



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Kewal Kiran Clothing Q2FY23 consolidated revenues came in at ₹ 226 Cr, up 29.3% YoY and 45.8% QoQ.
- PBIDT for Q2FY23 stood at 50 Cr, up 55% YoY and 72% QoQ.
- PBIDTM for Q2FY23 came at 22%, 400 bps YoY and 300 bps QoQ.
- PAT for Q2FY23 stood at ₹39 Cr, up 44% YoY and up 77% QoQ.
- The clothing brand expanded its own retail network and added 38 stores in Q2FY23 (H1FY23: 63 stores added)

### 2. MANAGEMENT COMMENTARY:

- 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 Q2FY23. During pre-Covid period, the share used to be around 42-43%
- Looking to enhance revenue growth through equal participation in new age channels of national chain stores and e-commerce while maintaining focus on profitability

### 3. SEGMENTAL ANALYSIS:

- Q2FY23- Jeans: (57%), Shirts (23%), Trousers (8%), T-Shirts (4%), Others (8%)
- H1FY23- Jeans: (54%), Shirts (21%), Trousers (8%), T-Shirts (5%), Others (12%)

### 4. CONCALL SUMMARY

- 41 stores are currently under development which could be added in H2FY23 in the ratio of 9: 1::FOFO:COCO model stores. From a long term perspective, the management indicated it is aiming to double the EBO count by FY25 with majority of the expansion being on asset light franchise basis
- Planning to enhance its expenditure on marketing and brand promotion to provide higher visibility to its brands across various channels

### 5. OTHER DEVELOPMENTS:

- 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.
- Explore new avenues of growth with focus on new range of products viz. topwear, jackets and winter wear segment.

### 6. VALUATION AND OUTLOOK:

The company is aiming to generate revenue CAGR of over 20% during FY2022-FY2027 led by an ambitious growth plan coupled with consistent margin consistency will help in improving cash flows in the coming years. FY23-24 will be a strong year for the company with healthy order book.

With a strong growth outlook, we initiate a “BUY” rating on the stock and value the stock at 24.9x FY24 EPS to arrive at the target of 600.

## RECOMMENDATION - BUY

**CMP –507**
**TARGET – 600(+18%)**

Industry	Textile
NSE CODE	KKCL
BSE CODE	532732
Market Cap (₹ Cr)	3,077
Shares Outstanding (in Cr)	6.16
52 wk High/Low (₹)	527/180
P/E	29.4
P/BV	6.2
Face Value (₹)	10.00
Book Value (₹)	82.24
EPS (FY22) (₹)	14.00
Dividend Yield (%)	9.51
Debt / Equity	0.16
Interest Coverage	24.31

## SHAREHOLDING PATTERN

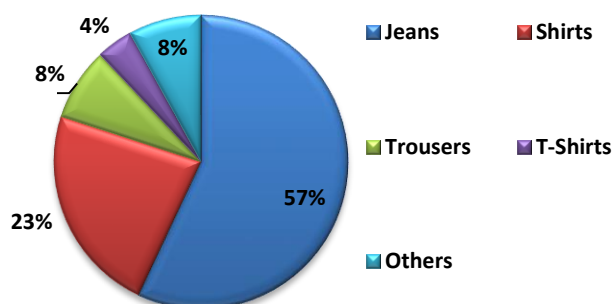
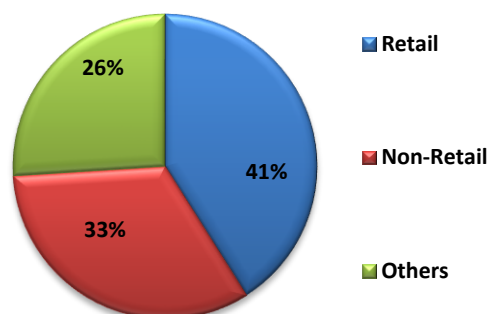
	Sept 22	June 22	Mar 21
Promoters	74.25	74.25	74.25
MF/ DII	5.35	5.90	6.01
FII/FPI	3.95	1.87	1.66
Retail & Others	16.21	17.98	18.08
Promoter	0.00	0.00	0.00
Pledging			

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022	2023E	2024E
<b>Crore</b>			
Sales	607.61	811.4	1,054.8
Sales Gr. (%)	100.71	34	30
EBITDA	100.03	178.5	232.1
EBITDA %	19.26	22.0	22.0
PAT	82.18	126.6	153.4
EPS (₹)	13.33	20.6	24.9
EPS Gr. (%)	243.84	54.1	21.2
BV/Sh. (₹)	77.57	80	82
<b>Ratios</b>			
RoE (%)	17.96	22.3	24.4
RoCE (%)	21.28	23.0	25.1
<b>Valuation</b>			
P/E (x)	14.98	26.3	24.1
P/BV (x)	2.58	6.7	7.3
EV/EBITDA	9.49	15.8	13.3

## Historical & Industrial Val Ratios

Historical P/E	28.84
Industry P/E	23.83
Historical P/B	6.07
Industry P/B	4.06


**REVENUE SPLIT (Q2 FY23)**
**Segmental Mix (Q2 FY23)**

**Channel Mix (Q2 FY23)**

**QUARTERLY PERFORMANCE (CONSOLIDATED)**

(₹ Cr)

Y/E March	FY21		FY22						FY22	FY23E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
<b>Net sales</b>	<b>111</b>	<b>92</b>	<b>175</b>	<b>171</b>	<b>170</b>	<b>155</b>	<b>226</b>	<b>282</b>	<b>608</b>	<b>811</b>
YoY change (%)	-12.6	1206	159.5	45.2	53.2	68.8	29.3	25	34	30
<b>Total Expenditures</b>	<b>101</b>	<b>84</b>	<b>143</b>	<b>144</b>	<b>137</b>	<b>125</b>	<b>176</b>	<b>220</b>	<b>633</b>	<b>823</b>
<b>EBITDA</b>	<b>10</b>	<b>8</b>	<b>32</b>	<b>28</b>	<b>32</b>	<b>29</b>	<b>50</b>	<b>62</b>	<b>179</b>	<b>232</b>
Margins (%)	9	9	18	16	19	19	22	22	22	22
Depreciation	2	2	2	2	2	2	2	2	8	8.7
Interest	1	1	1	1	1	1	1	1	6.1	6.1
Other income	3	4	6	4	4	0	6	6	18	20
<b>PBT</b>	<b>10</b>	<b>9</b>	<b>35</b>	<b>29</b>	<b>33</b>	<b>26</b>	<b>52</b>	<b>65</b>	<b>164</b>	<b>197</b>
Rate (%)	19	2	23	25	24	18	25	25	23	23
<b>Adjusted PAT</b>	<b>8</b>	<b>9</b>	<b>27</b>	<b>21</b>	<b>25</b>	<b>22</b>	<b>39</b>	<b>49</b>	<b>127</b>	<b>127</b>
<b>EPS in Rs</b>	<b>1.3</b>	<b>1.4</b>	<b>4.4</b>	<b>3.5</b>	<b>4.0</b>	<b>3.5</b>	<b>6.4</b>	<b>7.4</b>	<b>20.6</b>	<b>24.6</b>

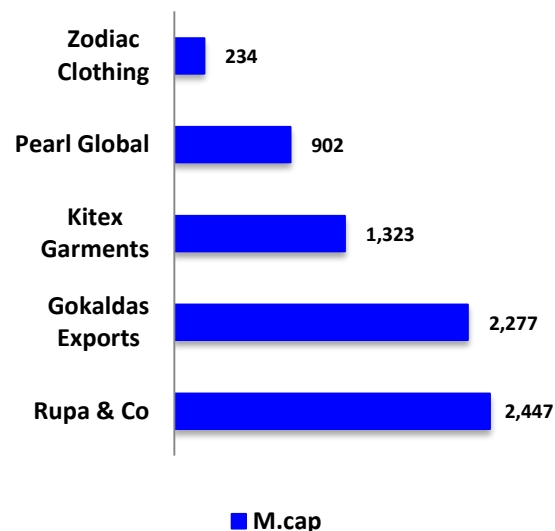
Source: Company, Hem Securities Research.



## INDUSTRY OVERVIEW

- Branded apparel and retail companies witnessed good momentum in July and August 2022, driven by higher footfalls, higher demand and push in sales through EOSS (end of season sales).
- The recent festive season was one of the strongest for companies after two years as they were affected by pandemic-led restrictions. Thus, H2FY2023 revenue growth for branded apparel and retail companies will be led by higher demand during festive & wedding season and higher ticket purchases.
- Higher traction on e-commerce platform, strong retail space expansion strategy and sustained product portfolio expansion will help post consistent growth in the medium term for retail companies. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

## Key Players in Textile-Apparel Space



## PEER PERFORMANCE

(₹ Cr)

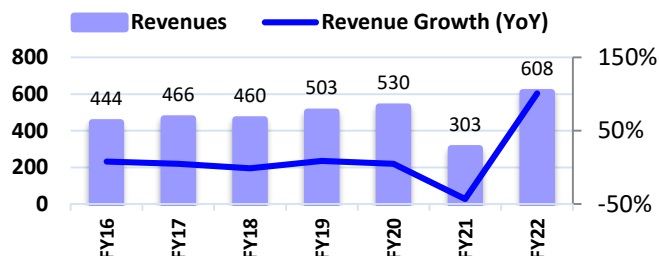
Particulars	Kewal Kiran Clothing Ltd.	Rupa & Co Ltd.	Gokaldas Exports Ltd.	Kitex Garments Ltd.	Pearl Global Industries Ltd.
Market Cap	3,077.9	2,452.9	2,227.5	1,324.0	976.5
EBITDA MARGIN %	19.3	18.9	12.1	25.1	7.0
PAT MARGIN %	13.5	13.0	6.5	15.9	2.6
ROCE %	21.3	25.1	22.1	22.3	14.4
ROE %	18.0	23.8	24.2	16.6	12.6
P/E TTM	28.8	17.9	12.6	9.7	9.5
P/B TTM	6.1	2.8	3.0	1.5	1.6
EV/EBITDA	19.8	12.6	8.2	1.5	1.5
Current Ratio	2.0	2.3	2.1	6.1	1.4
Dividend Yield %	3.8	1.0	-	0.8	1.1
Int Coverage	29.4	8.7	7.2	33.4	3.3
EPS TTM(₹)	13.3	24.1	19.9	18.8	31.5
3 Y Sales CAGR%	13	3	-43	17	15

Source: Company, Hem Securities Research.

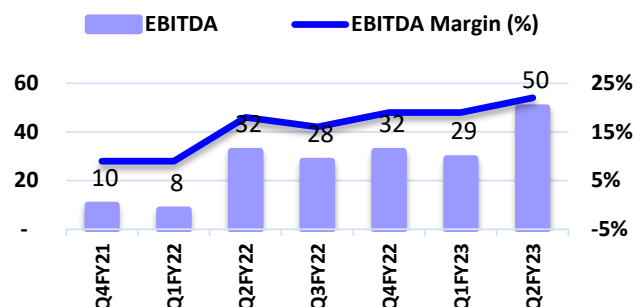


## STORY IN CHARTS

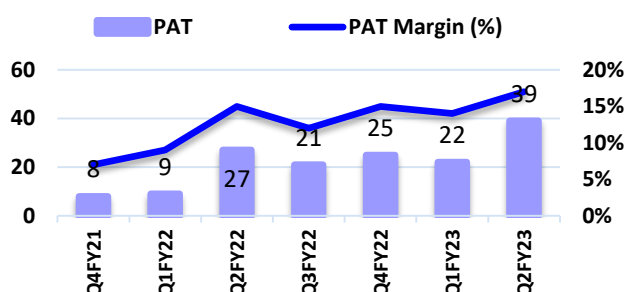
**Revenue**



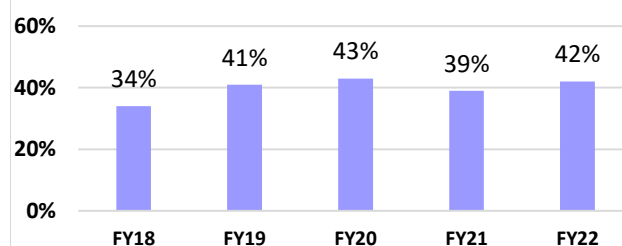
**EBITDA & EBITDA Margin**



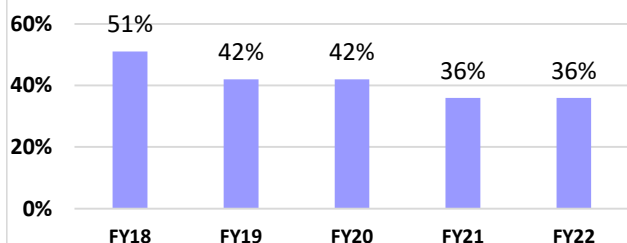
**PAT & PAT Margin**



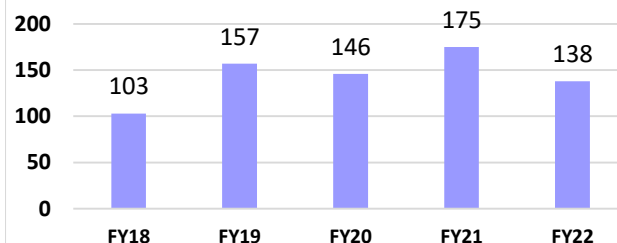
**Retail Channel Performance**



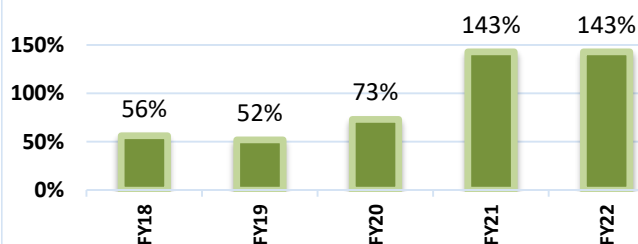
**Non-Retail Channel Performance**



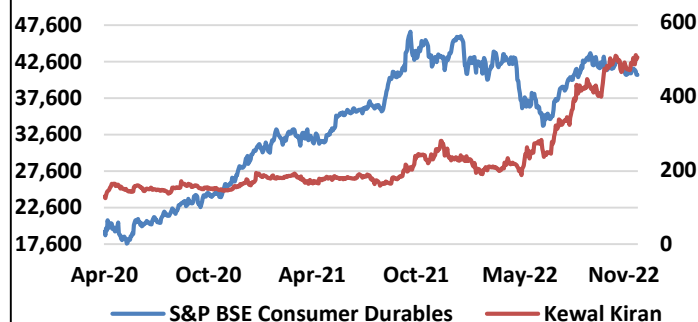
**Net Working Capital Days**



**Dividend Payout (%)**



**Kewal Kiran Vs S&P BSE Consumer Durables**





## INVESTMENT RATIONALE:

- KKCL is well placed to benefit from robust demand owing to its diversified product portfolio and established distribution network. Many regional brands and unorganized apparel players are financially stressed owing to impact of pandemic, which is beneficial for organized players.
- The company enjoys a debt free status (D/E: 0.1x) with cash & investments worth 338 crore
- KEKC expects to achieve 110-120 working capital days in FY23 vs 138 days YoY. KEKC opened 38 new stores in Q2FY23, taking the total store count to 419 as of end-Sep'22 and aims to add 40 stores in H2FY23. Further, management guided to
- Double the EBO stores by FY25 in the ratio of 9: 1::FOFO:COCO model stores. With an established brand franchise in Menswear segment, KEKC intends to explore new avenues of growth with focus on new range of products viz. topwear, jackets and winter wear segment.
- The company 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 is well placed to benefit from demand revival owing to strong brand portfolio and pan-India store and distribution network.

## RISK / NEGATIVE FACTORS:

- Rise in cotton fabric prices: Any increase in fabric prices would affect profitability and earnings growth of the company.
- Slowdown in discretionary consumption: Any slowdown in discretionary consumption would act as a key risk to demand of the consumer discretionary division.

## COMPANY RECAP

- 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 it 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 peers in the branded apparel space
- Reported a strong revenue performance and registered its highest ever quarterly revenues in Q2.



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	460.5	502.9	529.7	302.7	607.6	811.4	1,054.8
Growth YoY (%)	-1.3	9.2	5.3	-42.9	100.7	34	30
Total Expenditure	362.3	390.6	434.6	284.1	507.6	633	823
(%) of sales	78.7	77.7	82.1	93.8	83.5	78.0	78.0
EBITDA	98.2	112.3	95.1	18.7	100.0	178.5	232.1
EBITDA Growth (%)	2.6	12.6	-16.1	-68.3	227.8	78	30
EBITDA Margin (%)	25.8	26.7	21.3	11.8	19.3	22.0	22.0
Depreciation	5.8	8.1	8.2	6.7	7.0	8	8.7
EBIT	113.5	126.3	104.4	29.0	110.0	170.5	223.4
EBIT Growth (%)	1.8	11.2	-17.3	-72.2	279.3	55	31
Net Interest Expenses	5.0	6.9	8.8	6.8	4.5	6.1	6.1
Other Income	21.1	22.0	17.5	17.0	17.0	18	20
Earnings before Taxes	108.6	119.4	95.6	22.2	105.5	164.4	197.3
EBT Margin (%)	23.5	23.7	18.1	7.3	17.4	20	19
Tax-Total	35.3	39.1	22.6	2.8	23.7	37.8	45.4
Rate of tax (%)	32.5	32.7	23.6	12.5	22.5	23	23
Net Profit	73.3	80.3	73.0	19.4	81.8	126.6	152
PAT Growth (%)	-1.8	9.6	-9.1	-73.4	321.2	55	20
PAT Margin (%)	15.9	16.0	13.8	6.4	13.5	15.6	14.4
Minority Interest	0.0	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	73.2	80.3	7.4	23.9	82.2	126.6	152
EPS	11.9	13.0	11.9	3.9	13.3	20.6	24.9
EPS Growth (%)	-1.8	9.7	-9.0	-67.3	243.8	54.1	20

### Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	12	12	12	12	62
Reserves	387	418	434	421	416
Net Worth	399	430	446	433	478
Borrowings	48	93	88	50	82
Other Liabilities	109	122	102	100	183
Total Liabilities & Equity	556	645	636	582	743
Fixed Assets	70	82	83	82	86
CWIP	9	2	3	1	1
Investments	230	235	195	131	140
Other Assets	248	325	356	368	516
Total Assets	556	645	636	582	743

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	15.85	15.97	13.79	6.42	13.46
EBITDA margin (%)	25.82	26.71	21.26	11.80	19.26
EBIT margin (%)	24.57	25.11	19.71	9.58	18.11
ROE (%)	18.95	19.37	16.68	4.42	17.96
ROCE (%)	26.34	26.01	19.75	5.73	21.28
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	93.05	101.27	96.86	109.83	66.83
Inventory (Days)	41.12	49.34	59.65	84.76	49.13
Receivables (Days)	89.60	108.28	120.11	182.03	90.69
Current Ratio (x)	2.23	1.98	2.69	3.18	2.37
<b>Valuations Ratios</b>					
EV/sales (x)	4.04	3.22	1.48	3.19	1.83
EV/EBITDA (x)	15.60	12.04	6.97	27.02	9.49
P/E (x)	25.62	19.65	10.65	44.87	14.98
P/BV (x)	4.70	3.67	1.74	2.48	2.58
Dividend Yield (%)	2.17	2.66	6.81	2.64	9.51
Return on Assets (%)	13.70	13.37	11.40	3.19	12.35
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.12	0.22	0.20	0.11	0.16

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>CF from Operating activities (A)</b>	<b>56</b>	<b>0</b>	<b>51</b>	<b>97</b>	<b>57</b>
<b>CF from Investing Activities (B)</b>	<b>-14</b>	<b>3</b>	<b>46</b>	<b>62</b>	<b>-2</b>
<b>CF from Financing Activities (C)</b>	<b>-46</b>	<b>-11</b>	<b>-70</b>	<b>-85</b>	<b>-12</b>
Net Cash Flow	-4	-8	27	74	43
Add: Opening Bal.	66	62	53	80	154
<b>Closing Balance</b>	<b>62</b>	<b>53</b>	<b>80</b>	<b>154</b>	<b>196</b>

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	$\geq 15\%$
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	$< -5\%$

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8/12/22	BUY	600(+18%)

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Name of the Research Analyst: AARUSHI LUNIA

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