

## Growth sustains amid tough scenario

KKCL reported healthy revenue growth of 13.6% YoY to ₹ 126.2 crore despite a challenging market scenario in Q3FY20. The growth was mainly supported by volumes (up 16% YoY to 13.45 lakh pieces). Rejig in product mix (higher sales of tops compared to jeans) and spike in sales from non-traditional channel translated into a decline in realisations by 2.4% YoY to ₹ 1008/piece. Growth was visible across all channels with multi brand outlets (MBOs) (39% of sales) and exclusive stores (15.8%) reporting growth of 10.3% and 25.4%, respectively. In recent times, KKCL has enhanced its focus on higher revenue growth. However, the same has weighed on its margin profile. EBITDA margin for the quarter declined 340 bps YoY to 10.6%. Lower gross margins (down 120 bps YoY) and higher selling expenses (up 50% YoY) impacted EBITDA growth (down 14% YoY). Lower effective tax rate (22% vs. 30%) aided PAT (down 9.6% YoY to ₹ 11.5 crore).

## Enhancing share of revenues from modern trade channels

For YTD FY20, revenue growth was at 9.1% YoY to ₹ 403.0 crore. Growth was mainly driven by volume growth of 8.8% YoY to 40.3 lakh pieces. The management highlighted that the underlying market still remained weak, primarily on account of de-stocking at the distributor level owing to liquidity concerns. Hence, the company adopted a cautious credit strategy of not pushing sales into the trade channels. On the segmental front, while core 'jeans' category (56% of sales) has been an underperformer over the last few years (up 2% YoY in YTD FY20), its incremental revenue growth has been derived from categories such as shirts (17% of sales, up 16% in YTD FY20) and T-shirts (5% of sales, up 38.4% in YTD FY20). On the distribution front, NCS and e-commerce has been one of the fastest growing channels with share of contribution increasing from 13% in Q3FY16 to 28.4% in Q3FY20 and 3% to 8.9%, respectively. Sales from traditional channels have grown at a slower pace with share of revenue from MBO channel declining from 46% in Q3FY16 to 39.0% in Q3FY20 and for exclusive stores declining from 28% to 15.8% in Q3FY20.

## Valuation & Outlook

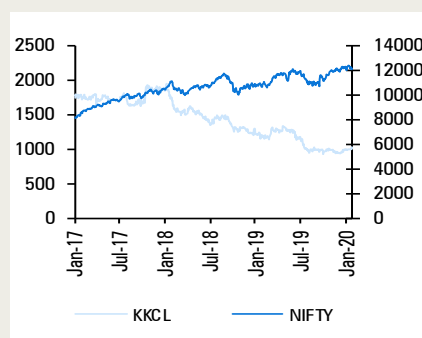
EBITDA margins for YTD FY20 have dipped to 18.3% (vs. average run rate of 20%+). In a bid to sustain double digit topline growth, the management has alluded at a possibility of dilution in margin profile to a range of 18-19%. Despite the same, KKCL remains one of the most profitable branded apparel players having a robust balance sheet with cash & investments worth ~₹ 270 crore. The management expects working capital days to remain elevated (at similar levels of FY19). However, with the company having robust cash & investments, it does not foresee a further increase in working capital debt. The debt/equity ratio is comfortably placed at 0.2x. Factoring in the YTD FY20 performance, we revise our estimates downwards. We reiterate **BUY** rating on the stock with a revised target price of ₹ 1160 (16.0x FY21E EPS).



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,232.5
Debt (FY19) (₹ Crore)	93.5
Cash & Investments (FY19)	290.4
EV (₹ Crore)	1,035.5
52 week H/L	1400 / 921
Equity Capital (₹ Crore)	12.3
Face Value (₹)	10

### Price Performance



### Key Highlights

- Reported volume growth of 8.8% YoY for YTD FY20 while realisations remained flattish
- Modern trade such as NCS grew 22% YoY to ₹ 36 crore in Q3FY20
- Maintain BUY with revised target price of ₹ 1160

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY17	FY18	FY19A	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	466.5	460.3	502.4	549.8	610.9	10.3%
EBITDA	98.8	98.2	112.3	101.3	113.4	0.4%
PAT	74.6	73.2	80.3	77.1	89.2	5.4%
P/E (x)	16.5	16.8	15.3	16.0	13.8	
EV/Sales (x)	2.1	2.1	2.1	1.9	1.7	
EV/EBITDA (x)	10.1	10.0	9.2	10.2	9.1	
RoCE (%)	22.7	20.6	19.9	16.9	18.2	
RoE (%)	19.9	18.3	18.7	17.1	18.7	

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
<b>Total operating Income</b>	<b>460.3</b>	<b>502.4</b>	<b>549.8</b>	<b>610.9</b>
Growth (%)	-1.3	9.2	9.4	11.1
Raw Material Expenses	238.8	241.2	268.7	305.1
Gross margins	48.1	52.0	51.1	50.1
Employee Expenses	65.1	75.1	74.2	78.2
Admin Expenses	30.7	32.8	34.1	38.5
Selling Expenses	27.5	40.9	71.5	75.8
Total Operating Expenditure	362.1	390.1	448.4	497.6
<b>EBITDA</b>	<b>98.2</b>	<b>112.3</b>	<b>101.3</b>	<b>113.4</b>
Growth (%)	-0.6	14.4	-9.8	11.9
Depreciation	5.8	8.1	8.8	9.7
Interest	5.0	6.9	8.8	7.7
Other Income	21.1	22.0	19.2	23.2
PBT	108.6	119.4	102.9	119.1
Others	0.0	0.0	0.0	0.0
Total Tax	35.3	39.1	25.8	29.9
<b>PAT</b>	<b>73.2</b>	<b>80.3</b>	<b>77.1</b>	<b>89.2</b>
Growth (%)	-1.8	9.7	-4.0	15.8
<b>EPS (₹)</b>	<b>59.4</b>	<b>65.2</b>	<b>62.5</b>	<b>72.4</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	387.3	418.2	437.6	465.5
Total Shareholders funds	399.6	430.5	449.9	477.8
Total Debt	48.3	93.5	98.0	91.6
Deferred Tax Liability	4.6	5.5	5.4	5.3
Other long term liabilities	1.6	1.4	1.4	1.4
<b>Total Liabilities</b>	<b>454.1</b>	<b>530.8</b>	<b>554.7</b>	<b>576.2</b>
<b>Assets</b>				
Gross Block	123.0	141.8	157.6	174.0
Less: Acc Depreciation	54.8	62.9	71.7	81.5
Net Block	68.2	78.9	85.9	92.5
Capital WIP	9.1	2.2	2.0	2.0
Total Fixed Assets	77.3	81.1	87.9	94.5
Investments	232.0	237.2	239.5	241.9
Inventory	52.9	83.1	93.4	102.1
Debtors	136.2	177.7	195.8	217.6
Loans and Advances	-	-	-	-
Other Current Assets	6.7	7.2	1.7	1.8
Cash	62.5	53.3	57.5	47.8
Total Current Assets	258.2	321.2	348.4	369.4
Creditors	43.5	44.7	50.1	56.8
Other current liabilities	52.3	39.4	40.2	41.0
Provisions	22.4	30.8	31.7	32.7
Total Current Liabilities	118.2	114.9	122.0	130.5
Net Current Assets	140.1	206.3	226.4	238.8
Others Non-current Assets	4.8	6.2	0.8	0.9
<b>Application of Funds</b>	<b>454.1</b>	<b>530.8</b>	<b>554.7</b>	<b>576.2</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19A	FY20E	FY21E
Profit After Tax	73.2	80.3	77.1	89.2
Add: Depreciation	5.8	8.1	8.8	9.7
(Inc)/dec in Current Assets	-33.2	-72.2	-23.0	-30.6
Inc/(dec) in CL and Provisions	21.2	-3.2	7.0	8.5
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>67.0</b>	<b>13.0</b>	<b>70.0</b>	<b>76.9</b>
(Inc)/dec in Investments	-25.2	-5.2	-2.4	-2.4
(Inc)/dec in Fixed Assets	-11.0	-18.7	-15.9	-16.4
(Inc)/dec in CWIP	-1.8	6.8	0.2	0.0
Others	2.4	-1.4	5.4	0.0
<b>CF from investing activities</b>	<b>-35.7</b>	<b>-18.5</b>	<b>-12.6</b>	<b>-18.8</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	7.8	45.2	4.5	-6.4
Others	-43.1	-48.8	-57.7	-61.3
CF from financing activities	-35.3	-3.7	-53.2	-67.7
Net Cash flow	-3.9	-9.2	4.2	-9.6
Opening Cash	66.4	62.5	53.3	57.5
<b>Closing Cash</b>	<b>62.5</b>	<b>53.3</b>	<b>57.5</b>	<b>47.8</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY18	FY19A	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	59.4	65.2	62.5	72.4
Cash EPS	64.1	71.7	69.7	80.3
BV	324.3	349.3	365.0	387.7
Cash Per Share	50.7	43.2	46.6	38.8
DPS	39.0	34.0	40.0	42.5
<b>Operating Ratios</b>				
EBITDA Margin (%)	21.3	22.4	18.4	18.6
PBT Margin (%)	23.6	23.8	18.7	19.5
PAT Margin (%)	15.9	16.0	14.0	14.6
Inventory days	41.8	60.4	62.0	61.0
Debtor days	108.0	129.1	130.0	130.0
Creditor days	66.5	67.7	68.0	68.0
<b>Return Ratios (%)</b>				
RoE	18.3	18.7	17.1	18.7
RoCE	20.6	19.9	16.9	18.2
<b>Valuation Ratios (x)</b>				
P/E	16.8	15.3	16.0	13.8
EV / EBITDA	10.0	9.2	10.2	9.1
EV / Net Sales	2.1	2.1	1.9	1.7
Market Cap / Sales	2.7	2.5	2.2	2.0
Price to Book Value	3.1	2.9	2.7	2.6
<b>Solvency Ratios</b>				
Debt/EBITDA	1.0	1.5	1.9	1.6
Debt / Equity	0.1	0.2	0.2	0.2
Current Ratio	2.7	3.8	3.9	3.8
Quick Ratio	2.1	2.8	2.8	2.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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