

25 July 2019

Kewal Kiran Clothing

Volume-led revenue growth; maintaining a Buy

Driven by healthy, ~7%, volume growth, Kewal Kiran's Q1 FY20 revenue growth came at 4%. The volume-led growth is in line with management strategy. We estimate a 7% revenue CAGR over FY19-21, driven by 10-11% volume growth even with a 4% drop in realisations. We maintain our Buy rating, with a lower TP of ₹1,587, at 15x FY21e EV/EBITDA.

Revenue in line with estimates. Driven by 6.8% volume growth (to 1.09m pieces) and a 3.6% realisation decline (to ₹920/piece), Kewal Kiran reported 4% revenue growth to ₹1,102m. Flagship brand Killer's revenue grew 1% y/y to ₹562m (Killer share of revenue is 51%). Jeans, the largest category (a 61% share) grew 0.5% y/y. Shirts and trousers' revenues grew a high 16% and 8%+ respectively. The multi-brand outlet channel (a 38% share) declined 11.5% y/y to ₹419m and large format stores (a 24% share) grew 46% to ₹261m.

Lowering EBITDA margin estimates. During the quarter, the gross margin expanded 477bps y/y to 55.6% on account of a drop in manufacturing costs. The EBITDA margin, however, at 20.4% was a scant 9bps higher y/y on account of higher selling and distribution expenses (up 3x y/y). EBITDA at ₹225m grew 4.5%. Interest cost at ₹22m was ~100% higher y/y and depreciation at ₹24m was 58% higher y/y. The tax rate was 28% (vs. 37% a year ago). Hence PAT at ₹141m rose a mere 1.6% y/y. We lower our FY20e and FY21e EBITDA respectively 5.6% and 6.7%, and PAT by a similar amount, to reflect the trend of higher selling and distribution expenses (discounts and incentives to drive greater volume growth). We maintain our FY19-21 revenue CAGR estimate of 7%.

Valuation. We are positive on the company for its better return ratios. However, mounting working capital and lower-than-industry revenue growth are concerns. We maintain our Buy on the stock, with a target of ₹1,587 (earlier ₹1,706), at 15x FY21e EV/ EBITDA. **Risk:** Keener competition trimming volume and realisation growth.

Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹ m)	4,665	4,603	5,024	5,347	5,764
Net profit (₹ m)	746	732	803	827	898
EPS (₹)	60.6	59.5	65.2	67.1	72.8
PE (x)	16.9	17.2	15.7	15.2	14.0
EV / EBITDA (x)	11.6	11.7	10.2	9.9	9.0
PBV (x)	3.5	3.1	2.9	2.8	2.7
RoE (%)	22.7	19.3	19.4	18.8	19.8
RoCE (%)	17.8	14.7	14.5	14.3	15.3
Dividend yield (%)	1.9	3.6	4.3	5.1	6.2
Net debt / equity (x)	-0.3	-0.3	-0.1	-0.1	-0.1

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹1,587

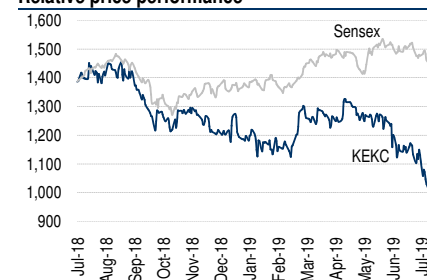
Share Price: ₹1,022

Key data	KEKC IN / KKCL.BO
52-week high / low	₹1,560 / 991
Sensex / Nifty	37848 / 11271
3-m average volume	\$0m
Market cap	₹13bn / \$182.2m
Shares outstanding	12m

Shareholding pattern (%)	Jun'19	Mar'19	Dec'18
Promoters	74.3	74.3	74.3
- of which, Pledged	-	-	-
Free float	25.8	25.8	25.8
- Foreign institutions	9.5	9.5	11.9
- Domestic institutions	11.8	11.9	9.5
- Public	4.4	4.4	4.4

Estimates revision (%)	FY20e	FY21e
Sales	0.0	0.0
EBITDA	-5.6	-6.7
EPS	-5.6	-6.6

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Net revenues	4,665	4,603	5,024	5,347	5,764
Growth (%)	2.0	-1.3	9.2	6.4	7.8
Direct costs	2,020	1,935	1,922	2,032	2,190
SG&A	1,657	1,686	1,979	2,151	2,300
EBITDA	988	982	1,123	1,164	1,274
EBITDA margins (%)	21.2	21.3	22.4	21.8	22.1
- Depreciation	48	58	81	73	81
Other income	175	211	220	220	220
Interest expenses	33	50	69	129	131
PBT	1,083	1,085	1,194	1,182	1,282
Effective tax rate (%)	31	33	33	30	30
+ Associates / (Minorities)	-	-	-	-	-
Net income	746	732	803	827	898
Adjusted income	746	732	803	827	898
WANS	12	12	12	12	12
FDEPS (₹ / sh)	60.6	59.5	65.2	67.1	72.8
FDEPS growth (%)	9.8	(1.9)	9.5	3.0	8.5
Gross margins (%)	56.7	58.0	61.7	62.0	62.0

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
PBT	1,105	1,125	1,043	1,091	1,194
+ Non-cash items	-101	-139	81	73	81
Oper. prof. before WC	1,004	986	1,123	1,164	1,274
- Incr. / (decr.) in WC	-92	124	813	-15	122
Others incl. taxes	296	305	391	355	385
Operating cash-flow	801	557	-81	825	767
- Capex (tang. + intang.)	143	90	119	221	175
Free cash-flow	658	466	-199	604	592
Acquisitions					
- Div. (incl. buyback & taxes)	415	490	540	648	777
+ Equity raised	-	0	-	-	-
+ Debt raised	178	78	452	-	-
- Fin investments	-43	52	-	-	-
- Misc. (CFI + CFF)	30	43	(151)	(91)	(89)
Net cash-flow	434	-40	-137	47	-96

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

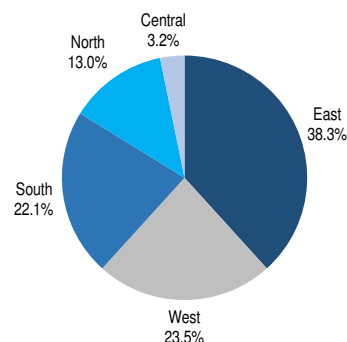
Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	123	123	123	123	123
Net worth	3,581	3,992	4,300	4,479	4,600
Debt (incl. pref.)	405	483	935	935	935
Minority interest	-	-	-	-	-
DTL / (Assets)	4	46	55	55	55
Capital employed	3,990	4,521	5,289	5,469	5,589
Net tangible assets	662	676	769	948	1,043
Net intangible assets	5	5	19	11	11
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	72	92	22	-	-
Investments (strategic)	-	-	-	-	-
Investments (financial)	1,882	2,315	2,367	2,367	2,367
Current assets (ex cash)	1,690	2,006	2,742	2,838	3,059
Cash	642	625	533	575	484
Current liabilities	964	1,198	1,163	1,269	1,374
Working capital	726	808	1,579	1,569	1,686
Capital deployed	3,990	4,521	5,289	5,469	5,589
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	16.9	17.2	15.7	15.2	14.0
EV / EBITDA (x)	11.6	11.7	10.2	9.9	9.0
EV / Sales (x)	2.5	2.5	2.3	2.2	2.0
P/B (x)	3.5	3.1	2.9	2.8	2.7
RoE (%)	22.7	19.3	19.4	18.8	19.8
RoCE (%) - after tax	17.8	14.7	14.5	14.3	15.3
RoIC	15.5	13.3	12.7	12.6	13.2
DPS (₹ / sh)	19.0	36.6	43.8	52.6	63.1
Dividend yield (%)	1.9	3.6	4.3	5.1	6.2
Div. payout (%) - incl. DDT	31.3	61.5	67.2	78.3	86.6
Net debt / Equity (x)	-0.3	-0.3	-0.1	-0.1	-0.1
Receivables (days)	83	108	129	125	125
Inventory (days)	40	42	60	59	59
Payables (days)	31	35	32	35	35
CFO : PAT %	107.4	76.1	-10.0	99.7	85.5

Source: Company, Anand Rathi Research

Fig 6 – Region-wise revenue break-up (Q1 FY20)



Source: Company, Anand Rathi Research

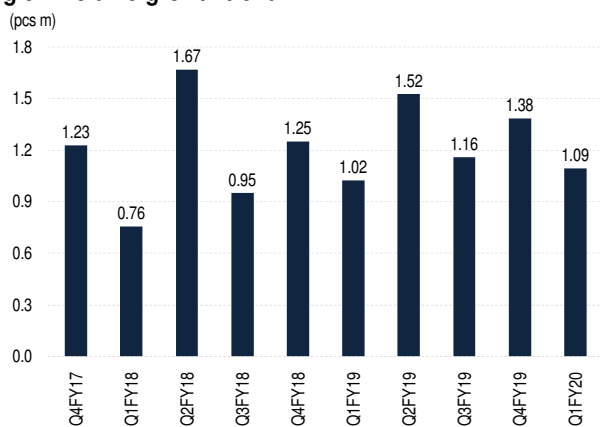
Q1 FY20 result highlights

Fig 7 – Financials

(₹ m)	Q1 FY20	Q1 FY19	% Y/Y	Q4 FY19	% Q/Q	FY19	FY18	% Y/Y
Sales	1,102	1,059	4.0	1,331	-17.2	5,024	4,603	9.2
Gross margins%	55.6	50.9	477bps	52.5	311bps	52.0	48.1	388bps
EBITDA	225	215	4.5	275	-18.3	1,123	982	14.4
EBITDA margins (%)	20.4	20.3	9bps	20.7	-27bps	22.4	21.3	102bps
Interest	22	11	96.4	20	7.8	69	50	38.1
Depreciation	24	15	58.2	24	2.5	81	58	39.7
Other income	18	33	-45.6	69	-74.1	220	211	4.2
PBT	196	221	-11.3	300	-34.5	1,194	1,085	10.0
Tax	55	82	-33.0	98	-44.2	391	353	10.6
Tax rate (%)	28.0	37.1	-910bps	32.8	-485bps	32.7	32.5	18bps
PAT	141	139	1.6	201	-29.8	803	732	9.7
EPS	11.47	11.29	1.6	16.34	-29.8	65.17	59.43	9.7

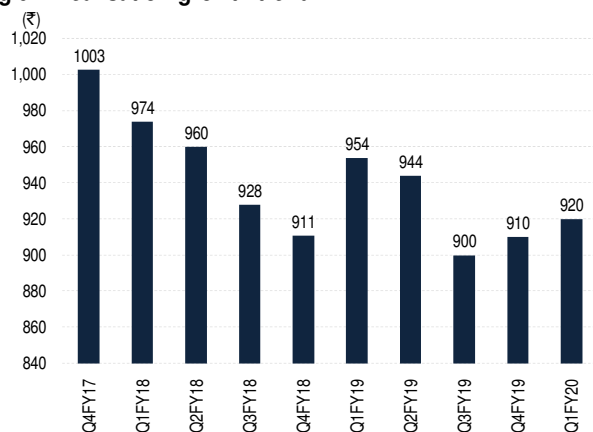
Source: Company

Fig 8 – Volume-growth trend



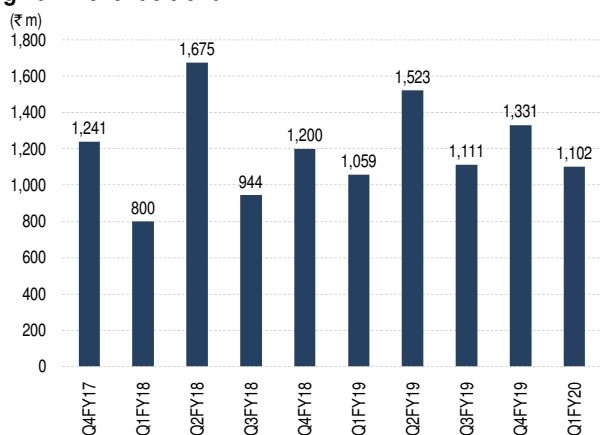
Source: Company

Fig 9 – Realisation-growth trend



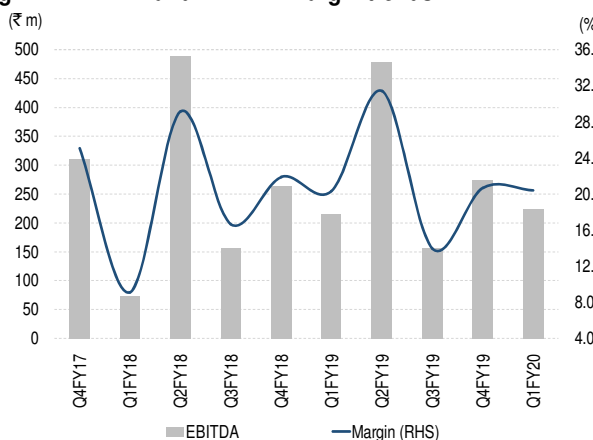
Source: Company

Fig 10 – Revenue trend



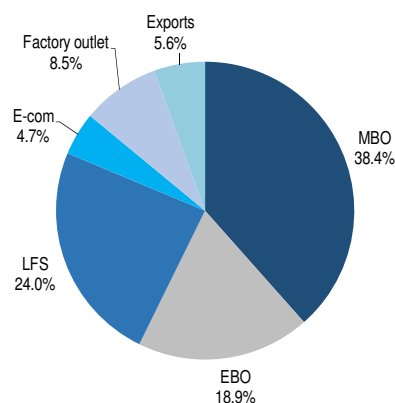
Source: Company

Fig 11 – EBITDA and EBITDA-margin trends



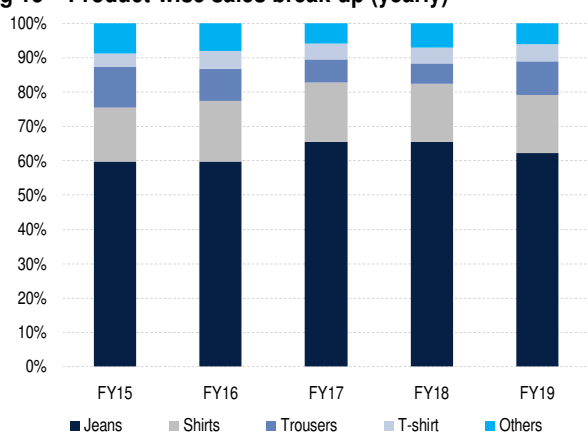
Source: Company

Fig 12 – Q1 FY20 channel-wise sales



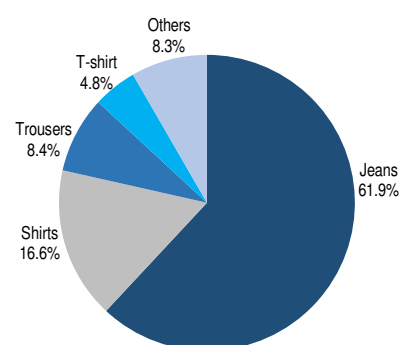
Source: Company, Anand Rathi Research

Fig 13 – Product-wise sales break-up (yearly)



Source: Company

Fig 14 – Q1 FY20 product-wise sales



Source: Company

Change in estimates

We maintain our revenue growth estimates. We lower our FY20e and FY21e EBITDA respectively 5.6% and 6.7%, and PAT by a similar amount, to reflect the trend of higher selling and distribution expenses (discounts and incentives to drive higher volume growth).

Fig 15 – Change in estimates

₹m	Old estimates		New estimates		Change (%)	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Revenue	5,347	5,764	5,347	5,764	0.0%	0.0%
EBITDA	1,233	1,365	1,164	1,274	-5.6%	-6.7%
PAT	876	961	827	898	-5.6%	-6.6%
EPS (₹)	71	78	67	73	-5.6%	-6.6%

Source: Anand Rathi Research

Valuation

We maintain our Buy rating on the stock, with a lower target price of ₹1,587 (previously ₹1,706) based on (the unchanged) 15x FY21e EV/EBITDA. We believe that the high valuation is justified, given the company's almost zero-debt status, its high cash-generating ability and better return ratios. More working-capital days, though, are a cause of concern.

Fig 16 – Valuation parameters

	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	16.9	17.2	15.7	15.2	14.0
EV / EBITDA (x)	11.6	11.7	10.2	9.9	9.0
EV / Sales (x)	2.5	2.5	2.3	2.2	2.0
RoIC (%)	15.5	13.3	12.7	12.6	13.2
RoE (%)	22.7	19.3	19.4	18.8	19.8

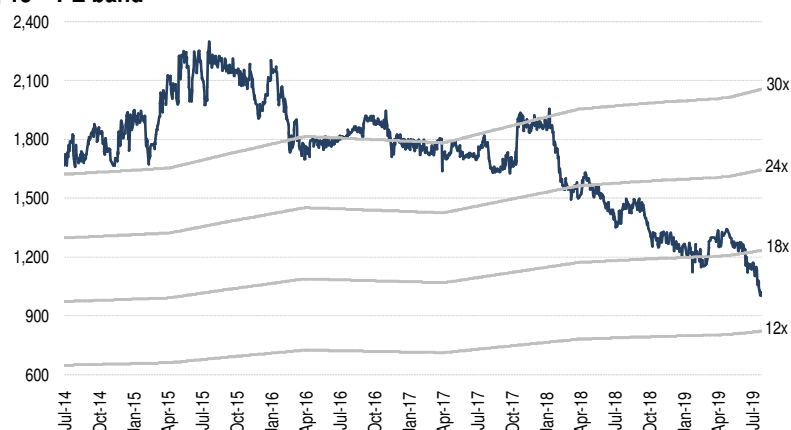
Source: Bloomberg, Company

Fig 17 – Valuation table (₹ m)

EBITDA	1,274
Multiple (x)	15
Enterprise value	19,111
Net debt	(457)
Market cap	19,568
No. of shares outstanding (m)	12.3
Target price (₹)	1,587
CMP (₹)	1,022.0
Upside (%)	55.3%

Source: Anand Rathi Research

Fig 18 – PE band



Source: Bloomberg, Company

Risk

- Intensifying competition would trim volume and realisation growth.

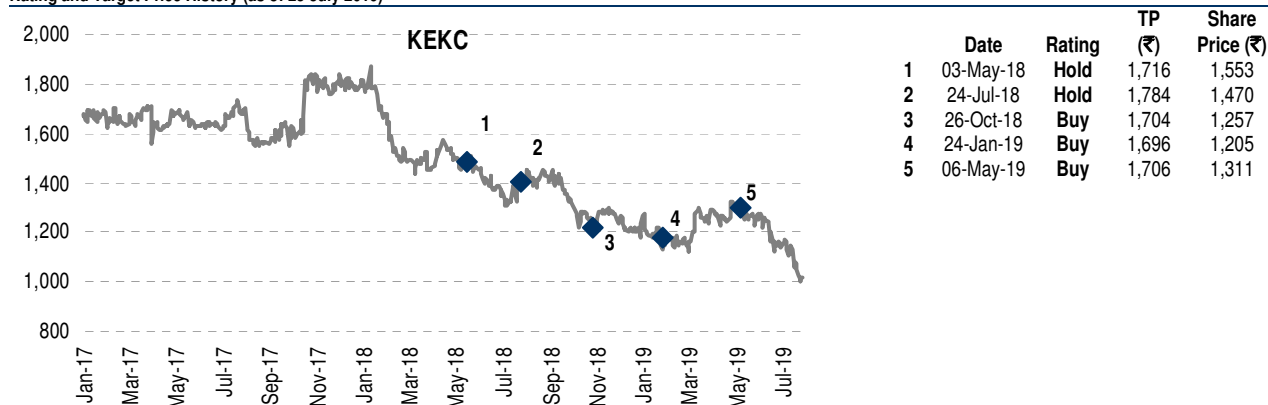
Appendix

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