

# Kewal Kiran Clothing (KEWKIR)

CMP: ₹ 475

Target: ₹ 590 (24%)

Target Period: 12 months

BUY

January 24, 2023

## Focus on profitable growth augurs well...

**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 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%, better than most of its peers in the branded apparel space

**Q3FY23 Results:** Kewal Kiran Clothing (KKCL) reported healthy revenue performance and registered its highest ever quarterly revenues in Q3.

- Standalone revenue for Q3FY23 increased 16% YoY to ₹ 199 crore (QoQ decline of 12%). Gross margin improved 100 bps YoY to 40.6% but still continued to be lower than pre-Covid average of ~ 48%
- EBITDA margin improved 76 bps YoY to 16.9% (Q3FY22: 16.1%, Q2FY23: 22.1%). EBITDA was at ₹ 33.6 crore vs. ₹ 27.5 crore in Q3FY22 (Q2FY23: ₹ 39 crore)
- Consequently, PAT was at ₹ 27 crore vs. ₹ 21.3 crore in Q3FY22 (Q2FY23: ₹ 39 crore)

**What should investors do?** KKCL's stock price has appreciated by 120% in the last one year (three year CAGR of 35%). 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 a demand revival owing to strong brand portfolio and pan-India store and distribution network.

- We maintain **BUY** rating on the stock

**Target Price and Valuation:** We value KKCL at ₹ 590 i.e. 24x FY25E 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 ₹ 337 crore
- We model revenue, earnings CAGR of 20%, 23% in FY22-25E, respectively

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

- Siyaram's strong brand portfolio and presence in tier II/III towns would enable it to benefit from a shift from unorganised to organised players
- We have a BUY rating with target price of ₹ 665



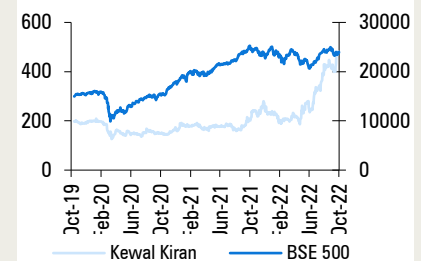
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,959.0
Debt (FY22) (₹ Crore)	76.6
Cash & Investments (FY22)	337.4
EV (₹ Crore)	2,698.1
52 week H/L	592/ 180
Equity Capital (₹ Crore)	61.6
Face Value (₹)	2

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	74.3	74.3	74.3	74.3	74.3
FII	1.3	1.7	1.9	4.0	3.5
DII	6.0	6.0	5.9	5.6	5.8
Others	18.4	18.1	18.0	16.2	16.5

### Price Chart



### Recent event & key risks

- Added 19 new stores in Q3FY23
- **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	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	529.7	302.7	607.6	5.0%	777.3	914.0	1,044.2	19.8%
EBITDA	95.1	18.7	100.0	0.2%	147.8	173.1	198.2	25.6%
Adjusted PAT	73.0	19.4	81.7	1.8%	115.1	133.9	153.6	23.5%
P/E (x)	40.5	152.4	36.2		25.7	22.1	19.3	
EV/EBITDA (x)	29.1	145.7	27.0		18.6	16.0	14.0	
RoCE (%)	16.3	2.5	16.8		23.5	25.1	26.1	
RoE (%)	16.4	4.5	17.1		22.4	23.9	25.1	

Source: Company, ICICI Direct Research

## Key takeaways of Q3FY23 results

- KKCL reported a strong revenue recovery with Q3FY23 registering the highest ever revenues in Q3 (three year CAGR of 16%). The revenue growth was supported by strong network expansion, widening of product portfolio through brand extension and also aided by festive buying
- The retail business share, which had declined in FY21 to 39% had recovered to 42% in FY22, improving to 46% for 9MFY23. During the pre-Covid period, the share used to be 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. KKCL expanded its own retail network and added 19 stores in Q3FY23 (9MFY23: 82 stores added). As on December 31, 2022, total number of retail stores was at 438 covering a total retail space of 2,75,000 square feet. On the new store development front, there are 37 stores under development, which could be added in Q4FY23. From a long term perspective, the management indicated it is aiming to reach ~ 700 EBOs by FY25 with majority (~ 90%) of the expansion being on asset light franchise basis
- On the product wise performance, revenue share of jeans declined from 52% in Q3FY22 to 41% in Q3FY23 while revenue share of shirts declined from 17% to 15%. On a year to date basis (9MFY23) revenue from jeans declined from 53% in 9MFY22 to 51% in 9MFY23 while share of shirts marginally increased from 20% in 9MFY22 to 21% in 9MFY23
- 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 its different brands and channels to have a focused growth strategy for each brand and channel
- During the pandemic, KKCL had reduced its marketing expenditure due to subdued demand. However, with normalisation of 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. With a view to enhance its brand visibility the company is investing in sponsorship of sports events and has been appointed as the official sponsor of the men's Indian cricket team for five months. As per the deal, Team India will use the Killer logo till May 31, 2023. The company is planning a marketing expense in the range of 5.5-6.5% on an annual basis.
- The company witnessed good traction across all its channels and secondary sales in spite of the late onset of winter. KKCL is organising a trade show in February 2023 for the festive, autumn & winter season 23-24 for booking orders for the next season
- KKCL is focusing on streamlining its supply chain policy and maintaining optimum working capital levels. It has organised trade shows twice a year, which aids in better supply chain planning

**KKCL continues to be one of the most profitable branded apparel players in India with a 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 a newer set of customers. Also, to fuel revenue growth the company is planning to continue to expand its product portfolio and garner higher consumer wallet share. KKCL is further strengthening its own digital and e-commerce platform to capitalise on 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 20%, 24% in FY22-25E, respectively, with return ratios in excess of 20%+**

## Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Total operating Income</b>	<b>607.6</b>	<b>777.3</b>	<b>914.0</b>	<b>1,044.2</b>	
Growth (%)	100.7	27.9	17.6	14.2	
Raw Material Expenses	358.7	450.7	524.3	597.5	
Gross margins	41.0	42.0	42.6	42.8	
Employee Expenses	79.8	97.2	116.1	131.6	
Admin Expenses	35.4	38.9	45.7	52.2	
Selling Expenses	33.7	42.7	54.8	64.7	
Total Operating Expenditure	507.6	629.5	740.9	846.0	
<b>EBITDA</b>	<b>100.0</b>	<b>147.8</b>	<b>173.1</b>	<b>198.2</b>	
Growth (%)	435.8	47.7	17.1	14.5	
Depreciation	7.0	8.9	9.8	10.9	
Interest	4.5	7.0	8.2	9.4	
Other Income	16.9	21.8	23.8	27.1	
PBT	105.3	153.6	178.8	205.1	
Others	0.0	0.0	0.0	0.0	
Total Tax	23.7	38.6	44.9	51.5	
<b>PAT</b>	<b>81.7</b>	<b>115.1</b>	<b>133.9</b>	<b>153.6</b>	
Growth (%)	320.4	40.9	16.4	14.7	
<b>EPS (₹)</b>	<b>13.2</b>	<b>18.7</b>	<b>21.7</b>	<b>24.9</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit After Tax	81.7	115.1	133.9	153.6	
Add: Depreciation	7.0	8.9	9.8	10.9	
(Inc)/dec in Current Assets	-105.0	-104.1	-71.4	-67.9	
Inc/(dec) in CL and Provisions	85.6	35.1	17.3	17.3	
Others	-12.4	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>56.9</b>	<b>55.0</b>	<b>89.7</b>	<b>113.9</b>	
(Inc)/dec in Investments	-9.7	-1.4	-1.4	-1.4	
(Inc)/dec in Fixed Assets	-10.7	-22.3	-19.7	-22.5	
(Inc)/dec in CWIP	0.1	-0.1	0.0	0.0	
Others	19.4	-0.7	0.0	-0.1	
<b>CF from investing activities</b>	<b>-1.0</b>	<b>-24.5</b>	<b>-21.1</b>	<b>-24.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	30.2	1.1	13.7	13.0	
Others	-42.8	-80.5	-87.1	-99.9	
CF from financing activities	-12.7	-79.4	-73.4	-86.9	
Net Cash flow	43.2	-48.9	-4.8	3.0	
Opening Cash	153.7	197.0	148.0	143.2	
<b>Closing Cash</b>	<b>196.9</b>	<b>148.0</b>	<b>143.2</b>	<b>146.2</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	61.6	61.6	61.6	61.6	
Reserve and Surplus	416.4	450.9	497.8	551.6	
Total Shareholders funds	478.0	512.6	559.4	613.2	
Total Debt	76.6	77.7	91.4	104.4	
Deferred Tax Liability	(0.4)	(0.5)	(0.6)	(0.7)	
Other long term liabilities	4.4	4.5	4.6	4.7	
<b>Total Liabilities</b>	<b>558.7</b>	<b>594.3</b>	<b>654.8</b>	<b>721.5</b>	
<b>Assets</b>					
Gross Block	171.9	194.2	213.9	236.4	
Less: Acc Depreciation	85.9	94.8	104.7	115.5	
Net Block	86.0	99.4	109.2	120.9	
Capital WIP	0.9	1.0	1.0	1.0	
Total Fixed Assets	86.9	100.4	110.2	121.9	
Investments	140.5	141.9	143.3	144.7	
Inventory	113.0	138.4	162.8	186.0	
Debtors	170.9	266.2	313.0	357.6	
Loans and Advances	-	-	-	-	
Other Current Assets	18.7	2.1	2.3	2.4	
Cash	197.0	148.0	143.2	146.2	
Total Current Assets	499.6	554.7	621.2	692.1	
Creditors	53.4	85.2	99.1	112.9	
Other current liabilities	14.9	15.2	15.5	15.8	
Provisions	100.2	103.2	106.3	109.5	
Total Current Liabilities	168.6	203.6	221.0	238.3	
Net Current Assets	331.0	351.1	400.3	453.9	
Others Non-current Assets	0.3	1.0	1.0	1.1	
<b>Application of Funds</b>	<b>558.7</b>	<b>594.3</b>	<b>654.8</b>	<b>721.5</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Per share data (₹)</b>					
EPS	13.2	18.7	21.7	24.9	
Cash EPS	14.4	20.1	23.3	26.7	
BV	77.6	83.2	90.8	99.5	
Cash Per Share	32.0	24.0	23.2	23.7	
DPS	11.0	13.1	14.1	16.2	
<b>Operating Ratios</b>					
EBITDA Margin (%)	16.5	19.0	18.9	19.0	
PBT Margin (%)	17.3	19.8	19.6	19.6	
PAT Margin (%)	13.4	14.8	14.7	14.7	
Inventory days	72.0	65.0	65.0	65.0	
Debtor days	125.0	125.0	125.0	125.0	
Creditor days	69.0	69.0	69.0	69.0	
<b>Return Ratios (%)</b>					
RoE	4.5	17.1	22.4	23.9	
RoCE	2.5	16.8	23.5	25.1	
<b>Valuation Ratios (x)</b>					
P/E	152.4	36.2	25.7	22.1	
EV / EBITDA	145.7	27.0	18.6	16.0	
EV / Net Sales	9.0	4.4	3.5	3.0	
Market Cap / Sales	9.8	4.9	3.8	3.2	
Price to Book Value	6.8	6.2	5.8	5.3	
<b>Solvency Ratios</b>					
Debt/EBITDA	5.0	1.5	1.1	1.1	
Debt / Equity	0.1	0.2	0.2	0.2	
Current Ratio	7.0	7.3	5.5	5.4	
Quick Ratio	6.0	5.7	4.1	4.0	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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