

# Stock Update

## Mixed performance

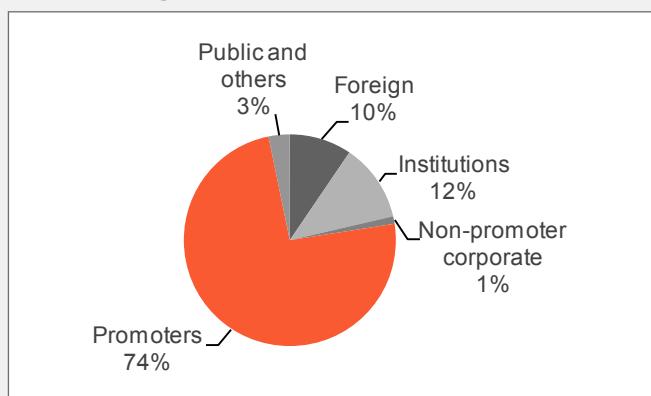
### Kewal Kiran Clothing

Reco: Hold | CMP: Rs1,310

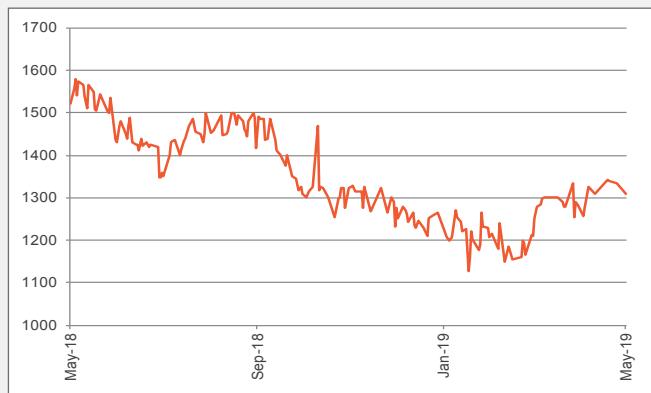
#### Company details

Price target:	Rs1,415
Market cap:	Rs1615 cr
52-week high/low:	Rs1617/1100
NSE volume: (No of shares)	520.04
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	1.9	12.7	1.5	-11.4
Relative to Sensex	2.6	7.8	-8.2	-20.9

#### Key points

- Strong volume growth, higher selling expenditure impact margins: KKCL's revenue grew by 11% y-o-y to Rs. 133.1 crore from Rs. 120 crore in Q4FY2019 (in-line with our estimates) led by a growth of 10.5% in the quantity of apparel sales. On the other hand, realization was flat at Rs. 910 per unit. The apparel sales quantity was at 13.8 lakh units as against 12.5 lakh units in Q4FY2018. Gross margins improved by 593 BPS because of a considerable reduction in raw material costs resulting from bulk buying and better negotiation with suppliers. Operating profit stood at Rs. 27.5 crore and operating margins declined by 125 BPS to 20.7% mainly due to a 79% rise in the combined selling and administrative expenditure. Though the margins have been impacted, higher selling expenditure is a good sign for KKCL as it shows that the company has started investing in brand building. Despite increase in interest and depreciation costs (up by 53%), Adjusted PAT has remained flat at Rs. 20.1 crore in Q4FY2019.

- Killer and Easies witness robust growth, National Chain Stores and e-commerce channels perform well: KKCL's flagship brand Killer grew by 24% y-o-y with revenue of Rs. 77 crore and continues to be the dominant brand with its market share increasing to 59% in Q4FY2019 from 53% in Q4FY2018. Integriti, being the second largest brand with 19% market share at revenue of Rs. 24 crore, performed well growing by 7.4% as compared to a negative 19% last quarter. Page 3 Lawman lost its market share by 746 BPS registering de-growth of 35% whereas Easies sustained its market share with a revenue growth of 38%. In terms of product mix, though jeans continue to be the dominant product in the portfolio with a market share of 62%, trousers outperformed this quarter growing at 80% with a revenue of Rs. 11.4 crore in Q4FY2019 as against Rs. 6.3 crore in Q4FY2018 and 333 BPS increase in its revenue share. The revenue from National Chain Stores (Large Format Stores) grew by 137% this quarter whereas MBO's continue to remain the dominant channel.

- Outlook – Consistent volume growth to be key trigger for revenue growth, margins expected to be maintained at above 20%: KKCL's double digit revenue growth in Q4FY2019 was driven by a strong volume performance. Realizations remained flat, unlike the dips seen in the past few quarters, as the company has increased its

advertisement and promotion spends. Demand has been steady for the company and the overall demand environment for apparel players is on a positive trajectory. KKCL does not want to compromise on margins and has maintained the target of achieving OPM at above 20%. KKCL has decided to adopt the strategy of offering products on a 20% SOR basis to help them increase their penetration in Northern India. The volatility seen in volumes in the past few quarters seem to settle in and thus, steady volume growth in the coming quarters would be the key trigger for revenue growth. Page 3 Lawman, which grew since the past few quarters, is expected to turn positive from the coming quarter and would help drive revenue growth. The new brands Immortal (targeting lower price point products) and Desi Belle (acquired in Q2FY2019) are at a very nascent stage but have been performing as per management's expectations. However, the management is confident that the contribution

from Desi Belle would substantially improve from the second quarter of FY2020.

- ♦ **Revival in performance foreseen; Maintain Hold:** Q4FY2019 witnessed good performance by the company mainly because of volume expansion. Going forward, management has affirmed its stance of maintaining OPM at above 20% and is confident of decent topline growth on the back of revamped product portfolio and higher investments behind promotional activities. Though KKCL has a strong brand portfolio and is one of the well-managed companies with stable working capital in comparison to peers in the branded retail space, steady volume growth would be the key thing to watch out for in the near term. Thus, we maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 1,415. Investors with a long-term view and looking for a lean balance sheet company can stay invested in the stock.

#### Valuations (Standalone)

Particulars	FY17	FY18	FY19	FY20E	FY21E	Rs cr
Net sales	477.1	460.5	502.4	562.5	633.5	
Operating Profit	98.8	98.2	112.3	126.6	142.8	
OPM (%)	20.7	21.3	22.4	22.5	22.6	
Adjusted Net Profit	74.6	73.2	80.3	89.6	100.4	
EPS (Rs.)	60.5	59.4	65.1	72.6	81.5	
P/E (x)	21.7	22.1	20.1	18.0	16.1	
Book Value	303.7	324.1	349.1	379.7	419.1	
P/BV (x)	4.3	4.0	3.8	3.4	3.1	
EV/EBITDA (x)	14.0	15.3	13.9	12.1	10.8	
RoE (%)	22.2	18.9	19.3	19.9	20.4	
RoCE (%)	19.3	17.3	16.9	17.0	17.5	

#### Results (Standalone)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Rs cr
Net Sales	133.1	120.0	10.9	111.1	19.8	
COGS	50.8	52.9	-4.0	45.3	12.1	
Gross profit	82.4	67.1	22.7	65.8	25.1	
Staff cost	18.6	16.0	16.7	18.1	2.8	
Selling & Administrative Expenses	23.8	13.3	79.0	21.3	11.5	
Other expenses	12.4	11.6	7.1	10.8	14.9	
Operating profit	27.5	26.3	4.6	15.5	77.1	
Other income	6.9	5.9	17.6	7.1	-2.8	
Interest	2.0	1.2	72.9	2.1	-3.3	
Depreciation	2.4	1.5	53.2	2.4	-2.9	
PBT	30.0	29.4	1.9	18.1	65.9	
Tax	9.8	9.9	-0.8	5.4	82.6	
PAT	20.1	19.5	3.3	12.7	58.8	
EPS (Rs.)	16.3	15.8	3.3	10.3	58.8	
Gross profit margin (%)	61.9	55.9	592.5	59.2	263.7	
Operating profit margin (%)	20.7	21.9	-124.5	14.0	668.2	

**Brand-wise revenue performance**

<b>Particulars</b>	<b>Q4FY19</b>	<b>Q4FY18</b>	<b>Rs cr YoY (%)</b>
Killer	77.3	62.6	23.5%
Integriti	24.3	22.7	7.4%
Page 3 Lawman	14.0	21.5	-34.8%
Easies	9.8	7.1	38.0%
Others	5.8	4.7	22.8%
<b>Total</b>	<b>131.3</b>	<b>118.6</b>	<b>10.7%</b>

**Channel-wise revenue performance**

<b>Particulars</b>	<b>Q4FY19</b>	<b>Q4FY18</b>	<b>Rs cr YoY (%)</b>
MBO	48.9	57.8	-15.4%
Retail (K-Lounge)	31.8	24.7	28.9%
National Chain Stores (LFS)	30.7	12.9	136.9%
Factory outlets	9.0	12.6	-28.3%
Exports	2.4	6.7	-64.1%
E-commerce	8.5	4.0	115.1%
<b>Total</b>	<b>131.3</b>	<b>118.6</b>	<b>10.7%</b>

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