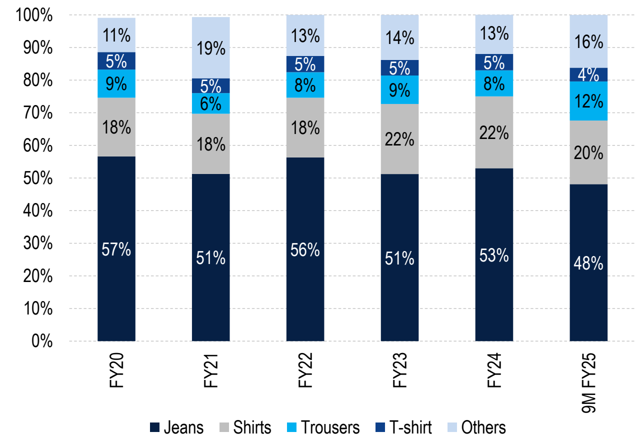
Source: Company

Fig 11 – Realisation trend



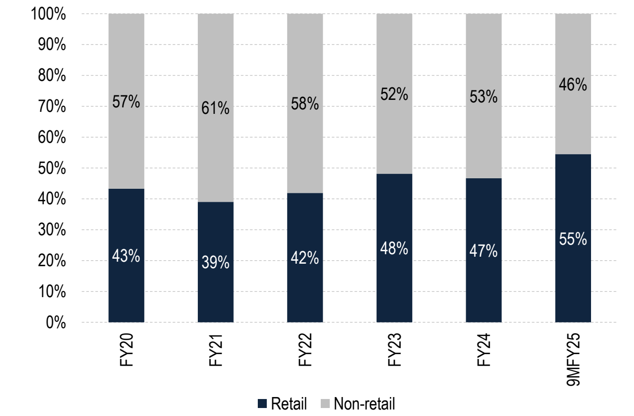
Source: Company

Fig 12 – Sales break-up, by product



Source: Company

Fig 13 – Channel-wise sales



Source: Company *Note: Retail includes EBO and LFS; Non-retail includes MBO, e-com, exports, factory & seconds*

Other highlights

- **Demand.** Revenue grew 27.5% y/y, driven by volume growth and Kraus' consolidation. Total volumes grew 28.5% y/y to 3.75m, with apparel's share rising to 73.5% (vs. 67.6% in Q3 FY24). The EBO channel saw a notable increase in contribution, with SSSG at ~14% in Q3. The company saw decent primary sales in Jan and is executing multiple pivots, incl. product category and segment expansions with a detailed growth roadmap in progress. Sales distribution remains skewed toward tier-2/-3 cities/towns (60%), while tier 1 contributes ~40%.
- **Gross margin** (incl. manufacturing expenses) declined 191bps y/y to 41.4%. Higher discounts hurt margins, owing to weaker-than-expected winterwear demand. The company was unable to get a price increment in terms of realization, which remained flat y/y at Rs678 in Q3. Winterwear inventory was largely liquidated during the discount period. With stable cotton prices, CoGS is not expected to rise significantly.
- **Capex.** The company has planned ~Rs350m capex over the next two years, equally allocated to enhancing manufacturing capabilities and expanding EBOs. Core categories (incl. jeans, trousers, etc.) are manufactured in-house, while accessories and other categories are outsourced. Currently, 80% is produced in-house and 20% outsourced, with the company steadily scaling up capacity y/y.
- **Inventory** was Rs2.04bn as of Q3-end, up from Rs820m in FY24. In FY24, inventory was initially reduced following a shift to the Just-in-Time (JIT) model, but this led to supply constraints in Q1 and Q2, affecting fulfilment despite a strong orderbook. It took 6-9 months to rebuild inventory levels and with production schedules now streamlined, the company expects double-digit growth from Q4.
- **Lawman.** The company discontinued Lawman from the MBO channel, leading to some revenue loss but has seen a positive response after repositioning it as a fast-fashion menswear brand focused on its own EBO network. As of end-Q3, the brand had 61 EBOs, with plans to add 40-50 stores in FY26. Targeting Gen Z, it competes with brands like Snitch and The Souled Store, with pricing expected to be ±10%. With 13 years' retail experience, Ankur Srivastava (formerly with Max Fashion) has been appointed as the brand head. The company expects clearer results from this strategy over the next one to two quarters.
- ***Kraus*** achieved double-digit y/y growth (annualized basis), generating revenue of ~Rs530m in Q3, with ~20% EBITDA margin (sustainable at 18-20%). LFS was the primary sales channel at the time of acquisition, but the brand has since expanded into exports and retail, gaining traction with 10 standalone stores opened; it plans to scale up across multiple channels. Focused primarily on bottoms, denim remains its largest category, and it operates as a pure womenswear brand. Ahead, Killer, Lawman and Kraus will each have dedicated EBOs; the company aims to unlock Kraus' potential by leveraging its extensive distribution network, particularly through MBOs. Additionally, a Rs500m cumulative outflow is planned over the next three years for the brand's initial buyout.
- **Other income** dipped 83% y/y to Rs16m, primarily due to mark-to-market (MTM) losses on debt fund investments and a Rs30m MTM impact from investment in a recently listed company. The loss recorded

for the listed entity contributed to the decline, but other income is expected to normalize to Rs80m-90m a quarter.

- **Outlook**. With streamlined production schedules and optimal inventory, the company expects double-digit growth from Q4, with sustained double-digit revenue growth in FY26. EBITDA margins are to remain at 18-20%. Expansion plans include 50-60 Killer EBOs and 40-50 Lawman EBOs in the upcoming fiscal year.

Change in estimates

We lower our FY25e-27e revenue 4.7% each year, led by slower growth in the standalone business. Our EBITDA estimate is 7.9% lower on average each year.

We raised our FY25e for other income as the company has guided to Rs80m-90m every quarter. Hence, our FY25e PAT is ~7% higher vs. earlier.

For FY26-27, our PAT estimate is lower by 3.8% on average each year.

Fig 14 – Estimates revision

(Rs m)	Old			Revised			Change (%)		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
Revenue	9,904	11,434	13,318	9,438	10,896	12,691	(4.7)	(4.7)	(4.7)
EBITDA	1,797	2,363	2,803	1,646	2,180	2,593	(8.4)	(7.8)	(7.5)
PAT	1,305	1,751	2,082	1,397	1,720	1,959	7.0	(1.8)	(5.9)
EPS (Rs)	21.2	28.4	33.8	22.7	27.9	31.8	7.0	(1.8)	(5.9)

Source: Anand Rathi Research

Valuation

We retain our Buy rating, with a 12-mth TP of Rs690, 15x FY27e EV/EBITDA (earlier Rs803, 16x FY27e EV/EBITDA). Better return ratios and comfortable liquidity keep us sanguine about the company.

Fig 15 – Valuation parameters

	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	21.6	26.8	24.4	19.8	17.4
EV / EBITDA (x)	15.3	21.2	19.1	14.2	11.7
EV / Sales (x)	3.0	4.4	3.3	2.8	2.4
RoIC (%)	40.3	42.7	25.7	27.5	30.0
RoE (%)	23.2	25.2	19.6	21.5	21.6

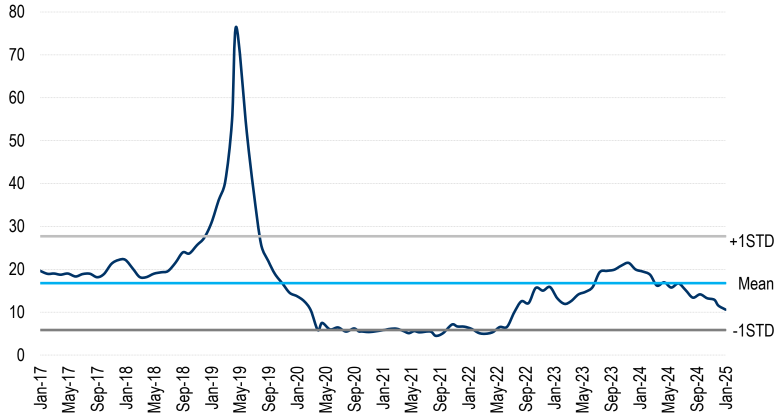
Source: Company, Anand Rathi Research

Fig 16 – Valuation table, FY27e (Rs m)

EBITDA	2,593
Multiple (x)	15.0
Enterprise value	38,900
Net debt	(3,656)
Market cap	42,556
No. of shares outstanding (m)	61.6
Target price (Rs)	**690**
CMP (Rs)	553
Upside (%)	**24.6**

Source: Anand Rathi Research

Fig 17 – One-year-forward EV/EBITDA



Source: Bloomberg, Anand Rathi Research

Risk

- Keener competition could dent volumes and realisation growth.

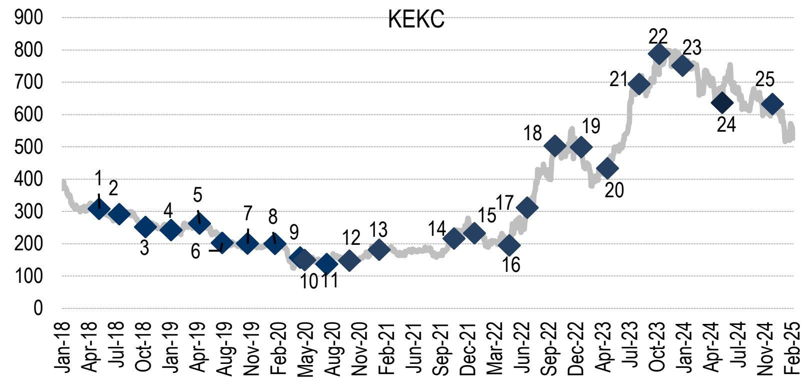
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 12 February 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
12	26-Oct-20	**Buy**	194	152
13	26-Jan-21	**Hold**	213	178
14	30-Oct-21	**Buy**	304	239
15	29-Jan-22	**Buy**	306	226
16	12-May-22	**Buy**	203	303
17	26-Jul-22	**Hold**	360	334
18	22-Oct-22	**Hold**	525	489
19	23-Jan-23	**Hold**	521	479
20	28-Apr-23	**Buy**	588	462
21	7-Aug-23	**Hold**	768	715
22	25-Oct-23	**Hold**	952	785
23	23-Jan-24	**Hold**	831	745
24	4-Jun-24	**Buy**	811	636
25	30-Nov-24	**Buy**	803	630

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	**Buy**	**Hold**	**Sell**
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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