

Aiming for higher revenue growth...

We met the management of Kewal Kiran Clothing to gain an insight into the company's business outlook. Kewal Kiran is one of India's leading branded apparel companies with popular home-grown brands like "Killer", 'Integriti', 'Lawman' and 'Easies'. Though KKCL has a strong brand portfolio, revenue growth has remained sluggish over FY17-9MFY19 owing to the onslaught of discounting by e-commerce players. KKCL has shied away from discounting its brands, leading to slower revenue growth. However, the management is looking to revive revenue growth by introducing lower priced products as brand extensions rather than diluting the original brand.

Management meet highlights...

- KKCL is focusing on improving its revenue growth trajectory by introducing newer products via brand extension at lower price points
- KKCL is planning to reduce delivery cycle from 21 days to 10 days. This would entail a higher working capital requirement as the company will have to build up inventory. However, the products would be available on the shelf of retailers/large format stores at a much faster pace
- Over the years, the company has refrained from entering the discounting bandwagon, which has negatively impacted its revenue growth. The company is now planning to be more flexible in its discounting strategy by providing discounts on some of its sub-brands like 'Immortal' and 'Reckless' by Integriti
- KKCL is averse to reducing the MRP of flagship brands like 'Killer' and 'Integriti' but is planning to provide higher commission to retailers to drive sales for its products
- The company has a subdued presence in the north Indian market owing to the market predominantly working on the sale-or-return (SOR) policy, which KKCL has been averse to. However, KKCL has decided to provide 20-30% apparels on an SOR basis in the northern market, which should provide an up-tick to its revenue growth
- The company has forayed into women's casual wear through acquisition of 'Desi Belle' brand. It is looking to generate revenues to the tune of ₹ 100 crore from the brand over next five years. It has cash & investments of ~ ₹ 250 crore and is scouting for acquisition in kids-wear segment
- On the channel wise profitability front, distribution/MBOs are the most profitable while e-commerce and NCS are the least profitable

Focus on growth while maintaining balance sheet strength

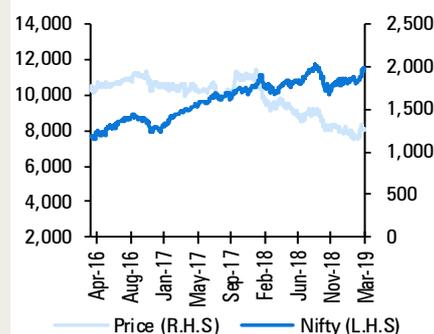
The management indicated it was looking to accelerate revenue growth with the launch of newer sub-brands at lower price points and entering newer categories like women's wear and kids wear. KKCL has a strong balance sheet, with debt/equity ratio comfortably placed at 0.2x and having a strong cash position. We roll our estimates to FY21 and model revenue and PAT CAGR of 10% and 11%, respectively, in FY18-21E. We have a **HOLD** rating on the stock with a revised target price of ₹ 1300 (16.0x FY21E EPS).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,553.0
Debt (FY18) (₹ Crore)	48.3
Cash & Investments (FY18)	294.4
EV (₹ Crore)	1,306.8
52 week H/L	1665 / 1125
Equity Capital (₹ Crore)	12.3
Face Value (₹)	10

Price Chart



Key Highlights

- Various initiatives undertaken by the management to revive volume growth
- Introduced new sub-brands at lower price points
- Management confident of sustaining EBITDA margin in the range of 20-22%

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	466.5	460.3	496.9	547.5	613.8
EBITDA	98.8	98.2	113.3	122.3	135.4
PAT	74.6	73.2	81.7	89.0	100.5
P/E (x)	20.8	21.2	19.0	17.4	15.5
EV/Sales (x)	2.8	2.8	2.6	2.4	2.1
EV/EBITDA (x)	13.4	13.3	11.6	10.6	9.5
RoCE (%)	22.7	20.6	20.7	21.4	22.1
RoE (%)	19.9	18.3	19.0	19.3	20.0

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY18A	FY19E	FY20E	FY21E
Total operating Income	460.3	496.9	547.5	613.8
Growth (%)	-1.3	8.0	10.2	12.1
Raw Material Expenses	193.5	194.8	218.3	245.2
Employee Expenses	65.1	72.6	79.4	87.2
Manufacturing Expenses	45.4	47.7	53.7	61.4
Admin Expenses	30.7	32.3	35.6	41.7
Selling Expenses	27.5	36.3	38.3	43.0
Total Operating Expenditure	362.1	383.6	425.2	478.4
EBITDA	98.2	113.3	122.3	135.4
Growth (%)	-0.6	15.3	7.9	10.7
Depreciation	5.8	7.6	8.3	9.0
Interest	5.0	8.0	7.8	7.6
Other Income	21.1	22.4	24.6	28.8
PBT	108.6	120.1	130.8	147.6
Others	0.0	0.0	0.0	0.0
Total Tax	35.3	38.3	41.8	47.1
PAT	73.2	81.7	89.0	100.5
Growth (%)	-1.8	11.6	8.9	12.9
EPS (₹)	59.4	66.3	72.2	81.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY18A	FY19E	FY20E	FY21E
Profit After Tax	73.2	81.7	89.0	100.5
Add: Depreciation	5.8	7.6	8.3	9.0
(Inc)/dec in Current Assets	-33.2	-30.5	-24.5	-30.3
Inc/(dec) in CL and Provisions	21.2	-1.9	5.7	6.5
Others	0.0	0.0	0.0	0.0
CF from operating activities	67.0	57.0	78.5	85.7
(Inc)/dec in Investments	-25.2	-25.9	-12.7	-13.4
(Inc)/dec in Fixed Assets	-11.0	-15.7	-11.8	-13.1
(Inc)/dec in CWIP	-1.8	2.9	0.4	0.0
Others	2.4	4.0	0.0	0.0
CF from investing activities	-35.7	-34.7	-24.1	-26.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	7.8	31.2	-8.3	-0.6
Others	-43.1	-50.5	-57.7	-61.4
CF from financing activities	-35.3	-19.3	-66.1	-61.9
Net Cash flow	-4.0	3.0	-11.7	-2.8
Opening Cash	66.4	62.5	65.5	53.8
Closing Cash	62.5	65.5	53.8	51.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY18A	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	387.3	418.6	449.9	489.1
Total Shareholders funds	399.6	430.9	462.2	501.4
Total Debt	48.3	79.5	71.2	70.6
Deferred Tax Liability	4.6	4.5	4.4	4.3
Other long term liabilities	1.6	1.6	1.7	1.7
Total Liabilities	454.1	516.5	539.5	578.0
Assets				
Gross Block	123.0	138.7	150.5	163.6
Less: Acc Depreciation	54.8	62.4	70.7	79.7
Net Block	68.2	76.3	79.8	83.9
Capital WIP	9.1	6.2	5.8	5.8
Total Fixed Assets	77.3	82.5	85.6	89.7
Investments	232.0	257.9	270.6	283.9
Inventory	52.9	61.3	72.0	82.4
Debtors	136.2	163.4	177.0	196.8
Loans and Advances	-	-	-	-
Other Current Assets	6.7	1.6	1.7	1.8
Cash	62.5	65.5	53.8	51.0
Total Current Assets	258.2	291.7	304.5	332.0
Creditors	43.5	42.7	47.8	53.7
Other current liabilities	52.3	50.5	50.4	50.3
Provisions	22.4	23.1	23.8	24.5
Total Current Liabilities	118.2	116.3	122.0	128.5
Net Current Assets	140.1	175.4	182.5	203.5
Others Non-current Assets	4.8	0.8	0.8	0.9
Application of Funds	454.1	516.5	539.5	578.0

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY18A	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	59.4	66.3	72.2	81.5
Cash EPS	64.1	72.5	78.9	88.8
BV	324.3	349.6	375.0	406.8
Cash Per Share	50.7	53.1	43.6	41.4
Operating Ratios				
EBITDA Margin (%)	21.3	22.8	22.3	22.1
PBT Margin (%)	23.6	24.2	23.9	24.0
PAT Margin (%)	15.9	16.4	16.3	16.4
Inventory days	41.8	45.0	48.0	49.0
Debtor days	108.0	120.0	118.0	117.0
Creditor days	82.1	80.0	80.0	80.0
Return Ratios (%)				
RoE	18.3	19.0	19.3	20.0
RoCE	20.6	20.7	21.4	22.1
Valuation Ratios (x)				
P/E	21.2	19.0	17.4	15.5
EV / EBITDA	13.3	11.6	10.6	9.5
EV / Net Sales	2.8	2.6	2.4	2.1
Market Cap / Sales	3.4	3.1	2.8	2.5
Price to Book Value	3.9	3.6	3.4	3.1
Solvency Ratios				
Debt/EBITDA	1.0	1.4	1.2	1.0
Debt / Equity	0.1	0.2	0.2	0.1
Current Ratio	2.7	3.1	3.1	3.2
Quick Ratio	2.1	2.5	2.4	2.4

Source: Company, ICICI Direct Research

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