

Strong performance in a disruption free quarter

About the stock: KKCL is a branded apparel player with a strong bouquet of brands (owned brands 'Killer', 'Lawman Pg 3', 'Integrati' and 'Easies') across various price points. The company's product portfolio is primarily focused on men's casual wear and the company has also entered the women's and kids wear. On the financial front, KKCL 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

Q1FY23 Results: Kewal Kiran Clothing reported strong revenue performance and registered its highest ever quarterly revenues in Q1.

- Standalone revenue for Q1FY23 increased by 69% YoY to ₹ 154.5 crore (QoQ decline of 9%). Gross margin improved 320 bps YoY to 43.2% but still continued to be lower than pre-covid average of ~ 50%.
- EBITDA margin improved by 1010 bps YoY on a favorable base to 19% (Q1FY22: 8.7%, Q4FY22: 19%). EBITDA stood at ₹ 29.3 crore vs ₹ 7.9 crore in Q1FY22 (Q4FY22: ₹ 32.2 crore).
- Consequently, PAT stood at ₹ 21.6 crore vs ₹ 8.5 crore in Q1FY22 (Q4FY22: ₹ 24.8 crore).

What should investors do? KKCL's stock price has appreciated by 78% in the last one year (three year CAGR of 16%). It has one of the best margin profiles among branded apparel players with a healthy b/s. We believe KKCL is well placed to benefit from demand revival owing to strong brand portfolio and pan-India store and distribution network.

- We have a **BUY** rating on the stock

Target Price and Valuation: We value KKCL at ₹ 385 i.e. 20x 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: 0.2x) with cash & investments worth ₹ 338 crore
- We model revenue, earnings CAGR of 16%, 21% in FY22-24E, respectively

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 shift from unorganised to organised players
- We have a BUY rating with target price of ₹ 665



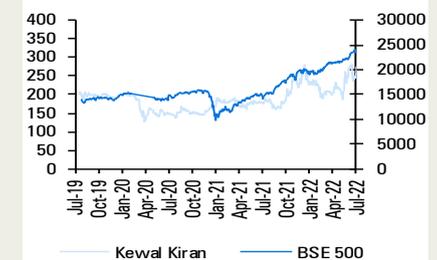
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,034.3
Debt (FY22) (₹ Crore)	76.6
Cash & Investments (FY22)	337.6
EV (₹ Crore)	1,773.3
52 week H/L	343/ 155
Equity Capital (₹ Crore)	61.6
Face Value (₹)	2

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	74.3	74.3	74.3	74.3	74.3
FII	9.5	9.5	1.3	1.7	1.9
DII	11.8	9.8	6.0	6.0	5.9
Others	4.4	6.4	18.4	18.0	17.9

Price Chart



Recent event & key risks

- Added 25 new stores in Q1FY23
- **Key Risk:** (i) Slower ramp up of store network (ii) Inability to pass on input cost hike may subdue profit margins

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Key Financial Summary

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%	607.6	709.7	823.9	16.4%
EBITDA	112.3	95.1	18.7	-24.9%	100.0	127.5	151.5	23.1%
Adjusted PAT	80.3	73.0	19.4	-14.3%	81.7	99.7	119.0	20.7%
P/E (x)	25.3	27.9	104.8		24.9	20.4	17.1	
EV/EBITDA (x)	16.4	19.4	95.5		17.7	14.2	12.0	
RoCE (%)	19.9	16.3	2.5		16.8	20.4	22.4	
RoE (%)	18.7	16.4	4.5		17.1	19.6	21.6	

Key takeaways of Q1FY23 results

- KKCL reported a strong revenue recovery with revenue for Q1FY23 registering the highest ever revenues in Q1 (3 year CAGR of 12%). The retail business share which had declined in FY21 to 39% had recovered to 42% in FY22 and continued to remain stable at 42% for Q1FY23. During Pre-covid period the share used to around 42-43%.
- The company has renewed focus towards increasing the number of brand focused EBOs with a dual purpose of enhancing visibility and expanding retail footprint. The company's expanded its own retail network and added 25 stores in Q1FY23. As on June 30, 2022, total number of retail stores stood at 381 stores covering a total retail space of 2,50,000 square feet. On the new store development front, there are 67 stores under development which could be added in FY23.
- On the product wise performance, revenue share of jeans declined from 55% in Q1FY22 to 53% in Q1FY23 while revenue share of shirts increased from 20% to 26%. Revenue share of T-shirts also declined from 8% in Q1FY22 to 5% in Q1FY23.
- The company is looking to enhance the revenue growth through equal participation in new age channels of National chain stores and E-commerce while maintaining focus on profitability.
- The company has inducted experienced professionals to head their different brands and channels to have a focussed growth strategy for each of the brands and channels.
- During the pandemic, KKCL had reduced its marketing expenditure due to subdued demand. With the normalisation of the business scenario, the company is planning to enhance its expenditure on marketing and brand promotion to provide higher visibility to its brands across various channels.
- The company also has a widespread MBO presence through traditional distribution channel with ~ 80 distributors covering more than 4000 MBOs across India
- The company has a presence in select national chain stores like Central, Shoppers Stop, Pantaloons, Reliance trends and other major departmental stores
- On the e-commerce front, the company has a presence on multiple e-commerce portals like Flipkart/Myntra, Amazon, etc

KKCL continues to be one of the most profitable branded apparel players in India with strong presence in branded menswear category. From a strategy perspective the company is planning to continue its asset light store expansion which would be driven by franchisee outlets across India. Also the company is expanding its presence in select national chain stores and e-commerce platforms which would enable it to acquire newer set of customers. Also to fuel the revenue growth the company is planning to fortify its product bouquet with addition of jackets and winter wear apparel to garner higher market share in Northern India. KKCL is further strengthening its own digital and e-commerce platform to capitalise its brand strengths and also thereby provide an omni-channel access across its EBO network. We believe the initiatives are positive for providing the required thrust to its revenue trajectory and expect the company to register revenue, earnings CAGR of 16%, 21% in FY22-24E, respectively with return ratios in excess of 20%+.

Financial Summary

Exhibit 1: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total operating Income	302.7	607.6	709.7	823.9	
Growth (%)	-42.9	100.7	16.8	16.1	
Raw Material Expenses	180.0	358.7	380.0	439.3	
Gross margins	40.5	41.0	46.5	46.7	
Employee Expenses	52.6	79.8	92.3	107.1	
Admin Expenses	32.8	35.4	42.6	49.4	
Selling Expenses	18.6	33.7	67.4	76.6	
Total Operating Expenditure	284.0	507.6	582.2	672.4	
EBITDA	18.7	100.0	127.5	151.5	
Growth (%)	-80.4	435.8	27.4	18.8	
Depreciation	6.7	7.0	9.3	9.9	
Interest	6.8	4.5	6.4	7.4	
Other Income	17.0	16.9	21.3	24.7	
PBT	22.2	105.3	133.1	158.9	
Others	0.0	0.0	0.0	0.0	
Total Tax	2.8	23.7	33.4	39.9	
PAT	19.4	81.7	99.7	119.0	
Growth (%)	-73.4	320.4	22.1	19.4	
EPS (₹)	3.2	13.2	16.2	19.3	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit After Tax	19.4	81.7	99.7	119.0	
Add: Depreciation	6.7	7.0	9.3	9.9	
(Inc)/dec in Current Assets	74.7	-109.8	-68.8	-59.6	
Inc/(dec) in CL and Provisions	4.4	71.4	21.7	14.6	
Others	-8.5	6.6	0.0	0.0	
CF from operating activities	96.7	56.9	61.8	83.9	
(Inc)/dec in Investments	66.0	-14.9	-1.5	-1.5	
(Inc)/dec in Fixed Assets	-6.4	-11.2	-22.1	-12.7	
(Inc)/dec in CWIP	1.9	0.1	-0.1	0.0	
Others	14.8	18.8	-0.7	0.0	
CF from investing activities	76.3	-7.2	-24.4	-14.2	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-41.6	30.2	-5.6	11.4	
Others	-43.6	-55.6	-69.8	-77.4	
CF from financing activities	-85.2	-25.5	-75.4	-66.0	
Net Cash flow	87.8	24.2	-38.0	3.7	
Opening Cash	79.8	167.6	191.8	153.8	
Closing Cash	167.6	191.8	153.8	157.5	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity Capital	12.3	61.6	61.6	61.6	
Reserve and Surplus	420.6	416.6	446.5	488.1	
Total Shareholders funds	433.0	478.2	508.1	549.8	
Total Debt	46.4	76.6	71.0	82.4	
Deferred Tax Liability	2.9	0.4	0.3	0.2	
Other long term liabilities	3.1	4.4	4.5	4.6	
Total Liabilities	485.4	559.6	583.8	636.9	
Assets					
Gross Block	160.1	171.3	193.4	206.1	
Less: Acc Depreciation	77.8	84.8	94.1	104.0	
Net Block	82.3	86.5	99.3	102.1	
Capital WIP	1.0	0.9	1.0	1.0	
Total Fixed Assets	83.3	87.3	100.3	103.1	
Investments	130.9	145.8	147.2	148.7	
Inventory	50.6	113.0	126.4	146.7	
Debtors	131.0	170.9	243.1	282.2	
Loans and Advances	-	-	-	-	
Other Current Assets	11.3	18.8	2.1	2.3	
Cash	167.6	191.8	153.8	157.5	
Total Current Assets	360.5	494.5	525.4	588.7	
Creditors	45.7	53.4	71.8	83.0	
Other current liabilities	27.9	17.9	18.2	18.6	
Provisions	23.4	97.1	100.0	103.0	
Total Current Liabilities	97.0	168.4	190.1	204.6	
Net Current Assets	263.5	326.2	335.3	384.0	
Others Non-current Assets	7.7	0.3	1.0	1.0	
Application of Funds	485.4	559.6	583.8	636.9	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	3.2	13.2	16.2	19.3
Cash EPS	4.2	14.4	17.7	20.9
BV	70.2	77.6	82.4	89.2
Cash Per Share	27.2	31.1	25.0	25.6
DPS	6.0	11.0	11.3	12.5
Operating Ratios				
EBITDA Margin (%)	6.2	16.5	18.0	18.4
PBT Margin (%)	7.3	17.3	18.8	19.3
PAT Margin (%)	6.4	13.4	14.0	14.4
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
Return Ratios (%)				
RoE	4.5	17.1	19.6	21.6
RoCE	2.5	16.8	20.4	22.4
Valuation Ratios (x)				
P/E	104.8	24.9	20.4	17.1
EV / EBITDA	95.5	17.7	14.2	12.0
EV / Net Sales	5.9	2.9	2.5	2.2
Market Cap / Sales	6.7	3.3	2.9	2.5
Price to Book Value	4.7	4.3	4.0	3.7
Solvency Ratios				
Debt/EBITDA	5.4	1.5	1.1	1.1
Debt / Equity	0.1	0.2	0.1	0.1
Current Ratio	4.9	6.9	5.8	5.8
Quick Ratio	4.2	5.3	4.4	4.3

Source: Company, ICICI Direct Research

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