Stock Update

Focus on regaining growth; but revival with take time

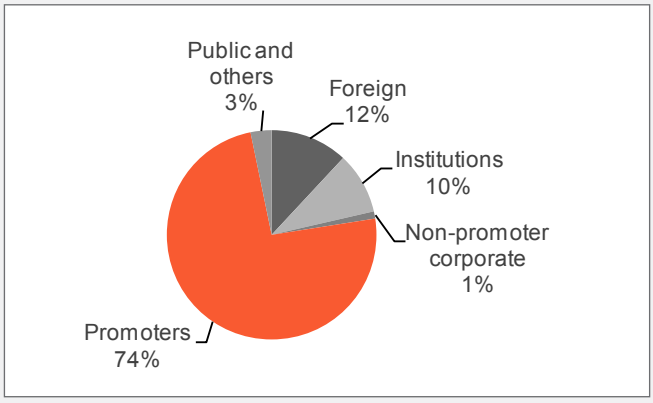
Kewal Kiran Clothing

Reco: Hold | CMP: Rs1,300

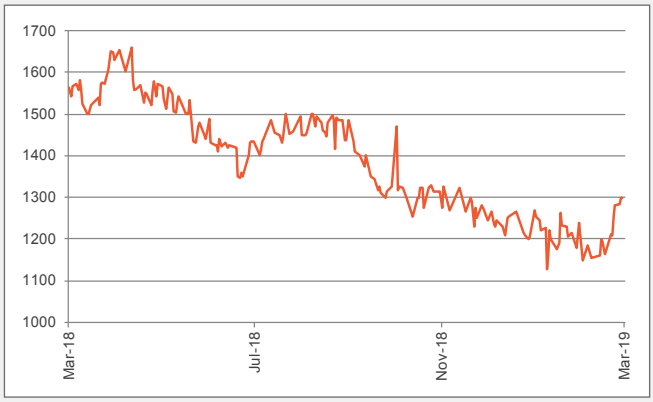
Company details

Price target:	Rs1,415
Market cap:	Rs1602 cr
52-week high/low:	Rs1838/1100
NSE volume: (No of shares)	554
BSE code:	532732
NSE code:	KKCL
Sharekhan code:	KKCL
Free float: (No of shares)	0.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.0	5.1	-10.4	-13.8
Relative to Sensex	5.9	0.0	-10.3	-23.0

Key points

We met Mr. Bhavin Sheth, CFO of Kewal Kiran Clothing to understand the current business environment and future growth prospects. Our interaction suggests the increased focus of the management towards reviving revenue growth without putting much stress on margins and balance sheet.

- **Strategies in place, but revival in revenue growth will take time:** KKCL has revamped its strategies to improve revenue growth (ahead of industry average of 5-6%) in the forthcoming quarters. Over the years the company had a conservative approach to the sale of its garments to wholesalers/distributors on out-right purchase agreement (no sales-on-return [SOR] basis). Though this strategy aided a strong balance sheet with better cash flows, it didn't provide an access into the key markets such as North India where KKCL has low penetration. In view of this, the company has decided to go with a win-win strategy by offering garments on an agreement of 20-30 percent SOR basis, which will help them to gradually increase penetration in Northern India. Further, the company is trying to reduce its time of delivery of products (fabric to dispatch) to 21-25 days (as compared to 30+days) from the date of the order by manufacturing and inventorying adequate (but not bulk) quantity of different designs/styles of garments. This would result in higher inventory days (expected to stay around 110 days in the near term) but the garment will quickly reach the shelf of the retailers/Large Format Stores. Further, the company is focusing on gaining market share in the low price denim segment (Rs. 1300 to 1600 per unit) with the launch of "Immortal" brand, which has gained good acceptance in the domestic market.

- **Desi Belle acquisition marks entry into the women's wear segment; scouting for acquisition in Kid's wear space:** The acquisition of Desi Belle brand opens a new path for KKCL to enter into the women's wear market. The company would be focusing on introducing women's casual wear apparel under the Desi Belle brand (Pan India) and is looking to garner Revenues of Rs. 100 crore over the next five years. The company has around Rs. 250 crore of cash & cash equivalents, which, it is planning to invest in inorganic initiatives (largely in Kid's wear space) to improve its future growth prospects.

As of now, KKCL has 318 EBOs (Exclusive Brand Outlets) including 304 Franchisee Owned Franchisee Operated outlets (FOFO) and 14 stores that are company operated (COCO). KKCL is not focusing on adding new stores in the near term and would focus on improving the business fundamentals of its existing stores.

- **Q4FY19 revenues to grow in low double digits; OPM to remain flat on y-o-y basis:** Like other branded apparel/retail companies, KKCL's Q3FY19 performance was boosted by favorable festive demand with revenues growing by ~18% and the PAT growing by 22% during the quarter. However, we expect revenue growth to be moderate to low double digits in the range of 10-11% (largely volume led growth pushed by revamped strategies). The company reaped the benefits of efficient and bulk buying of raw materials with gross margins staying high by 330 bps in 9MFY19. However, the benefits would not continue in Q4FY19 and hence the gross margins would marginally improve/stay flat during the quarter. Hence, the OPM is expected to stay flat at 21.2% in Q4FY19. The operating profit and PAT is expected to grow by ~10% each in Q4FY19 (largely in-line with the revenue growth).

- **Gradual revival in performance foreseen; retained Hold:** KKCL is getting out of a conservative mode and is focusing on regaining its footing in the denim/casual wear space. Though the levers are in place, we expect the revival to take some time. Hence, revenue growth is expected to remain in the range of 8-10% in the coming years. However the OPM will continue to remain at 20%+ as the company will focus on promotional offerings to consumers rather than spending more on brand building and media activities. The working capital days are expected remain stable and hence, we expect balance sheet to remain de-leveraged (except for any significant acquisition). We maintain our Hold recommendation on the stock with an unchanged Price Target of Rs. 1,415 and would advise investors with long term view to stay invested in the company, given its lean balance sheet and decent margin profile in the apparel space.

Valuations (Standalone) **Rs cr**

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net sales	477.1	461.9	502.9	538.1	581.1
OPM (%)	20.7	21.3	22.6	23.5	23.7
Adjusted Net Profit	74.6	73.2	81.7	91.3	100.7
EPS (Rs.)	60.5	59.4	66.3	74.1	81.7
P/E (x)	21.5	21.9	19.6	17.6	15.9
EV/EBITDA (x)	11.8	11.4	9.5	8.2	7.1
RoE (%)	22.2	18.9	19.7	20.3	20.4
RoCE (%)	19.3	17.3	18.7	19.7	19.8

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations 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 its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

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 SHAREKHAN 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.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;