

CMP: ₹ 275

Target: ₹ 325 (18%)

Target Period: 12 months

BUY

December 16, 2021

## Turns ex-bonus; stock still offers valuation comfort...

**About the stock:** KKCL is a branded apparel player with a strong bouquet of brands (owned brands 'Killer', 'Lawman Pg 3', 'Integriti' and 'Easies') across various price points. The company's product portfolio is primarily focused on men's casual wear while KKCL has also entered women's and kids wear segment. On the financial front, it has exhibited consistent double digit margins with a healthy balance sheet and strong return ratios though revenue growth has been constrained owing to the company's policy of not resorting to excessive discounting like many of its peers.

- KKCL has exhibited a strong margin profile over the last decade with average margin in excess of 20%, which is better than most of its peers in the branded apparel space

### Event: Bonus issue

- The Board recommended the issue of bonus shares in proportion of four bonus share (face value of ₹ 10 each) for every equity share held. The record date for the same is December 17, 2021 while ex-date for the same is today, December 16, 2021
- Hence, KKCL's share price has dropped to ₹ 275/ share from ₹ 1375/share

**What should investors do?** KKCL's stock price has underperformed broader indices over the last five years, mainly on account of subdued revenue growth. However, we believe the company is well placed to benefit from a demand revival owing to strong brand portfolio and pan-India store and distribution network. It aspires to achieve double digit topline growth through accelerated store addition and increasing share of online space.

- KKCL is trading at reasonable valuations of 18x, 15x EPS of FY23, FY24E, respectively. Also, balance sheet comfort warrants we maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value KKCL at ₹ 325 i.e. 18x FY24E earnings

### Key triggers for future price performance:

- KKCL is well placed to benefit from robust demand owing to its diversified product portfolio and established distribution network. Many regional brands and unorganised apparel players are financially stressed owing to impact of pandemic, which is beneficial for organised players like KKCL
- The company has a virtually debt free status (D/E: 0.1x) with cash & investments worth ₹ 298 crore
- We model revenue, earnings CAGR of 32%, 79%, respectively, in FY21-24E

**Alternate Stock Idea:** Apart from KKCL, we like Siyaram Silk Mills.

- Siyaram's strong brand portfolio and presence in tier II/tier III towns would enable it to benefit from a shift from unorganised to organised players
- We have a BUY rating on the stock with a target price of ₹ 590



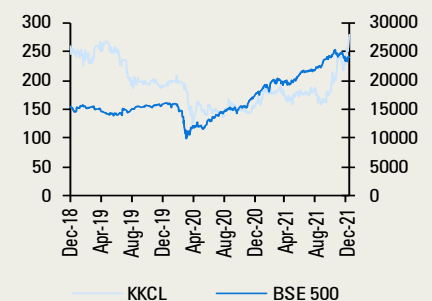
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,695.2
Debt (FY21) (₹ Crore)	46.4
Cash & Investments (FY21)	298.5
EV (₹ Crore)	1,443.2
52 week H/L	299/ 153
Equity Capital (₹ Crore)	61.6
Face Value (₹)	10

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	74.3	74.3	74.3	74.3	74.3
FII	9.5	9.5	9.4	9.5	9.5
DII	11.8	11.8	11.8	11.8	9.8
Others	4.4	4.4	4.5	4.4	6.4

### Price Chart



### Key risks

- (i) Slower ramp up of store network (ii) Inability to pass on input cost hike may subdue profit margins

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary: EPS adjusted as per bonus issue

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	502.4	529.7	302.7	-7.8%	542.5	613.6	694.1	31.9%
EBITDA	112.3	95.1	18.7	-24.9%	84.8	119.4	140.0	95.7%
Adjusted PAT	80.3	73.0	19.4	-14.3%	66.7	94.3	110.8	78.7%
P/E (x)	21.1	23.2	87.3		25.4	18.0	15.3	
EV/EBITDA (x)	13.3	15.8	77.3		17.8	12.5	10.5	
RoCE (%)	19.9	16.3	2.5		14.8	20.0	21.1	
RoE (%)	18.7	16.4	4.5		14.9	19.3	20.2	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Total operating Income</b>	<b>302.7</b>	<b>542.5</b>	<b>613.6</b>	<b>694.1</b>	
Growth (%)	-42.9	79.2	13.1	13.1	
Raw Material Expenses	180.0	300.3	315.7	356.9	
Gross margins	40.5	44.6	48.6	48.6	
Employee Expenses	52.6	59.7	67.5	74.3	
Admin Expenses	32.8	43.4	49.1	54.1	
Selling Expenses	18.6	54.2	62.0	68.7	
Total Operating Expenditure	284.0	457.6	494.3	554.0	
<b>EBITDA</b>	<b>18.7</b>	<b>84.8</b>	<b>119.4</b>	<b>140.0</b>	
Growth (%)	-80.4	354.4	40.7	17.3	
Depreciation	6.7	8.9	9.5	10.1	
Interest	6.8	5.9	5.5	6.2	
Other Income	17.0	19.0	21.5	24.3	
PBT	22.2	89.0	125.8	148.0	
Others	0.0	0.0	0.0	0.0	
Total Tax	2.8	22.4	31.6	37.1	
<b>PAT</b>	<b>19.4</b>	<b>66.7</b>	<b>94.3</b>	<b>110.8</b>	
Growth (%)	-73.4	243.5	41.3	17.6	
<b>EPS (₹)</b>	<b>3.2</b>	<b>10.8</b>	<b>15.3</b>	<b>18.0</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit After Tax	19.4	66.7	94.3	110.8	
Add: Depreciation	6.7	8.9	9.5	10.1	
(Inc)/dec in Current Assets	74.7	-101.9	-26.8	-42.0	
Inc/(dec) in CL and Provisions	4.4	12.4	4.2	9.1	
Others	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>105.2</b>	<b>-13.9</b>	<b>81.2</b>	<b>88.0</b>	
(Inc)/dec in Investments	66.0	-1.3	-1.3	-1.3	
(Inc)/dec in Fixed Assets	-6.4	-11.2	-11.0	-11.8	
(Inc)/dec in CWIP	1.9	0.0	0.0	0.0	
Others	-0.8	6.8	0.0	0.0	
<b>CF from investing activities</b>	<b>60.6</b>	<b>-5.8</b>	<b>-12.4</b>	<b>-13.2</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-41.6	18.7	-3.7	8.0	
Others	-36.8	-52.4	-52.4	-52.4	
CF from financing activities	-78.4	-33.7	-56.1	-44.4	
Net Cash flow	87.4	-53.4	12.7	30.5	
Opening Cash	80.2	167.6	114.2	126.9	
<b>Closing Cash</b>	<b>167.6</b>	<b>114.2</b>	<b>126.9</b>	<b>157.4</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	12.3	61.6	61.6	61.6	
Reserve and Surplus	420.6	385.6	427.5	486.0	
Total Shareholders funds	433.0	447.3	489.2	547.6	
Total Debt	46.4	65.1	61.4	69.4	
Deferred Tax Liability	2.9	2.8	2.7	2.6	
Other long term liabilities	3.1	3.2	3.2	3.3	
<b>Total Liabilities</b>	<b>485.4</b>	<b>518.4</b>	<b>556.5</b>	<b>623.0</b>	
<b>Assets</b>					
Gross Block	160.1	171.3	182.3	194.1	
Less: Acc Depreciation	77.8	86.7	96.2	106.3	
Net Block	82.3	84.6	86.1	87.8	
Capital WIP	1.0	1.0	1.0	1.0	
Total Fixed Assets	83.3	85.6	87.1	88.8	
Investments	130.9	132.2	133.5	134.9	
Inventory	50.6	107.0	109.3	123.6	
Debtors	131.0	185.8	210.1	237.7	
Loans and Advances	-	-	-	-	
Other Current Assets	11.3	2.0	2.1	2.3	
Cash	167.6	114.2	126.9	157.4	
Total Current Assets	360.5	409.0	448.4	520.9	
Creditors	45.7	56.8	59.7	67.5	
Other current liabilities	27.9	28.4	29.0	29.6	
Provisions	23.4	24.1	24.8	25.6	
Total Current Liabilities	97.0	109.3	113.5	122.7	
Net Current Assets	263.5	299.7	334.9	398.3	
Others Non-current Assets	7.7	0.9	1.0	1.0	
<b>Application of Funds</b>	<b>485.4</b>	<b>518.4</b>	<b>556.5</b>	<b>623.0</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	3.2	10.8	15.3	18.0	
Cash EPS	4.2	12.3	16.8	19.6	
BV	70.2	72.6	79.3	88.8	
Cash Per Share	27.2	18.5	20.6	25.5	
DPS	6.0	8.5	8.5	8.5	
<b>Operating Ratios</b>					
EBITDA Margin (%)	6.2	15.6	19.5	20.2	
PBT Margin (%)	7.3	16.4	20.5	21.3	
PAT Margin (%)	6.4	12.3	15.4	16.0	
Inventory days	95.0	72.0	65.0	65.0	
Debtor days	180.0	125.0	125.0	125.0	
Creditor days	68.0	69.0	69.0	69.0	
<b>Return Ratios (%)</b>					
RoE	4.5	14.9	19.3	20.2	
RoCE	2.5	14.8	20.0	21.1	
<b>Valuation Ratios (x)</b>					
P/E	87.3	25.4	18.0	15.3	
EV / EBITDA	77.3	17.8	12.5	10.5	
EV / Net Sales	4.8	2.8	2.4	2.1	
Market Cap / Sales	5.6	3.1	2.8	2.4	
Price to Book Value	3.9	3.8	3.5	3.1	
<b>Solvency Ratios</b>					
Debt/EBITDA	5.4	1.5	1.0	1.0	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	4.9	4.8	5.1	5.4	
Quick Ratio	4.2	3.5	3.8	4.1	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

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

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