

30 May 2024

India | Equity Research | Q4FY24 results review

Kewal Kiran Clothing

Branded Apparel

Meeting expectations; acquisition to boost TAM

Key positives in the result include: (1) the core segments (jeans and shirts) revenue grew by healthy 13%/7% YoY. (2) Strong overall volume growth at 10%. (3) Operating profit margin maintained at 19% led by mix improvement. (4) On-track rationalisation of K-Lounge EBOs to Killer; at the current rate, we expect most of the K-lounge stores to be rationalised into single brand EBOs (primarily to Killer) over next two years. (5) Net cash position improved by INR 1bn to INR 3.9bn. Foray into women denim wear through acquisition of 50% stake in Kraus Casuals Pvt. Ltd. shall help KEKC to further enhance its TAM (after its foray into kids wear in 4Q). Expected valuation of the target company is ~60% lower than KEKC's fair multiple and hence shall be value accretive. Maintain **BUY**.

Volume-led revenue growth; muted realization

Revenues grew 10% YoY led by 10% YoY improvement in volume (to 2.37 mn pieces) from apparels (~65% contribution), while realisation remained flat YoY to INR 927 despite rise in the contribution from jeans segment to 54.7% in 4QFY24 (vs the base quarter at 53.1%). Revenue from jeans (55% contribution) grew by healthy 13% YoY while that from shirts (22% contribution) and t-shirts (9% contribution) grew by modest 7% and 6% YoY respectively. Revenue from trousers (7% contribution) declined 31% YoY to INR 150mn.

Retail expansion on track

Revenue from retail channel (53% contribution) grew 22% YoY while that from non-retail channel declined 1% YoY. Retail expansion rate at 8% YoY remained healthy. During the quarter, it has added 33 Killer EBOs while rationalized 28 K-Lounge. Total number of EBO stands at 488 (144 K-Lounge, 327 Killer EBO, 1 Factory Outlet, 16 other brand EBOs).

Healthy operating profit margins

Gross margin (post adjusting for contract manufacturing charges) remained flat YoY at 44.6%. EBITDA margin contracted modestly by 23bps YoY to 19.3%. EBITDA stood at INR 424mn, up 9% YoY, while net income was up 19% YoY to INR 376mn due to lower effective tax rate (at 21% vs 26% in 4QFY23).

Financial Summary

| Y/E March (INR mn) | FY23A | FY24A | FY25E | FY26E |
|--------------------|-------|-------|-------|--------|
| Net Revenue | 7,795 | 8,605 | 9,930 | 11,456 |
| EBITDA | 1,520 | 1,772 | 2,143 | 2,518 |
| EBITDA Margin (%) | 19.5 | 20.6 | 21.6 | 22.0 |
| Net Profit | 1,194 | 1,545 | 1,773 | 2,055 |
| EPS (Rs) | 19.4 | 25.1 | 28.8 | 33.3 |
| EPS % Chg YoY | 46.1 | 29.5 | 14.7 | 15.9 |
| P/E (x) | 35.3 | 27.2 | 23.7 | 20.5 |
| EV/EBITDA (x) | 26.9 | 22.5 | 17.9 | 14.6 |
| RoCE (%) | 18.8 | 20.2 | 19.9 | 18.8 |
| RoE (%) | 23.3 | 25.3 | 23.3 | 21.7 |

Varun Singh

varun.singh@icicisecurities.com
+91 22 6807 7649

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Akshay Krishnan

akshay.krishnan@icicisecurities.com

Market Data

| | |
|---------------------|----------|
| Market Cap (INR) | 42bn |
| Market Cap (USD) | 505mn |
| Bloomberg Code | KEKC IN |
| Reuters Code | KKCL.BO |
| 52-week Range (INR) | 827 /478 |
| Free Float (%) | 26.0 |
| ADTV-3M (mn) (USD) | 0.4 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|--------|--------|------|
| Absolute | (9.4) | (14.5) | 38.6 |
| Relative to Sensex | (11.3) | (24.8) | 21.2 |

| Earnings Revisions (%) | FY25E | FY26E |
|------------------------|-------|-------|
| Revenue | (0.7) | (0.2) |
| EBITDA | 2.3 | 2.8 |
| EPS | 3.2 | 3.6 |

Previous Reports

21-01-2024: [Q3FY24 results review](#)

24-10-2023: [Q2FY24 results review](#)

Announced foray into women denim wear through acquisition (of 50% stake)

KEKC has announced to acquire 50% stake in Kraus Casuals Private Limited for a total consideration of INR 1.7bn. This values KRAUS at INR 3.3 bn; implying ~2x market cap to sales multiple (vs ~5x market cap to sales multiple for KEC). We believe, the acquisition shall be value accretive to the company as it enables KEC to enhance its presence in women denim wear segment. Given KEC's competitive strength in jeans manufacturing, it may create potential for superior cost synergies. Revenue of KRAUS in FY24 stood at INR 1.8bn (~20% of KEC's FY24 revenue of ~INR 9bn).

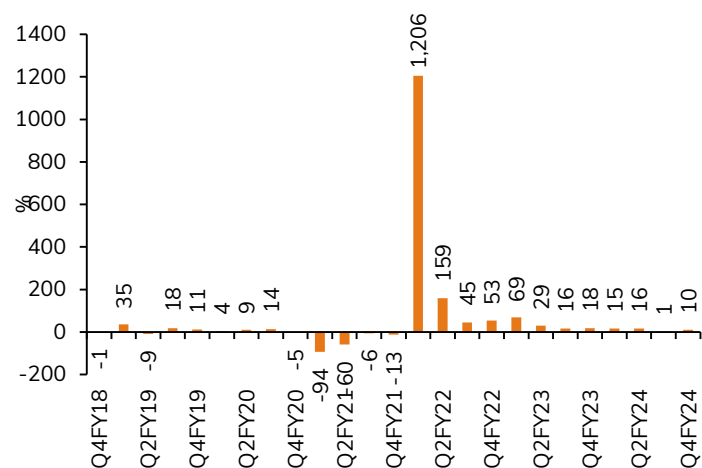
Valuation and risks

We raise our EPS estimate marginally by ~3-4% for FY25E-26E. We model revenue/ EBITDA / PAT CAGR of 15% / 19% / 15 (%) over FY24-FY26E. We maintain our BUY rating with a DCF-based unchanged target price of INR 900. Key downside risks: 1) slower-than-expected pick-up in discretionary consumption, and 2) rise in competition from private label retailers. Key upside risks: success in new categories, jackets, women and kids wear.

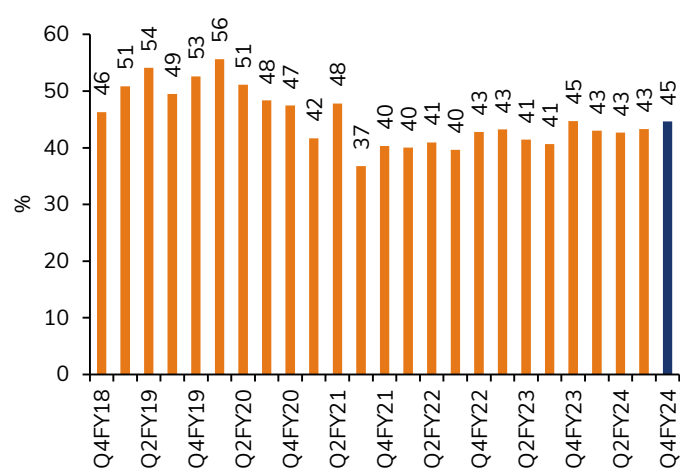
Exhibit 1: Q4FY24 result review

| (INR mn, year ending March 31) | Q4FY24 | Q4FY23 | YoY (%) | Q3FY24 | QoQ (%) | FY24 | FY23 | YoY (%) |
|--------------------------------|--------------|--------------|----------------|--------------|----------------|--------------|--------------|----------------|
| Revenues | 2,194 | 1,995 | 10.0 | 2,002 | 9.6 | 8,605 | 7,795 | 10.4 |
| COGS | 1,215 | 1,103 | 10.1 | 1,135 | 7.0 | 4,871 | 4,489 | 8.5 |
| Gross profit | 979 | 892 | 9.8 | 867 | 13.0 | 3,734 | 3,306 | 12.9 |
| Gross Margin (%) | 44.6 | 44.7 | -7 bps | 43.3 | 133 bps | 43.4 | 42.4 | 97 bps |
| Employee expenses | 269 | 253 | 6.1 | 264 | 1.9 | 1,053 | 979 | 7.6 |
| % of net sales | 12.3 | 12.7 | -45 bps | 13.2 | -93 bps | 12.2 | 12.6 | -32 bps |
| Other Expenses | 286 | 248 | 15.4 | 215 | 33.4 | 909 | 808 | 12.5 |
| % of net sales | 13.0 | 12.4 | 61 bps | 10.7 | 233 bps | 10.6 | 10.4 | 20 bps |
| EBITDA | 424 | 390 | 8.7 | 389 | 9.2 | 1,772 | 1,520 | 16.6 |
| EBITDA Margin (%) | 19.3 | 19.6 | -23 bps | 19.4 | -7 bps | 20.6 | 19.5 | 109 bps |
| Depreciation | 25 | 24 | 6.4 | 26 | -2.3 | 101 | 87 | 16.2 |
| EBIT | 399 | 367 | 8.9 | 363 | 10.00 | 1,670 | 1,432 | 16.6 |
| Other Income | 82 | 76 | 8.9 | 93 | -11.1 | 370 | 202 | 82.8 |
| Interest Expenses | 6 | 18 | -69.1 | 12 | -51.3 | 44 | 64 | -31.9 |
| PBT | 476 | 424 | 12.2 | 444 | 7.2 | 1,997 | 1,571 | 27.1 |
| Taxes | 100 | 108 | | 111 | -9.9 | 452 | 378 | |
| Adjusted PAT | 376 | 315.9 | 19.0 | 333 | 12.9 | 1,545 | 1,193 | 29.5 |
| Extra-ordinary items | 0 | 0 | | 0 | | 0 | 1 | |
| Reported PAT | 376 | 316 | 19.0 | 333 | 12.9 | 1,545 | 1,192 | 29.6 |
| EPS | 6.1 | 5.1 | 19.0 | 5.4 | 12.9 | 25.1 | 19.3 | 29.6 |

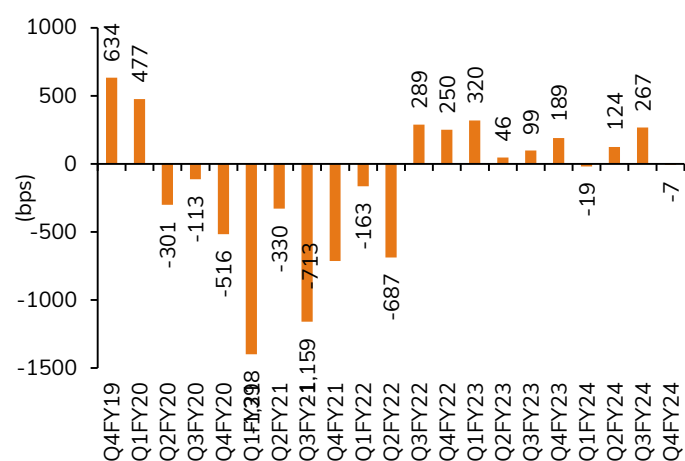
Source: Company data, I-Sec research

Exhibit 2: Revenue growth (YoY)

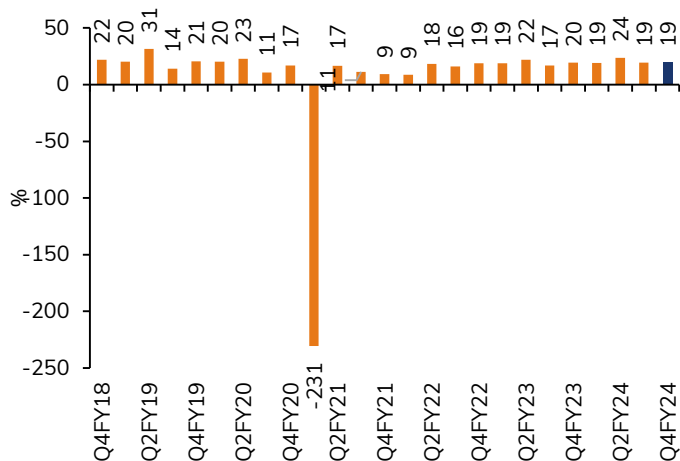
Source: Company data, I-Sec research

Exhibit 3: Gross margin

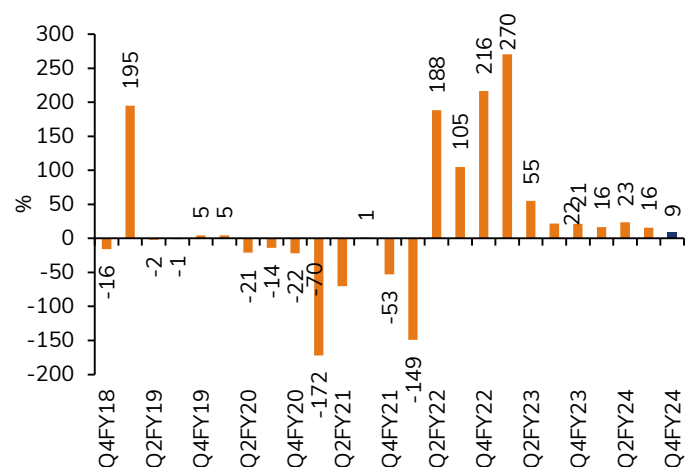
Source: Company data, I-Sec research

Exhibit 4: Gross margin (bps YoY)

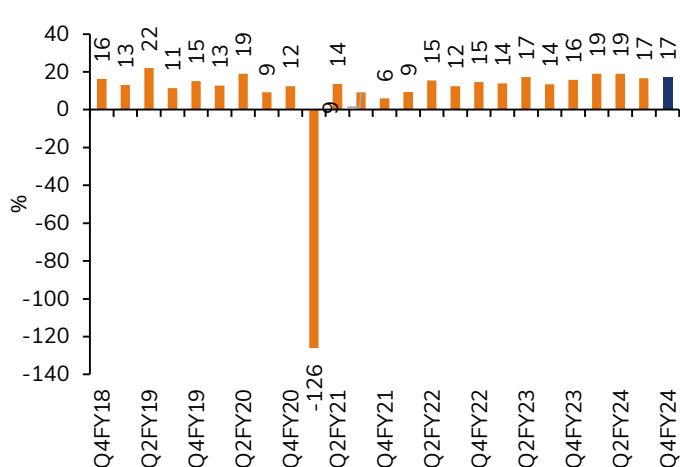
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin

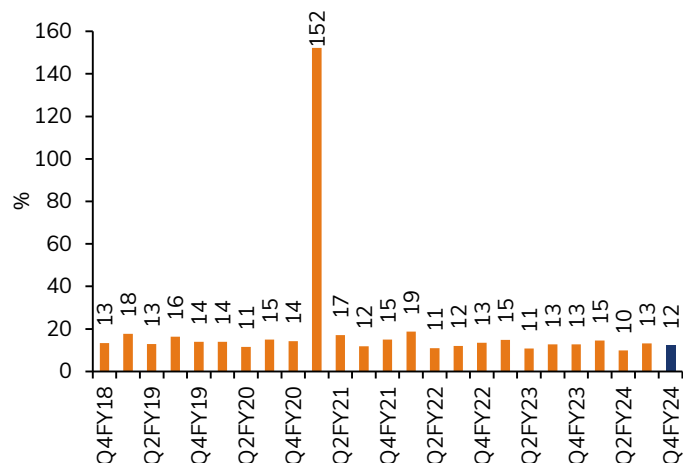
Source: Company data, I-Sec research

Exhibit 6: EBITDA growth

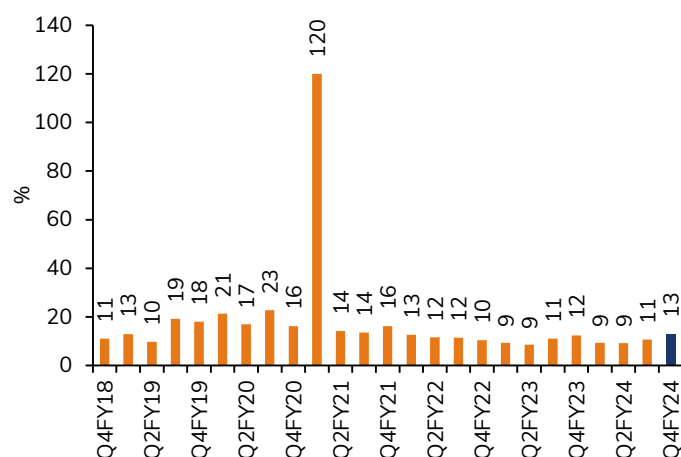
Source: Company data, I-Sec research

Exhibit 7: PAT margin

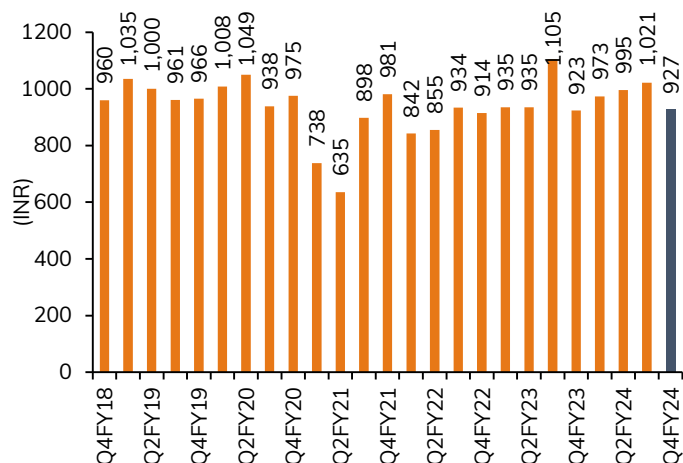
Source: Company data, I-Sec research

Exhibit 8: Staff costs as a % of sales

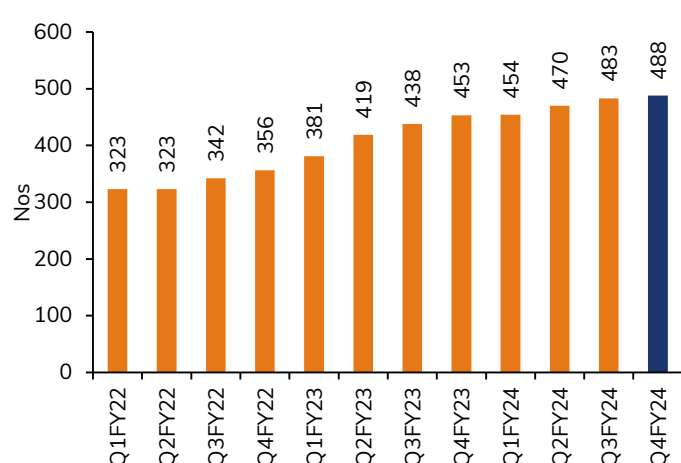
Source: Company data, I-Sec research

Exhibit 9: Operating expense as % of sales

Source: Company data, I-Sec research

Exhibit 10: Sales Realisation

Source: Company data, I-Sec research

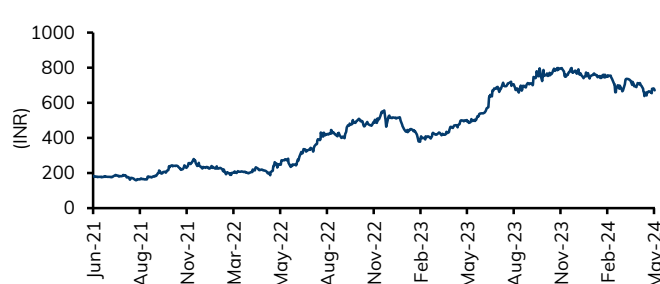
Exhibit 11: EBO Count

Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

| % | Sep'23 | Dec'23 | Mar'24 |
|-------------------------|--------|--------|--------|
| Promoters | 74.3 | 74.3 | 74.3 |
| Institutional investors | 10.6 | 11.1 | 11.0 |
| MFs and other | 6.7 | 7.3 | 7.5 |
| FIs/ Banks | - | - | - |
| Insurance Cos. | 0.2 | 0.2 | 0.3 |
| FIIIs | 3.7 | 3.6 | 3.2 |
| Others | 15.1 | 14.6 | 14.7 |

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|--------------|--------------|--------------|--------------|
| Net Sales | 7,795 | 8,605 | 9,930 | 11,456 |
| Operating Expenses | 6,275 | 6,833 | 7,788 | 8,938 |
| EBITDA | 1,520 | 1,772 | 2,143 | 2,518 |
| EBITDA Margin (%) | 19.5 | 20.6 | 21.6 | 22.0 |
| Depreciation & Amortization | 87 | 101 | 117 | 135 |
| EBIT | 1,432 | 1,671 | 2,026 | 2,383 |
| Interest expenditure | 64 | 44 | 50 | 58 |
| Other Non-operating Income | 202 | 370 | 388 | 415 |
| Recurring PBT | 1,571 | 1,997 | 2,364 | 2,740 |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | 378 | 452 | 591 | 685 |
| PAT | 1,193 | 1,545 | 1,773 | 2,055 |
| Less: Minority Interest | - | - | - | - |
| Extraordinaries (Net) | 1 | - | - | - |
| Net Income (Reported) | 1,194 | 1,545 | 1,773 | 2,055 |
| Net Income (Adjusted) | 1,194 | 1,545 | 1,773 | 2,055 |

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|--------------|--------------|--------------|---------------|
| Total Current Assets | 5,307 | 5,281 | 7,257 | 9,407 |
| of which cash & cash eqv. | 1,704 | 2,190 | 3,731 | 5,377 |
| Total Current Liabilities & Provisions | 2,038 | 1,374 | 1,441 | 1,518 |
| Net Current Assets | 3,269 | 3,907 | 5,816 | 7,890 |
| Investments | 1,838 | 2,019 | 2,019 | 2,019 |
| Net Fixed Assets | 1,014 | 1,082 | 972 | 1,005 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 13 | - | 10 | 10 |
| Total Intangible Assets | - | - | - | - |
| Other assets | - | - | - | - |
| Deferred Tax assets | - | - | - | - |
| Total Assets | 6,134 | 7,007 | 8,817 | 10,923 |
| Liabilities | | | | |
| Borrowings | 508 | 25 | 25 | 25 |
| Deferred Tax Liability | - | 43 | 43 | 43 |
| provisions | - | - | - | - |
| other Liabilities | 152 | 173 | 266 | 372 |
| Equity Share Capital | 616 | 616 | 616 | 616 |
| Reserves & Surplus | 4,858 | 6,150 | 7,867 | 9,867 |
| Total Net Worth | 5,474 | 6,766 | 8,483 | 10,483 |
| Minority Interest | - | - | - | - |
| Total Liabilities | 6,134 | 7,007 | 8,817 | 10,923 |

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

| | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---------------------|--------|--------|--------|--------|
| Net Sales | 1,784 | 2,625 | 2,002 | 2,194 |
| % growth (YOY) | 15.4 | 16.0 | 0.6 | 10.0 |
| EBITDA | 341 | 617 | 389 | 424 |
| Margin % | 19.1 | 23.5 | 19.4 | 19.3 |
| Other Income | 112 | 83 | 93 | 82 |
| Extraordinaries | 0 | 0 | 0 | 0 |
| Adjusted Net Profit | 338 | 498 | 333 | 376 |

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|--------------|--------------|--------------|--------------|
| Operating Cashflow | 1,570 | 1,997 | 2,364 | 2,740 |
| Working Capital Changes | (467) | (101) | (369) | (427) |
| Capital Commitments | (162) | (96) | (146) | (168) |
| Free Cashflow | 589 | 1,264 | 1,425 | 1,653 |
| Other investing cashflow | 61 | (33) | - | - |
| Cashflow from Investing Activities | (101) | (129) | (146) | (168) |
| Issue of Share Capital | - | - | 0 | 0 |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | 50 | (350) | - | - |
| Dividend paid | - | - | - | - |
| Others | (109) | (39) | 171 | 49 |
| Cash flow from Financing Activities | (552) | (635) | 115 | (7) |
| Chg. in Cash & Bank balance | 98 | 595 | 1,541 | 1,646 |
| Closing cash & balance | 1,548 | 2,299 | 3,731 | 5,377 |

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 19.4 | 25.1 | 28.8 | 33.3 |
| Adjusted EPS (Diluted) | 19.4 | 25.1 | 28.8 | 33.3 |
| Cash EPS | 20.8 | 26.7 | 30.7 | 35.5 |
| Dividend per share (DPS) | - | - | - | - |
| Book Value per share (BV) | 88.8 | 109.8 | 137.6 | 170.1 |
| Dividend Payout (%) | - | - | - | - |
| Growth (%) | | | | |
| Net Sales | 28.3 | 10.4 | 15.4 | 15.4 |
| EBITDA | 52.1 | 16.6 | 20.9 | 17.5 |
| EPS (INR) | 46.1 | 29.5 | 14.7 | 15.9 |
| Valuation Ratios (x) | | | | |
| P/E | 35.3 | 27.2 | 23.7 | 20.5 |
| P/CEPS | 32.8 | 25.5 | 22.3 | 19.2 |
| P/BV | 7.7 | 6.2 | 5.0 | 4.0 |
| EV / EBITDA | 26.9 | 22.5 | 17.9 | 14.6 |
| P / Sales | 5.4 | 4.9 | 4.2 | 3.7 |
| Dividend Yield (%) | - | - | - | - |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 52.2 | 50.4 | 53.0 | 53.0 |
| EBITDA Margins (%) | 19.5 | 20.6 | 21.6 | 22.0 |
| Effective Tax Rate (%) | 24.1 | 22.6 | 25.0 | 25.0 |
| Net Profit Margins (%) | 15.3 | 18.0 | 17.9 | 17.9 |
| NWC / Total Assets (%) | - | - | - | - |
| Net Debt / Equity (x) | (0.2) | (0.3) | (0.4) | (0.5) |
| Net Debt / EBITDA (x) | (0.8) | (1.2) | (1.7) | (2.1) |
| Profitability Ratios | | | | |
| RoCE (%) | 18.8 | 20.2 | 19.9 | 18.8 |
| RoE (%) | 23.3 | 25.3 | 23.3 | 21.7 |
| RoIC (%) | 21.5 | 24.7 | 23.7 | 22.1 |
| Fixed Asset Turnover (x) | 8.3 | 8.2 | 9.7 | 11.6 |
| Inventory Turnover Days | 87 | 37 | 37 | 37 |
| Receivables Days | 89 | 90 | 92 | 92 |
| Payables Days | 25 | 19 | 20 | 20 |

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
