

Institutional Equities  
 India Research

# Kewal Kiran Clothing

**RESULT REVIEW**

 Bloomberg: KEKC IN  
 Reuters: KKCL.BO

**HOLD**

## EBITDA Margin pressure on subdued consumer demand

Kewal Kiran Clothing's (KKCL) sales, EBITDA and net income grew by 20%, 40% and 37% YoY respectively however it declined by 4%, 7% & 7% YoY to Rs. 2,260 mn, Rs. 518 mn & Rs. 369 mn for 9MFY13

The Company's top-line grew 19.9% YoY to Rs. 774.5 mn (our expectations Rs. 1,010 mn) during Q3FY13, however declined sequentially by 15.5%. The Company witnessed volume growth of 14.4% YoY and average realization were up by 5.9% to Rs. 843 for Q3FY13. EBITDA margin for the quarter expanded by 310 bps YoY at 21.7% and consequently EBITDA grew by 39.8% YoY to Rs. 168.3 mn (our expectations Rs. 270 mn) during Q3FY13.

Net income of the Company grew 37.1% YoY to Rs. 120.0 mn (our expectations Rs. 180 mn) while it declined sequentially at 32.0%. Net Income Margin improved by 195 bps YoY to 19.2%.

**Product & Brand wise Revenue Analysis:** During Q3FY13, Jeans and Shirts grew 40% & 29% YoY to Rs. 453.9 mn and Rs. 109.5 mn respectively while Trousers and T-Shirts declined 13% & 27% to Rs. 60.0 mn and Rs. 19.4 mn. Looking at individual brands, revenue from Killer, Lawman, Integriti & Easies grew 27%, 20%, 8% & 36% YoY to Rs. 397.7 mn, Rs. 156.5 mn, Rs. 171.1 mn & Rs. 16.7 mn respectively. Killer maintains its flagship status with brand share of 49% from 52% a year ago while Integriti, the second largest brand has increased its revenue contribution to 25% from 22% YoY.

**Distribution channel on focus:** During the quarter, the Company opened 17 stores, i.e. 6 K-Lounges, 7 Killer EBO and 4 Integriti EBOs. It has also closed down 4 stores during the quarter.

**Outlook & Valuation:** At the CMP of Rs. 730, the stock is trading at a 17.8x and 14.8x of FY13E and FY14E EPS, respectively. We value KKCL at 14x FY14E EPS, and add Rs. 101 per share of cash & equivalent of FY13E. We downgrade our recommendation to "HOLD" with revised target price of Rs. 792 per share, which represents an upside potential of 9%.

**Key Financials**

Y/E Mar (Rs. mn)	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Sales	1,759	2,366	3,019	3,091	3,682
EBIDTA	467	687	734	730	884
Net Profit	325	462	521	506	608
EPS (Rs)	26.4	37.5	42.3	41.0	49.3
PER (x)	27.7	19.5	17.3	17.8	14.8
EV/EBITDA (x)	17.3	11.7	10.8	10.8	8.9

Source: Company, Karvy Institutional Research

**Recommendation**

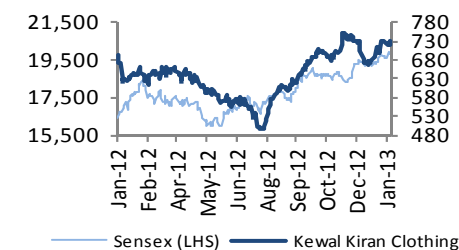
CMP:	Rs730
Target Price:	Rs792
Upside (%)	9%

**Stock Information**

Market Cap. (Rs bn / US\$ mn)	09/167
52-week High/Low (Rs)	780/485
3m ADV (Rs mn /US\$ mn)	02/0.0
Beta	0.6
Sensex/ Nifty	19,497/5,897
Share outstanding (mn)	12

**Stock Performance (%)**

	1M	3M	12M	YTD
Absolute	1.3	(2.9)	13.1	2.2
Rel. to Sensex	3.4	(7)	3.6	1.9

**Performance**


Source: Bloomberg

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**Kewal Kiran Clothing**
**Exhibit 1: Quarterly Performance**

(Rs Mn)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Total Op. Income	646	917	775	(15.5)	19.9
Operating Costs	526	663	606	(8.5)	15.3
EBIDTA	120	254	168	(33.8)	39.8
EBIDTA Margin (%)	18.6	27.7	21.7	(6.0)	3.1
Other Income	31	28	29	1.8	(6.2)
Interest	6	8	6	(22.8)	(3.2)
Depreciation	17	15	15	(4.5)	(10.9)
Profit Before Tax	128	259	176	(32.0)	37.4
Tax	41	83	56	(32.1)	38.1
Tax Rate (%)	31.7	31.9	31.9		
Rep. PAT	88	177	120	(32.0)	37.1

Source: Company, Karvy Institutional Research

**Exhibit 2: Variance from Our Earlier Estimates**

(Rs Mn) Parameter	Previous Estimates		Current Estimates		Variance (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	3,156	3,725	3,091	3,682	(2.0)	(1.1)
EBITDA	783	942	730	884	(6.8)	(6.2)
Net Income	527	629	506	608	(4.0)	(3.3)
EPS	42.8	51.0	41	49	(4.0)	(3.3)
ROCE (%)	19.0	21.2	17.8	19.8	(1.2)	(1.4)
ROE (%)	22.2	23.8	21.3	23.0	(0.9)	(0.8)

Source: Company, Karvy Institutional Research

**Kewal Kiran Clothing**

## Financials

### Exhibit 3: Profit & loss statement

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net revenues	1,759	2,366	3,019	3,091	3,682
% Growth	20.9	34.5	27.6	2.4	19.1
Raw Material	649	898	1,309	1,283	1,528
Staff	208	254	292	340	387
Operating Expenses	435	527	684	739	884
Operating expenses	1,293	1,679	2,285	2,362	2,798
EBIDTA	467	687	734	730	884
% Growth	122.0	47.2	6.8	(0.5)	21.1
EBIDTA margin (%)	26.5	29.0	24.3	23.6	24.0
Other income	103	83	118	117	116
Interest	23	21	26	31	23
Depreciation	58	57	62	61	69
Profit Before Tax	487	693	763	755	908
Provision for tax	162	230	242	249	300
Effective tax rate (%)	33.3	33.2	31.7	33.0	33.0
Adjusted Net Profit	325	462	521	506	608
% Growth	128.1	42.2	12.8	(3.0)	20.2
Reported Net Profit	325	462	521	506	608

Source: Company, Karvy Institutional Research

### Exhibit 4: Balance Sheet

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Equity capital	123	123	123	123	123
Reserves & surplus	1,629	1,854	2,132	2,373	2,680
Shareholders funds	1,752	1,978	2,256	2,496	2,803
Short term Loans	158	56	149	99	79
Long Term Loans	-	-	39	39	39
Total Loans	158	56	188	138	118
Deferred tax liability	(17)	(16)	(17)	(16)	(16)
<b>Total Liabilities and Equity</b>	<b>1,893</b>	<b>2,017</b>	<b>2,426</b>	<b>2,618</b>	<b>2,905</b>
Gross block	613	673	745	829	970
Depreciation	213	267	310	371	440
Net block	400	406	434	458	530
Capital WIP	30	21	9	36	45
Other Non-current Assets	-	-	111	114	114
Investments	55	183	35	35	35
Inventory	218	368	321	386	460
Debtors	241	298	505	510	663
Cash & Bank Balance	802	953	1,015	968	979
Liquid Investments	274	85	281	281	281
Current Assets	1,706	1,892	2,246	2,325	2,598
Sundry Creditors	135	182	259	278	331
Other current liabilities	163	303	151	72	86
Current Liabilities	298	486	410	350	417
Net current assets	1,407	1,407	1,836	1,975	2,181
<b>Total Assets</b>	<b>1,893</b>	<b>2,017</b>	<b>2,426</b>	<b>2,618</b>	<b>2,905</b>

Source: Company, Karvy Institutional Research

**Kewal Kiran Clothing**
**Exhibit 5: Cash Flow Statement**

Y/E Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	408	630	671	669	814
(Inc.)/Dec in working capital	(14)	(36)	(172)	(186)	(195)
Cash flow from operations	395	594	499	483	620
Other income	103	83	118	117	116
Depreciation	58	57	62	61	69
Interest paid (-)	(23)	(21)	(26)	(31)	(23)
Tax paid (-)	(162)	(230)	(242)	(249)	(300)
Dividends paid (-)	(86)	(237)	(244)	(265)	(301)
Deferred Tax Liability	(2)	0	(1)	1	-
Net cash from operations	282	247	167	116	181
Capital expenditure (-)	(24)	(50)	(60)	(111)	(150)
Net cash after capex	258	197	107	5	31
Inc./(Dec.) in short-term borrowing	83	(102)	93	(50)	(20)
Inc./(dec.) in long-term borrowing	(161)	-	39	-	-
Inc./(dec.) in borrowings	(78)	(102)	132	(50)	(20)
(Inc.)/Dec. in investments	(21)	61	(47)	-	-
Cash from Financial Activities	(99)	(42)	85	(50)	(20)
Others	(10)	(3)	(130)	(3)	-
Opening cash	653	802	953	1,015	968
Closing cash	802	953	1,015	968	979
Change in cash	149	152	62	(47)	11

Source: Company, Karvy Institutional Research

**Exhibit 6: Key Ratios**

Y/E Mar	FY2010	FY2011	FY2012	FY2013E	FY2014E
Raw Material Cost / Sales (%)	36.9	38.0	43.4	41.5	41.5
Manpower Cost / Sales (%)	11.8	10.7	9.7	11.0	10.5
Operating & Other cost / Sales (%)	24.7	22.3	22.7	23.9	24.0
Revenue Growth (%)	20.9	34.5	27.6	2.4	19.1
EBIDTA Margins (%)	26.5	29.0	24.3	23.6	24.0
Net Income Margins (%)	18.5	19.5	17.3	16.4	16.5
ROCE (%)	15.0	21.5	20.6	17.8	19.8
ROE (%)	19.9	24.8	24.6	21.3	23.0

Source: Company, Karvy Institutional Research

**Exhibit 7: Valuation Parameters**

Y/E Mar	FY2010	FY2011	FY2012	FY2013E	FY2014E
EPS (Rs)	26.4	37.5	42.3	41.0	49.3
P/E (x)	27.7	19.5	17.3	17.8	14.8
BV (Rs)	142.1	160.5	183.0	202.5	227.4
P/BV (x)	5.1	4.5	4.0	3.6	3.2
EV/EBIDTA (x)	17.3	11.7	10.8	10.8	8.9
Fixed assets turnover ratio (x)	4.1	5.9	7.2	6.9	7.5
Debt/Equity (x)	(0.37)	(0.45)	(0.37)	(0.33)	(0.31)
EV/Sales (x)	4.6	3.4	2.6	2.6	2.1

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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