

Institutional Equities
 India Research

Kewal Kiran Clothing

 Bloomberg: KEKC IN
 Reuters: KKCL.BO

Margins at Comfort, Maintain "BUY"

Kewal Kiran Clothing's (KKCL) sales, EBITDA and net income declined by 9%, 3% and 4% YoY respectively on delayed festive season

The Company's top-line declined 9% YoY to Rs. 916.9 mn during Q2FY13, while sequential growth was 61.3%. This slippage is due to delayed festive season YoY, which adversely impacted volume by 11.7%. We expect strong festive season in H2FY13 to cover up the revenue slippage. EBITDA margin for the quarter expanded by 164 bps YoY at 27.7% however EBITDA declined by 3.3% YoY to Rs. 254.4 mn during Q2FY13, due to revenue de-growth. The Company's realization per garment went up by 6.3% to Rs. 791 for Q2FY13.

Net income of the Company declined 3.9% YoY to Rs. 176.5 mn while sequential growth was much higher at 143%. Net Income Margin improved by 103 bps YoY to 19.2%.

Product wise Revenue Analysis:

During Q2FY13, Jeans and T-Shirt grew 4% & 36% YoY to Rs. 601.5 mn and Rs. 4.0 mn respectively while Trousers and Shirts declined 37% & 25% to Rs. 89.7 mn and Rs. 14.1mn. Looking at individual brands, revenue from Killer grew 3% YoY to Rs. 472.9 mn while Integriti, Lawman & Easies de-grew by 6%, 24% & 30% to Rs. 237.2 mn, Rs. 153.3 mn & Rs. 15.1 mn respectively.

Killer maintains its flagship status with enhanced brand share of 52% from 46% while Integriti, the second largest brand has marginally increased its revenue contribution to 26% from 25%. FY2013, the company has been focusing on promoting Integriti, like they promoted Lawman in FY2012.

Outlook & Valuation: Kewal Kiran operates as branding and marketing company in retail apparels category. Most of its products are in the value-driven segment, which are expected to register good growth going forward. At the CMP of Rs. 690, the stock is trading at a 16.1x and 13.5x of FY13E and FY14E EPS, respectively. We value KKCL at 14x FY14E EPS, and add Rs. 98 per share of cash and liquid investments of FY13E. We maintain our "BUY" recommendation with revised target price of Rs. 813 per share, which represents an upside potential of 18%.

Key Financials

Y/E Mar (Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	1,759	2,366	3,019	3,156	3,725
EBIDTA	467	687	734	783	942
Net Profit	325	462	521	527	629
EPS (Rs)	26.4	37.5	42.3	42.8	51.0
PER (x)	26.2	18.4	16.3	16.1	13.5
EV/EBITDA (x)	16.3	10.9	10.1	9.5	7.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs690
Target Price:	Rs813
Previous Target Price:	Rs828
Upside (%)	18

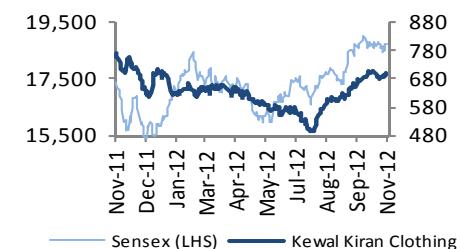
Stock Information

Market Cap. (Rs bn / US\$ mn)	08/156
52-week High/Low (Rs)	800/485
3m ADV (Rs mn /US\$ mn)	02/0.0
Beta	0.6
Sensex/ Nifty	18,835/5,739
Share outstanding (mn)	12

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	0.2	23.2	(11)	(1.3)
Rel. to Sensex	(0.5)	15.1	(17)	(19)

Performance



Source: Bloomberg

Earnings Revision

(%)	FY13E	FY14E
Revenue	↓ 3.7	↓ 4.1
EBITDA	↓ 4.5	↓ 4.8
PAT	↓ 3.9	↓ 3.0

Source: Karvy Institutional Research

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Kewal Kiran Clothing

Actively reviewing and expanding distribution channel: During the quarter, the Company opened 17 stores, i.e. 5 K-Lounges, 1 K-Lounge for Her, 4 Killer EBO, 5 Integriti EBO and 2 LawmanPg3. It has also closed down 24 stores during the quarter i.e. 8 K-Lounges, 2 K-Lounge for Her, 9 Killer store, 3 integriti stores and one each of LawmanPg3/Integriti and Addiction.

The Company also opened 12 stores on Dussehra in October and expects another 10 before Diwali. This leads to a total number of stores to 272.

Exhibit 1: Quarterly Performance

(Rs Mn)	Q2FY12	Q1FY13	Q2FY13	QoQ (%)	YoY (%)
Total Op. Income	1,008	569	917	61.3	(9.0)
Operating Costs	745	473	663	39.9	(11.0)
EBIDTA	263	95	254	167.2	(3.3)
EBIDTA Margin (%)	26.1	16.7	27.7	11.0	1.6
Other Income	30	32	28	(11.9)	(5.7)
Interest	8	7	8	21.5	(3.7)
Depreciation	15	15	15	5.5	2.7
Profit Before Tax	270	106	259	144.4	(3.9)
Tax	86	33	83	147.9	(3.9)
Tax Rate (%)	31.9	31.5	31.9		
Rep. PAT	184	73	177	142.8	(3.9)

Source: Company, Karvy Institutional Research

Exhibit 2: Variance from Our Earlier Estimates

(Rs Mn)	Previous Estimates		Current Estimates		Variance (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	3,279	3,882	3,156	3,725	(3.7)	(4.1)
EBITDA	820	990	783	942	(4.5)	(4.8)
Net Income	549	648	527	629	(3.9)	(3.0)
EPS	44.5	52.6	42.8	51.0	(3.9)	(3.0)
ROCE (%)	19.8	21.9	19.0	21.2	(0.8)	(0.7)
ROE (%)	23.0	24.2	22.2	23.8	(0.8)	(0.4)

Source: Company, Karvy Institutional Research

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Financials

Exhibit 3: Profit & loss statement

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net revenues	1,759	2,366	3,019	3,156	3,725
% Growth	20.9	34.5	27.6	4.5	18.0
Raw Material	649	898	1,309	1,325	1,572
Staff	208	254	292	306	335
Operating Expenses	435	527	684	742	875
Operating expenses	1,293	1,679	2,285	2,373	2,782
EBIDTA	467	687	734	783	942
% Growth	122.0	47.2	6.8	6.7	20.4
EBIDTA margin (%)	26.5	29.0	24.3	24.8	25.3
Other income	103	83	118	102	93
Interest	23	21	26	31	20
Depreciation	58	57	62	67	76
Profit Before Tax	487	693	763	786	939
Provision for tax	162	230	242	260	310
Effective tax rate (%)	33.3	33.2	31.7	33.0	33.0
Adjusted Net Profit	325	462	521	527	629
% Growth	128.1	42.2	12.8	1.1	19.4
Reported Net Profit	325	462	521	527	629

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

(Rs. mn)	FY10	FY11	FY12	FY13E	FY14E
Equity capital	123	123	123	123	123
Reserves & surplus	1,629	1,854	2,132	2,372	2,671
Shareholders funds	1,752	1,978	2,256	2,496	2,795
Short term Loans	158	56	149	99	49
Long Term Loans	-	-	39	39	39
Total Loans	158	56	188	138	88
Deferred tax liability	(17)	(16)	(17)	(17)	(17)
Total Liabilities and Equity	1,893	2,017	2,426	2,616	2,865
Gross block	613	673	745	829	970
Depreciation	213	267	310	377	454
Net block	400	406	434	451	516
Capital WIP	30	21	9	36	45
Other Non-current Assets	-	-	111	114	114
Investments	55	183	35	35	35
Inventory	218	368	321	394	466
Debtors	241	298	505	537	670
Cash & Bank Balance	802	953	1,015	932	957
Liquid Investments	274	85	281	281	281
Current Assets	1,706	1,892	2,246	2,335	2,591
Sundry Creditors	135	182	259	284	335
Other current liabilities	163	303	151	72	100
Current Liabilities	298	486	410	356	435
Net current assets	1,407	1,407	1,836	1,980	2,155
Total Assets	1,893	2,017	2,426	2,616	2,865

Source: Company, Karvy Institutional Research

Kewal Kiran Clothing
Exhibit 5: Cash Flow Statement

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EBIT	408	630	671	716	866
(Inc.)/Dec in working capital	(14)	(36)	(172)	(227)	(151)
Cash flow from operations	395	594	499	489	715
Other income	103	83	118	102	93
Depreciation	58	57	62	67	76
Interest paid (-)	(23)	(21)	(26)	(31)	(20)
Tax paid (-)	(162)	(230)	(242)	(260)	(310)
Dividends paid (-)	(86)	(237)	(244)	(287)	(330)
Deferred Tax Liability	(2)	0	(1)	0	-
Net cash from operations	282	247	167	80	225
Capital expenditure (-)	(24)	(50)	(60)	(111)	(150)
Net cash after capex	258	197	107	(31)	75
Inc./(Dec.) in short-term borrowing	83	(102)	93	(50)	(50)
Inc./(dec.) in long-term borrowing	(161)	-	39	-	-
Inc./(dec.) in borrowings	(78)	(102)	132	(50)	(50)
(Inc.)/Dec. in investments	(21)	61	(47)	-	-
Cash from Financial Activities	(99)	(42)	85	(50)	(50)
Others	(10)	(3)	(130)	(3)	-
Opening cash	653	802	953	1,015	932
Closing cash	802	953	1,015	932	957
Change in cash	149	152	62	(84)	25

Source: Company, Karvy Institutional Research

Exhibit 6: Key Ratios

	FY10	FY11	FY12	FY13E	FY14E
Raw Material Cost / Sales (%)	36.9	38.0	43.4	42.0	42.2
Manpower Cost / Sales (%)	11.8	10.7	9.7	9.7	9.0
Operating & Other cost / Sales (%)	24.7	22.3	22.7	23.5	23.5
Revenue Growth (%)	20.9	34.5	27.6	4.5	18.0
EBIDTA Margins (%)	26.5	29.0	24.3	24.8	25.3
Net Income Margins (%)	18.5	19.5	17.3	16.7	16.9
ROCE (%)	15.0	21.5	20.6	19.0	21.2
ROE (%)	19.9	24.8	24.6	22.2	23.8

Source: Company, Karvy Institutional Research

Exhibit 7: Valuation Parameters

	FY10	FY11	FY12	FY13E	FY14E
EPS (Rs)	26.4	37.5	42.3	42.8	51.0
P/E (x)	26.2	18.4	16.3	16.1	13.5
BV (Rs)	142.1	160.5	183.0	202.5	226.8
P/BV (x)	4.9	4.3	3.8	3.4	3.0
EV/EBIDTA (x)	16.3	10.9	10.1	9.5	7.8
Fixed assets turnover ratio (x)	4.1	5.9	7.2	7.1	7.7
Debt/Equity (x)	(0.37)	(0.45)	(0.37)	(0.32)	(0.31)
EV/Sales (x)	4.3	3.2	2.4	2.4	2.0

Source: Company, Karvy Institutional Research

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

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