

Revenue recovery driven by higher online sales...

From ~93% decline in revenue in Q1FY21, the company witnessed a sharp recovery in sales with de-growth being restricted to only 7% in Q3FY21. On a sequential basis, revenue grew 75% to ₹ 118.0 crore in Q3FY21 on account of improved festive demand. Change in channel mix (sales mainly through online and LFS) and higher discounting translated in gross margins contracting significantly by 1160 bps YoY at 36.8%. However, significant curtailment of operating overheads (employee and selling expenses down by 26% YoY and 70% YoY, respectively) led to EBITDA margins improving marginally by 80 bps YoY to 11.4%, with EBITDA remaining constant YoY at ₹ 13.5 crore. Lower other income (down 17% YoY) led PAT to decline 6% YoY to ₹ 10.8 crore. The company continues to be net cash positive, with cash and investments worth ₹ 257 crore as on Q3FY21 and has declared interim dividend of ₹ 8/share (₹ 23/share in YTFDY21).

Volumes nearly back to pre-Covid levels

For Q3FY21, volumes were at 13.15 lakh units vs. 13.45 lakh units in Q3FY20. Higher discounting, unfavourable channel mix (e-commerce) led to average realisations declining 5% YoY to ₹ 816/piece. Jeans continues to be an integral category with revenue contributing 45% of overall sales. Over the years KKCL has gradually diversified its product portfolio from jeans towards other categories (share of jeans down from ~70% in Q1FY17). During the quarter, casual shirts segment outperformed other categories, with positive sales growth and share in overall sales increasing 200 bps YoY to 28%. "Killer" brand continues to be the largest revenue contributor with ~57% contribution to overall sales, followed by "Integriti" (18% of sales). As on December 31, 2020, retail store count was at 321 stores (~95% franchise stores). Store addition pipeline appears to be healthy with 42 store opening in progress. Unfavourable channel mix may put near term pressure on operating margins. Hence, we expect gross margins to be in range of 45-46% in FY22-23E (last five-year average: ~50%).

Valuation and Outlook

On the balance sheet front, the company utilised existing inventory and significantly reduced fresh buys leading to gross working capital release of ~₹ 80 crore as on YTFDY21. Subsequently, the company paid off creditors and reduced debt worth ~₹ 53 crore (borrowings as on December 31 was at ₹ 35 crore). KKCL has been conservative in its approach and has always given more prominence to balance sheet strength. The company has virtually debt free status (D/E: 0.1x) with cash and investments worth ₹ 257 crore. We roll our estimates to FY23E and bake in earnings CAGR of 5% in FY20-23E. We believe steady generation of operating cashflows and lower capex requirements would lead to consistent dividend payout ratio of ~65%+. We maintain **HOLD** rating on the stock with a revised target price of ₹ 960 (14x FY23E EPS, previous target price: ₹ 755).

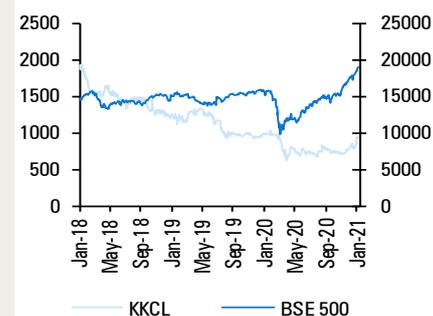


Particulars	
Particular	Amount
Market Capitalisation (₹ Crore)	1,110.5
Debt (FY20) (₹ Crore)	88.0
Cash & Investments (FY20)	277.1
EV (₹ Crore)	921.4
52 week H/L	1050 / 572
Equity Capital (₹ Crore)	12.3
Face Value (₹)	10

Key Risks

- Re-imposition of restrictions leading to store closures or restricted movement of people can negatively impact store footfalls leading to lower own retail/MBO channel sales
- Faster than expected revenue recovery can lead to higher than estimated revenue growth

Price Chart



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Key Financial Summary

(₹ Crore)	FY19	FY20A	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	502.4	529.7	321.0	545.7	603.0	4.4%
EBITDA	112.3	95.1	31.3	91.9	107.1	4.0%
PAT	80.3	73.0	24.2	70.7	83.4	4.5%
P/E (x)	13.8	15.2	45.8	15.7	13.3	
EV/Sales (x)	1.8	1.7	2.9	1.7	1.5	
EV/EBITDA (x)	8.1	9.7	29.4	10.1	8.6	
RoCE (%)	19.9	16.3	4.6	16.0	17.9	
RoE (%)	18.7	16.4	5.6	15.6	17.3	

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Total operating Income	529.7	321.0	545.7	603.0
Growth (%)	5.4	-39.4	70.0	10.5
Raw Material Expenses	262.1	179.0	295.6	320.4
Gross margins	50.5	44.2	45.8	46.9
Employee Expenses	71.5	54.6	60.0	66.3
Admin Expenses	33.1	33.7	43.7	48.2
Selling Expenses	68.0	22.5	54.6	60.9
Total Operating Expenditure	434.6	289.7	453.8	495.9
EBITDA	95.1	31.3	91.9	107.1
Growth (%)	-15.3	-67.1	193.6	16.6
Depreciation	8.2	8.6	9.0	9.6
Interest	8.8	6.4	5.9	5.4
Other Income	17.5	16.1	17.5	19.3
PBT	95.6	32.4	94.4	111.3
Others	0.0	0.0	0.0	0.0
Total Tax	22.6	8.1	23.7	27.9
PAT	73.0	24.2	70.7	83.4
Growth (%)	-9.1	-66.8	191.7	17.9
EPS (₹)	59.3	19.7	57.4	67.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Profit After Tax	73.0	24.2	70.7	83.4
Add: Depreciation	8.2	8.6	9.0	9.6
(Inc)/dec in Current Assets	0.4	23.8	-52.8	-19.5
Inc/(dec) in CL and Provisions	-22.4	-15.4	23.6	5.8
Others	0.0	0.0	0.0	0.0
CF from operating activities	59.2	41.3	50.6	79.3
(Inc)/dec in Investments	40.3	-2.0	-2.0	-2.0
(Inc)/dec in Fixed Assets	-11.9	-8.8	-10.9	-11.8
(Inc)/dec in CWIP	-0.6	0.9	0.0	0.0
Others	-0.6	6.0	0.0	0.0
CF from investing activities	27.1	-3.9	-12.9	-13.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-5.4	-30.2	7.7	-5.2
Others	-54.0	-36.9	-52.4	-52.4
CF from financing activities	-59.4	-67.2	-44.7	-57.5
Net Cash flow	26.9	-29.8	-7.0	7.9
Opening Cash	53.3	80.2	50.4	43.4
Closing Cash	80.2	50.4	43.4	51.3

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	12.3	12.3	12.3	12.3
Reserve and Surplus	434.1	421.3	439.7	470.7
Total Shareholders funds	446.4	433.7	452.0	483.0
Total Debt	88.0	57.8	65.5	60.3
Deferred Tax Liability	5.5	5.4	5.4	5.3
Other long term liabilities	4.5	4.6	4.7	4.8
Total Liabilities	544.4	501.5	527.5	553.4
Assets				
Gross Block	153.7	162.5	173.3	185.2
Less: Acc Depreciation	71.1	79.7	88.7	98.4
Net Block	82.6	82.8	84.6	86.8
Capital WIP	2.9	2.0	2.0	2.0
Total Fixed Assets	85.4	84.8	86.6	88.8
Investments	196.9	198.8	200.8	202.8
Inventory	90.0	83.6	107.6	107.4
Debtors	170.9	158.3	186.9	206.5
Loans and Advances	-	-	-	-
Other Current Assets	6.6	1.8	2.0	2.1
Cash	80.2	50.4	43.4	51.3
Total Current Assets	347.8	294.1	339.9	367.3
Creditors	49.8	33.3	55.9	60.6
Other current liabilities	22.6	23.1	23.5	24.0
Provisions	20.1	20.7	21.3	22.0
Total Current Liabilities	92.5	77.1	100.7	106.5
Net Current Assets	255.2	217.0	239.2	260.8
Others Non-current Assets	6.9	0.9	0.9	1.0
Application of Funds	544.4	501.5	527.5	553.4

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY20A	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	59.3	19.7	57.4	67.7
Cash EPS	65.9	26.7	64.7	75.5
BV	362.2	351.9	366.7	391.9
Cash Per Share	65.1	40.9	35.2	41.6
DPS	38.0	30.0	42.5	42.5
Operating Ratios				
EBITDA Margin (%)	18.0	9.7	16.8	17.8
PBT Margin (%)	18.0	10.1	17.3	18.5
PAT Margin (%)	13.8	7.6	13.0	13.8
Inventory days	62.0	95.0	72.0	65.0
Debtor days	117.8	180.0	125.0	125.0
Creditor days	69.4	68.0	69.0	69.0
Return Ratios (%)				
RoE	16.4	5.6	15.6	17.3
RoCE	16.3	4.6	16.0	17.9
Valuation Ratios (x)				
P/E	15.2	45.8	15.7	13.3
EV / EBITDA	9.7	29.4	10.1	8.6
EV / Net Sales	1.7	2.9	1.7	1.5
Market Cap / Sales	2.1	3.5	2.0	1.8
Price to Book Value	2.5	2.6	2.5	2.3
Solvency Ratios				
Debt/EBITDA	1.9	3.7	1.4	1.1
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	4.8	5.2	4.3	4.3
Quick Ratio	3.6	3.7	2.9	3.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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