

4 June 2024

Kewal Kiran Clothing

Healthy cashflow, growing presence in women's wear; upgrading to a Buy

In line with our estimates, Kewal Kiran's Q4 revenue grew 10% y/y, but the 19.3% EBITDA margin slightly lagged ARe. Better working capital led to higher, Rs1.4bn/1.3bn, OCF/FCF generation (FY23 Rs0.8bn/0.5bn). The company strengthened its presence in women's wear by acquiring a 50% stake in Kraus Casuals for Rs1.7bn. Management revised its FY25 revenue growth guidance to 15-18% (15-20% earlier), excl. the recent acquisition, due to tough market conditions, with 18-20% EBITDA margins. Growth ahead would be driven by SSSG, the channel mix, network expansion and category extensions to kids' and women's wear. We lower our FY25e/26e revenue/EBITDA ~3%/4% on average each year on the revised guidance. We haven't factored in Kraus Casuals' acquisition. We upgrade our rating to a Buy, with a lower 12-mth Rs811 TP (earlier Rs831), 18x FY26e EV/EBITDA.

In-line revenue. Q4 revenue grew 10% y/y to Rs2.2bn, led by ~23% y/y rise in overall volumes to 3.62m pieces. Apparel volume grew ~10% y/y to 2.37m pieces. Overall, ASP fell ~10% y/y to Rs604. The gross margin (incl. manufacturing expenses) was flat y/y at 44.6%. EBITDA grew ~9% y/y to Rs424m. The EBITDA margin fell ~20bps y/y to 19.3%. PAT grew ~20% y/y to Rs379m. Retail/non-retail channels brought 47%/53% to FY24 sales (~48%/52% last year), but both continued to grow at the same pace.

Healthy OCF/FCF. WC days improved to 102 (135 in FY23), led by 43 y/y lower inventory days as the company is trying to reduce its finished goods inventory to sync it with the fast-changing trends in fashion industry. This, along with more profitability led to healthier, Rs1.4bn/1.3bn, OCF/FCF generation (FY23 Rs0.8bn/0.5bn). Net cash reserves were Rs3.7m (Rs2.5bn in FY23).

Acquiring a 50% stake in Kraus Casuals would aid the company's entry into women's denim/casual wear while KKCL will bring synergies through its distribution network and manufacturing capabilities. Kraus Jeans operates through 1,000+ LFS and eight EBOs. The LFS channel accounts for 90% of its revenue.

Valuation. We upgrade our rating to a Buy, with a lower TP of Rs811, 18x FY26e EV/ EBITDA. **Risks:** Keener competition hurting volumes, realisation growth, RM price fluctuations.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	6,076	7,795	8,605	9,919	11,553
Net profit (Rs m)	816	1,190	1,541	1,647	1,952
EPS (Rs)	13.2	19.3	25.0	26.7	31.7
P/E (x)	15.1	21.6	26.8	23.8	20.1
EV / EBITDA (x)	9.9	15.3	21.2	16.7	13.7
P/BV (x)	2.6	4.7	6.1	5.1	4.4
RoE (%)	17.9	23.2	25.2	22.7	23.4
RoCE (%)	13.9	18.9	20.2	20.0	20.9
Dividend yield (%)	9.5	1.2	0.3	1.7	1.9
Net debt / equity (x)	(0.5)	(0.5)	(0.6)	(0.5)	(0.6)

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.811

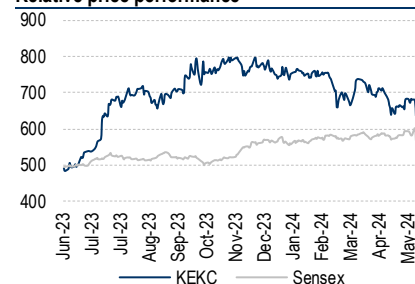
Share Price: Rs.636

Key data	KEKC IN / KKCL.BO
52-week high / low	Rs827 / 478
Sensex / Nifty	72079 / 21885
3-m average volume	\$0.4m
Market cap	Rs39bn / \$469.2m
Shares outstanding	62m

Shareholding pattern (%)	Mar'24	Dec'23	Sept'23
Promoters	74.3	74.3	74.3
- of which, Pledged	-	-	-
Free float	25.7	25.7	25.7
- Foreign institutions	2.1	2.5	2.6
- Domestic institutions	8.9	8.6	8.0
- Public	14.8	14.6	15.1

Estimates revision (%)	FY25e	FY26e
Sales	(2.7%)	(2.7%)
EBITDA	(3.8%)	(3.7%)
EPS	(1.6%)	(1.9%)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	6,076	7,795	8,605	9,919	11,553
Growth (%)	100.7	28.3	10.4	15.3	16.5
Direct costs	2,880	3,723	4,266	4,563	5,314
SG&A	2,196	2,553	2,568	3,267	3,736
EBITDA	1,000	1,519	1,771	2,089	2,503
EBITDA margins (%)	16.5	19.5	20.6	21.1	21.7
- Depreciation	70	87	104	148	167
Other income	170	202	369	259	272
Interest expenses	45	64	44	4	4
PBT	1,055	1,570	1,993	2,195	2,603
Effective tax rate (%)	22	24	23	25	25
+ Associates / (Minorities)	-2	-1	-1	-	-
Net income	816	1,190	1,541	1,647	1,952
Adjusted income	816	1,190	1,541	1,647	1,952
WANS	62	62	62	62	62
FDEPS (Rs)	13.24	19.31	25.00	26.7	31.7
FDEPS growth (%)	312.2	45.8	29.4	6.9	18.6
Gross margins (%)	52.6	52.2	50.4	54.0	54.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	1,080	1,608	2,000	1,940	2,335
+ Non-cash items	(12)	(41)	(145)	148	167
Oper. prof. before WC	1,069	1,567	1,855	2,089	2,503
- Incr. / (decr.) in WC	265	466	101	181	309
Others incl. taxes	235	350	396	549	651
Operating cash-flow	569	751	1,358	1,359	1,543
- Capex (tang. + intang.)	92	237	94	423	330
Free cash-flow	477	514	1,264	936	1,213
Acquisitions					
- Div.(incl. buyback & taxes)	370	493	246	663	729
+ Equity raised	-	-	-	-	-
+ Debt raised	100	50	(350)	-	-
- Fin investments	(63)	(36)	30	-	-
- Misc. (CFI + CFF)	44	59	44	(255)	(268)
Net cash-flow	226	48	594	529	752

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

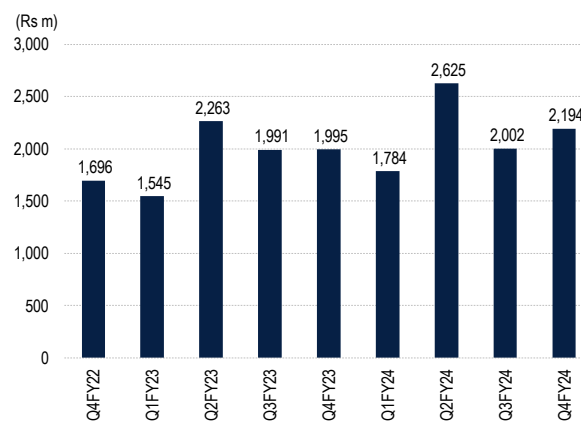
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	616	616	616	616	616
Net worth	4,781	5,470	6,757	7,741	8,965
Debt (incl. Pref.)	766	508	25	25	25
Minority interest	-	-	-	-	-
DTL / (Assets)	-	-	43	43	43
Capital employed	5,547	5,978	6,825	7,809	9,033
Net tangible assets	844	1,077	1,157	1,419	1,582
Net intangible assets	3	3	2	14	14
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	9	13	-	-	-
Investments (strategic)	-	-	-	-	-
Investments (financial)	1,418	1,537	1,781	1,781	1,781
Current assets (excl. cash)	3,187	3,834	3,241	4,647	5,413
Cash	1,970	1,705	2,192	2,720	3,472
Current liabilities	1,883	2,190	1,547	2,772	3,229
Working capital	1,303	1,644	1,694	1,875	2,184
Capital deployed	5,547	5,978	6,825	7,809	9,033
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	15.1	21.6	26.8	23.8	20.1
EV / EBITDA (x)	9.9	15.3	21.2	16.7	13.7
EV / Sales (x)	1.6	3.0	4.4	3.5	3.0
P/B (x)	2.6	4.7	6.1	5.1	4.4
RoE (%)	17.9	23.2	25.2	22.7	23.4
RoCE (%) - after tax	13.9	18.9	20.2	20.0	20.9
RoIC	31.6	40.3	42.7	44.6	47.0
DPS (Rs)	19.0	5.0	2.0	10.7	11.8
Dividend yield (%)	9.5	1.2	0.3	1.7	1.9
Div. payout (%) - incl. DDT	143.5	25.9	8.0	40.2	37.3
Net debt / Equity (x)	(0.5)	(0.5)	(0.6)	(0.5)	(0.6)
Receivables (days)	103	80	86	102	102
Inventory (days)	68	78	35	58	58
Payables (days)	32	23	18	36	36
CFO : PAT (%)	69.7	63.1	88.1	82.5	79.0

Source: Company, Anand Rathi Research

Fig 6 – Revenue trend



Source: Company

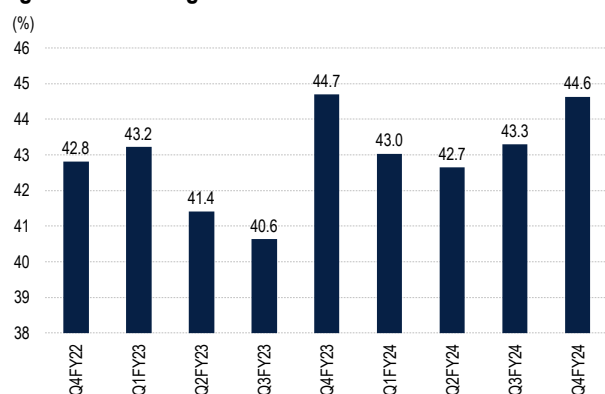
Results Highlights

Fig 7 – Quarterly & annual results

(Rs m)	Q4 FY24	Q4 FY23	%Y/Y	Q3 FY24	% Q/Q	FY24	FY23	%Y/Y
Revenue	2,194	1,995	10.0	2,002	9.6	8,605	7,795	10.4
Gross margins, %	44.6	44.7	-7bps	43.3	132bps	43.4	42.4	97bps
Employee expenses	269	253	6.1	264	1.9	1,053	979	7.6
Other expenses	286	248	15.4	215	33.4	909	808	12.5
EBITDA	424	390	8.7	389	9.2	1,771	1,519	16.6
EBITDA margins, %	19.3	19.6	-23bps	19.4	-8bps	20.6	19.5	110bps
Interest	6	18	-69.1	12	-51.3	44	64	-31.8
Depreciation	26	24	8.9	26	-2.3	104	87	18.8
Other income	86	75	14.5	93	-7.2	369	202	82.3
PBT	479	423	13.1	443	8.0	1,993	1,570	26.9
Tax	100	108	-7.7	111	-9.8	452	379	19.3
Tax rate, %	20.9	25.6	-469bps	25.0	-413bps	22.7	24.1	-145bps
PAT	379	315	20.2	332	13.9	1,541	1,190	29.4
EPS (Rs)	6.1	5.1	20.2	5.4	13.9	25.0	19.3	29.4

Source: Company

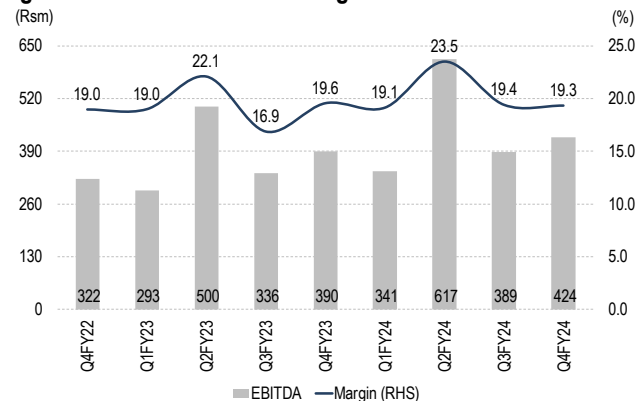
Fig 8 – Gross-margin trend



Source: Company

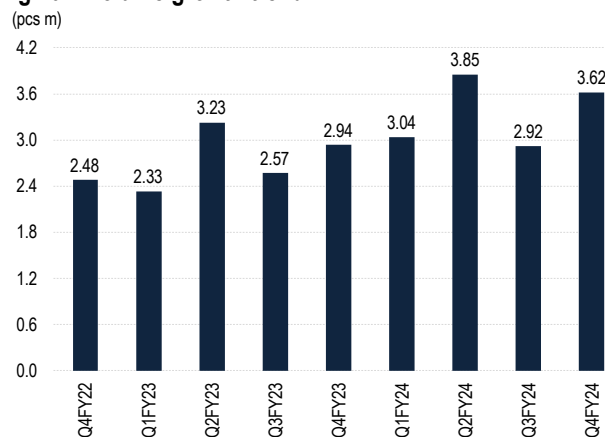
Note: Includes manufacturing expenses

Fig 9 – EBITDA and EBITDA margin trends



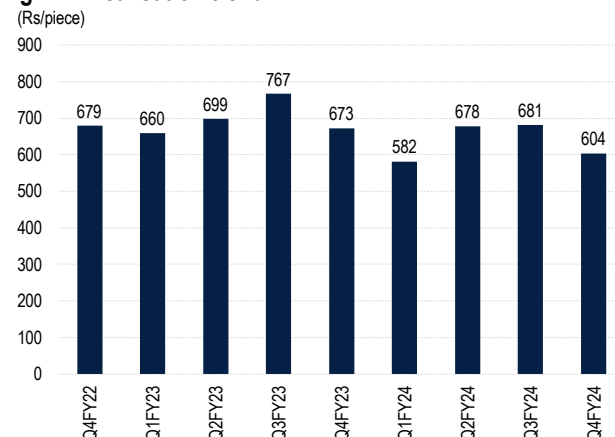
Source: Company

Fig 10 – Volume growth trend



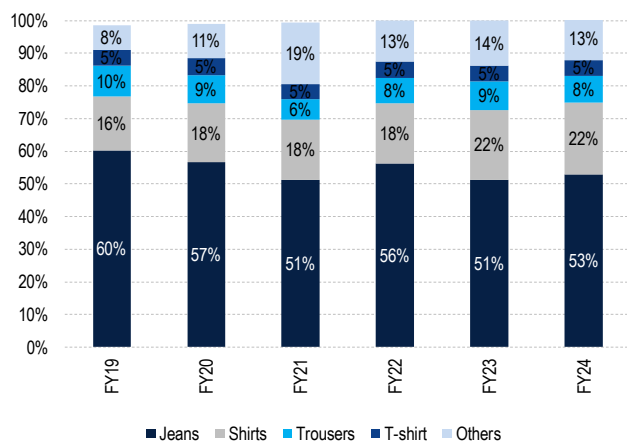
Source: Company

Fig 11 – Realisation trend



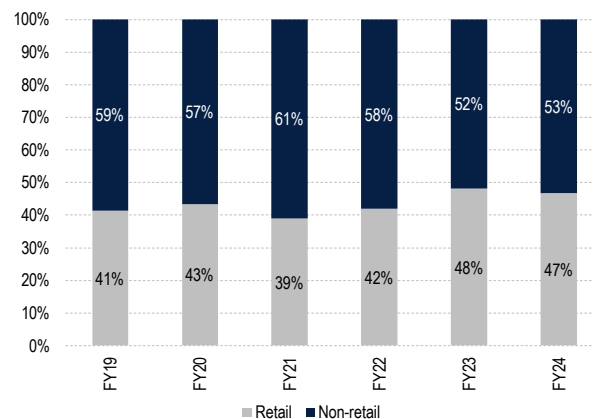
Source: Company

Fig 12 – Sales break-up, by product



Source: Company

Fig 13 – Channel-wise sales



Source: Company Note: Retail includes EBO and LFS; Non-retail includes MBO, e-com, exports, factory & seconds

Change in estimates

We lower our FY25e/FY26e revenue ~2.7% on average each year as the management revised its guidance to 15-18% revenue growth in FY25 (15-20% earlier), excl. the recent acquisition, due to tough market conditions.

Our FY25e/26e EBITDA is ~3.8% lower on average each year. Thus, our FY25e/FY26e EPS is 1.6%/1.9% lower.

Fig 14 – Estimate revisions

Rs m	Old		New		Change (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	10,191	11,870	9,919	11,553	(2.7)	(2.7)
EBITDA	2,172	2,599	2,089	2,503	(3.8)	(3.7)
PAT	1,674	1,990	1,647	1,952	(1.6)	(1.9)
EPS (Rs)	27.2	32.3	26.7	31.7	(1.6)	(1.9)

Source: Anand Rathi Research

Valuation

We upgrade our rating to a Buy, with a lower 12-mth TP of Rs811 (previously Rs831), 18x FY26e EV/EBITDA. Better return ratios and comfortable liquidity keep us sanguine about the company.

Fig 15 – Valuation parameters

	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	15.1	21.6	26.8	23.8	20.1
EV / EBITDA (x)	9.9	15.3	21.2	16.7	13.7
EV / Sales (x)	1.6	3.0	4.4	3.5	3.0
RoIC (%)	31.6	40.3	42.7	44.6	47.0
RoE (%)	17.9	23.2	25.2	22.7	23.4

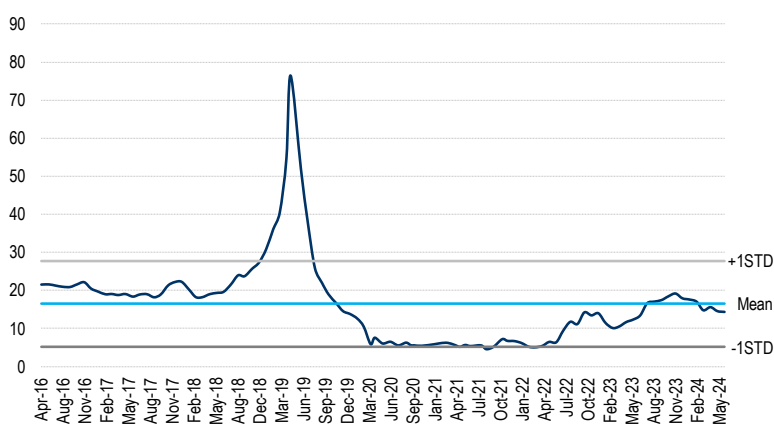
Source: Company, Anand Rath Research

Fig 16 – Valuation table, FY26e (Rs m)

EBITDA	2,503
Multiple (x)	18.0
Enterprise value	45,047
Net debt	(5,006)
Market cap	50,052
No. of shares outstanding (m)	61.6
Target price (Rs)	811
CMP (Rs)	636
Upside (%)	27.5

Source: Anand Rath Research

Fig 17 – One-year-forward EV/EBITDA



Source: Bloomberg, Anand Rath Research

Risk

- Keener competition could pare volumes and realisation growth.

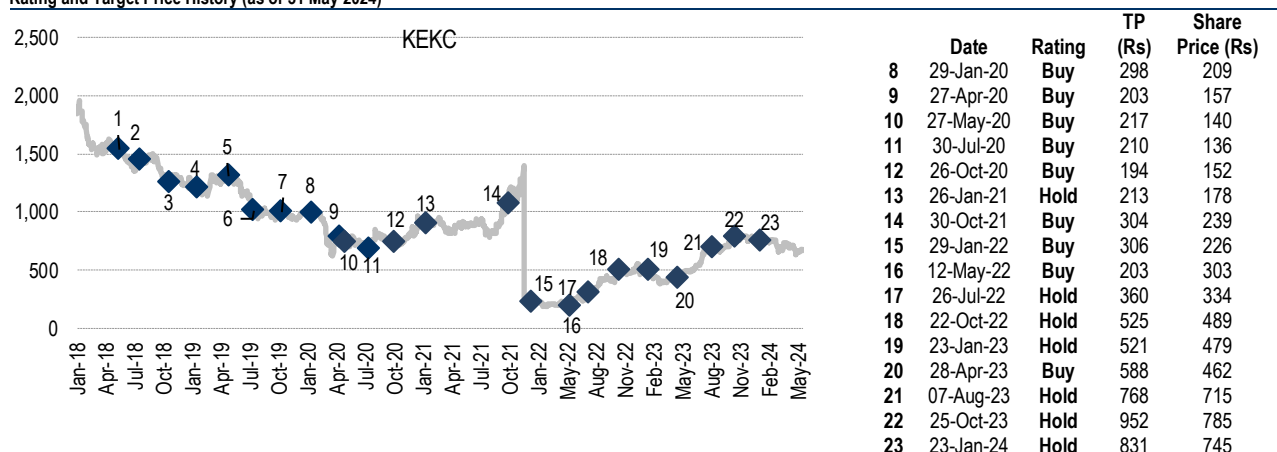
Appendix

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