

30 July 2020

Kewal Kiran Clothing

Bleak scenario, healthy fundamentals; retaining a Buy

The steep decline in Kewal Kiran's Q1 FY21 figures was inevitable. Its liquidity, however (₹2,284m in cash and equivalents), and virtually zero debt place it comfortably to ride out the storm in the near term. We expect its healthy balance sheet to continue. We retain our Buy rating, with a lower target price of ₹1,052 (earlier ₹1,087) at 12x FY22e EV/EBITDA.

Steep fall. With ₹70m revenue, the quarter, as expected, was a complete washout. The gross margin (incl. manufacturing expenses) shrank to 41.7% (55.6% a year ago). Lower employee expenses (down 30% y/y) kept costs in check. The drop in selling & distribution expenses was broadly in line with falling sales (down ~93% y/y). Admin & other expenses, however, were 11% higher y/y. EBITDA loss was ₹162m (positive ₹225m a year ago). The net loss was only ₹88m aided by higher other income and tax credit during the quarter.

Adequate liquidity midst trying times. Short-term borrowings were ₹831m, down 6% from end-FY20. At end-Jun'20, cash & equivalents were ₹2,284m. The company is focusing on reducing costs. We expect fixed costs (employee and other admin) to hold within the Q2 range. The company is one of the first in discretionary retail to post its Q1 results, setting the tone for the overall sentiment and shrunken figures across the sector to follow. We expect recovery to gather steam from H2. Hence, we reduce our FY21e and FY22e revenue 23.5% and 12.7% respectively, and EBITDA 33% and 9.7%.

Valuation. We are still sanguine about the company for its better return ratios and comfortable liquidity. We maintain our Buy recommendation, though with a lower target price of ₹1,052 (earlier ₹1,087) at 12x FY22e EV/EBITDA. **Risk:** Keener competition, trimming volume and realisation growth.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	4,603	5,024	5,297	3,486	5,080
Net profit (₹ m)	732	803	730	307	691
EPS (₹)	59.5	65.2	59.3	24.9	56.1
PE (x)	25.6	19.6	10.6	27.2	12.1
EV / EBITDA (x)	18.0	13.6	6.8	17.3	7.0
PBV (x)	4.7	3.7	1.7	1.8	1.7
RoE (%)	19.3	19.4	16.7	6.7	14.3
RoCE (%)	14.7	14.5	12.6	4.4	10.8
Dividend yield (%)	4.9	5.0	6.3	0.7	5.4
Net debt / equity (x)	-0.3	-0.1	-0.3	-0.3	-0.4

Source: Company, Anand Rathi Research

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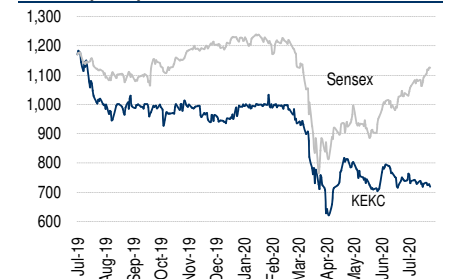
Rating: **Buy**
Target Price: ₹1,052
Share Price: ₹678

Key data	KEKC IN / KKCL.BO
52-week high / low	₹1220 / 566
Sensex / Nifty	37736 / 11102
3-m average volume	\$0m
Market cap	₹8bn / \$112m
Shares outstanding	12m

Shareholding pattern (%)	Jun '20	Mar '20	Dec '19
Promoters	74.3	74.3	74.3
- of which, Pledged	-	-	-
Free float	25.8	25.8	25.8
- Foreign institutions	9.5	9.5	9.5
- Domestic institutions	11.8	11.7	11.8
- Public	4.5	4.6	4.5

Estimates revision (%)	FY21e	FY22e
Sales	-23.5	-12.7
EBITDA	-33.0	-9.7
EPS	-28.1	-9.4

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

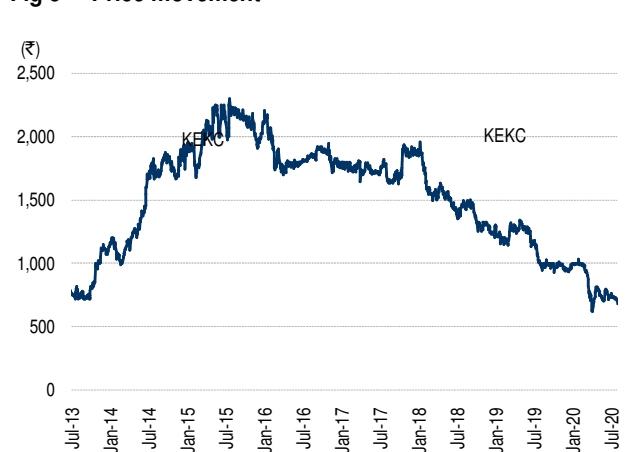
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	4,603	5,024	5,297	3,486	5,080
Growth (%)	-1.3	9.2	5.4	-34.2	45.7
Direct costs	1,935	1,922	2,131	1,410	2,134
SG&A	1,686	1,979	2,215	1,683	2,018
EBITDA	982	1,123	951	394	928
EBITDA margins (%)	21.3	22.4	18.0	11.3	18.3
- Depreciation	58	81	82	96	104
Other income	211	220	175	184	193
Interest expenses	50	69	88	97	97
PBT	1,085	1,194	956	385	921
Effective tax rate (%)	33	33	24	20	25
+ Associates / (Minorities)	-	-	-	-	-
Net income	732	803	730	307	691
Adjusted income	732	803	730	307	691
WANS	12	12	12	12	12
FDEPS (₹/ sh)	59.5	65.2	59.3	24.9	56.1
FDEPS growth (%)	(1.9)	9.5	(9.1)	(57.9)	124.8
Gross margins (%)	58.0	61.7	59.8	59.6	58.0

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	1,125	1,251	1,040	298	825
+ Non-cash items	-139	-94	-63	96	104
Oper. prof. before WC	986	1,157	976	394	928
- Incr. / (decr.) in WC	124	783	237	-88	-130
Others incl. taxes	305	380	230	78	230
Operating cash-flow	557	-7	509	404	828
- Capex (tang. + intang.)	90	116	112	186	173
Free cash-flow	466	-122	398	218	655
Acquisitions					
- Div. (incl. buyback & taxes)	490	496	564	62	448
+ Equity raised	0	-	-	-	-
+ Debt raised	78	452	-55	-	-
- Fin investments	52	-138	-570	-	-
- Misc. (CFI + CFF)	43	56	83	(87)	(96)
Net cash-flow	-40	-85	265.0	243	303

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

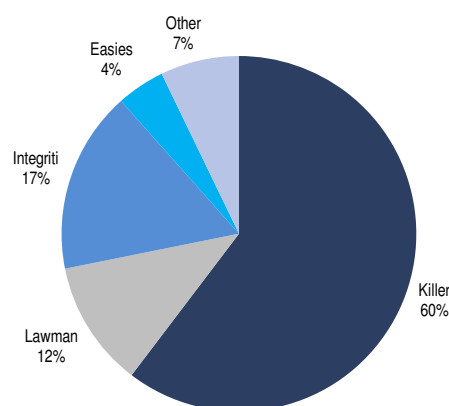
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	123	123	123	123	123
Net worth	3,992	4,300	4,459	4,705	4,948
Debt (incl. pref.)	483	935	880	880	880
Minority interest	-	-	-	-	-
DTL / (Assets)	46	55	55	55	55
Capital employed	4,521	5,289	5,394	5,639	5,882
Net tangible assets	676	769	809	888	958
Net intangible assets	5	19	3	14	14
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	92	22	29	29	29
Investments (strategic)	-	-	-	-	-
Investments (financial)	2,315	2,367	1,960	1,960	1,960
Current assets (ex cash)	2,006	2,742	2,761	2,341	2,783
Cash	625	533	802	1,040	1,344
Current liabilities	1,198	1,163	971	634	1,206
Working capital	808	1,579	1,790	1,708	1,578
Capital deployed	4,521	5,289	5,394	5,639	5,882
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	25.6	19.6	10.6	27.2	12.1
EV / EBITDA (x)	18.0	13.6	6.8	17.3	7.0
EV / Sales (x)	3.8	3.0	1.2	2.0	1.3
P/B (x)	4.7	3.7	1.7	1.8	1.7
RoE (%)	19.3	19.4	16.7	6.7	14.3
RoCE (%) - after tax	14.7	14.5	12.6	4.4	10.8
RoIC	16.0	15.3	14.4	5.9	15.0
DPS (₹ / sh)	33.0	34.0	43.0	5.0	36.4
Dividend yield (%)	4.9	5.0	6.3	0.7	5.4
Div. payout (%) - incl. DDT	55.5	52.2	72.5	20.1	64.8
Net debt / Equity (x)	-0.3	-0.1	-0.3	-0.3	-0.4
Receivables (days)	108	129	118	130	129
Inventory (days)	42	60	62	65	60
Payables (days)	35	32	34	34	33
CFO : PAT %	76.1	-0.8	69.7	131.5	119.9

Source: Company, Anand Rathi Research

Fig 6 – Brand-wise sales (FY20)



Source: Company

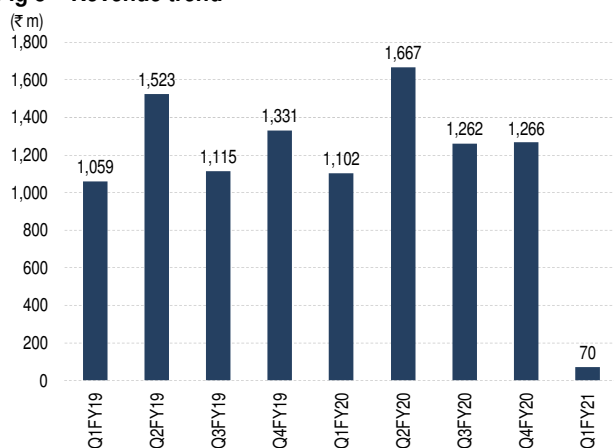
Q1 FY21 Result Highlights

Fig 7 – Financials

(₹ m)	Q1 FY21	Q1 FY20	% chg, Y/Y	Q4 FY20	% chg, Q/Q	FY20	FY19 % chg	Y/Y
Sales	70	1,102	-93.6	1,266	-94.5	5,297	5,024	5.4
Gross margins (%)	41.7	55.6	-1,398bps	47.4	-579bps	50.5	52.0	-147bps
EBITDA	-162	225	-171.9	215	-175.2	951	1,123	-15.3
EBITDA margins (%)	-230.5	20.4	-25,092bps	17.0	-24,750bps	18.0	22.4	-441bps
Interest	20	22	-10.0	20	-0.5	88	69	27.9
Depreciation	18	24	-27.3	16	7.3	82	81	2.1
Other income	57	18	218.5	39	46.9	175	220	-20.2
PBT	-142	196	-172.5	217	-165.5	956	1,194	-19.9
Tax	-54	55	-198.5	59	-191.1	226	391	-42.3
Tax rate (%)	38.0	28.0	1,005bps	27.3	1,067bps	23.6	32.7	-913bps
PAT	-88	141	-162.4	158	-155.9	730	803	-9.1
EPS	-7.16	11.47	-162.4	12.81	-155.9	59.27	65.17	-9.1

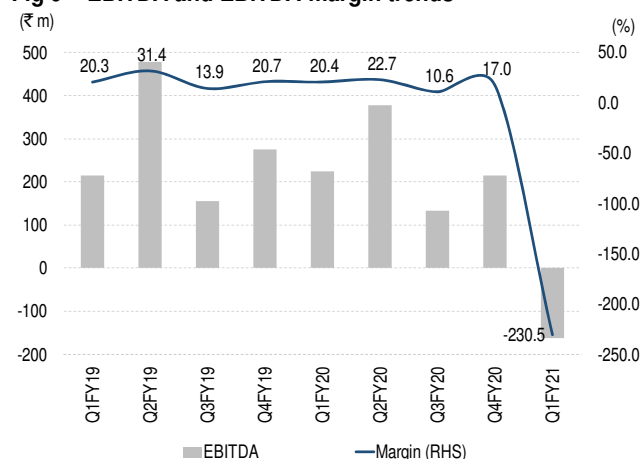
Source: Company

Fig 8 – Revenue trend



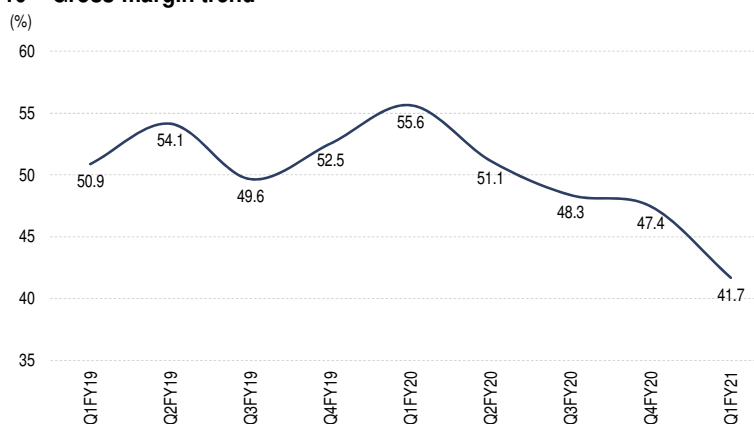
Source: Company

Fig 9 – EBITDA and EBITDA-margin trends



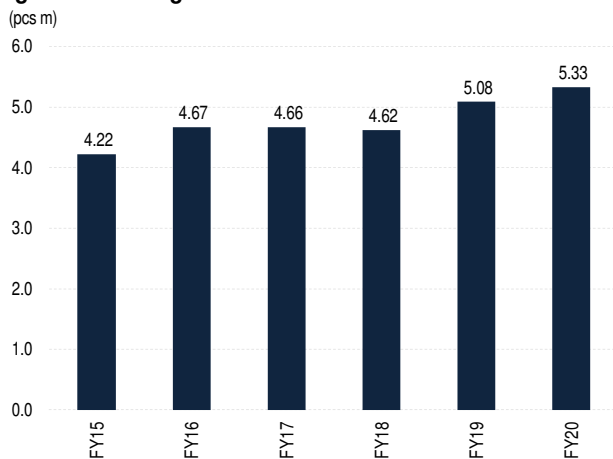
Source: Company

Fig 10 – Gross-margin trend



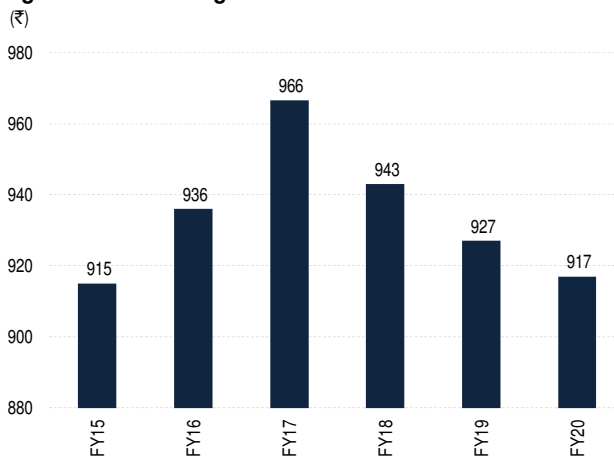
Source: Company

Fig 11 – Volume-growth trend



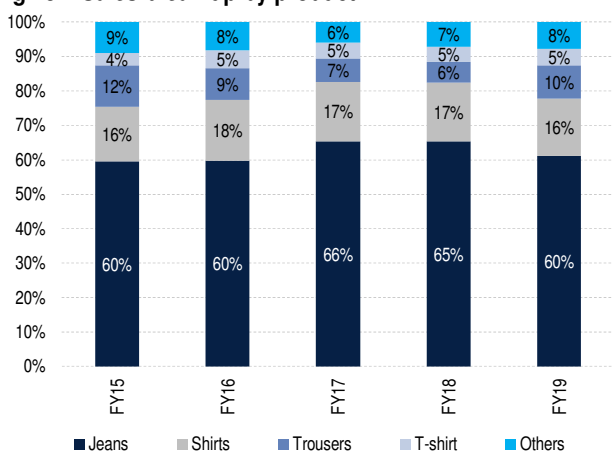
Source: Company

Fig 12 – Realisation-growth trend



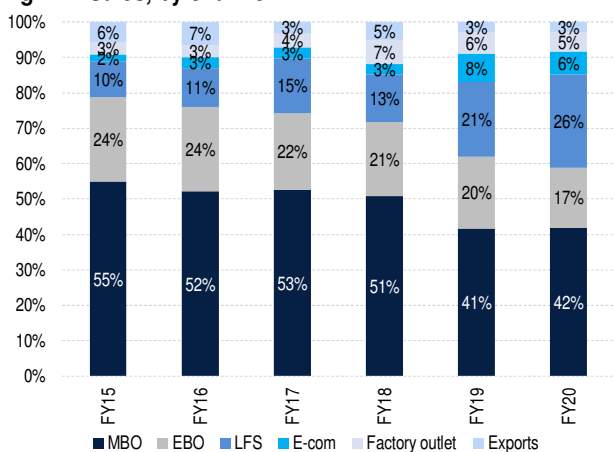
Source: Company

Fig 13 – Sales break-up by product



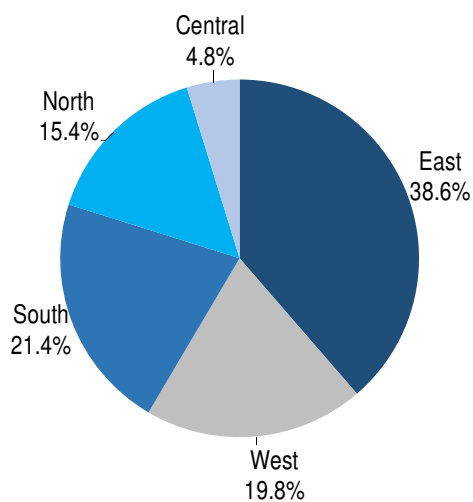
Source: Company

Fig 14 – Sales, by channel



Source: Company

Fig 15 – FY20 sales, by region



Source: Company

Change in estimates

As we expect recovery to pick up pace from H2, we reduce our FY21e and FY22e revenue 23.5% and 12.7% respectively.

The company has taken notable steps to reduce costs. Nevertheless, factoring in the lower operating leverage, we have reduced our FY21e and FY22e EBITDA 33% and 9.7% respectively.

Fig 16 – Change in estimates

₹ m)	Old estimates		New estimates		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Revenue	4,556	5,817	3,486	5,080	-23.5	-12.7
EBITDA	588	1,029	394	928	-33.0	-9.7
PAT	428	763	307	691	-28.1	-9.4
EPS (₹)	34.7	61.9	24.9	56.1	-28.1	-9.4

Source: Anand Rathi Research

Valuation

We are still sanguine about the company for its better return ratios and comfortable liquidity. We maintain our Buy, with a target of ₹1,052 at 12x FY22e EV/EBITDA.

Fig 17 – Valuation parameters

	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	25.6	19.6	10.6	27.2	12.1
EV / EBITDA (x)	18.0	13.6	6.8	17.3	7.0
EV / Sales (x)	3.8	3.0	1.2	2.0	1.3
RoC (%)	16.0	15.3	14.4	5.9	15.0
RoE (%)	19.3	19.4	16.7	6.7	14.3

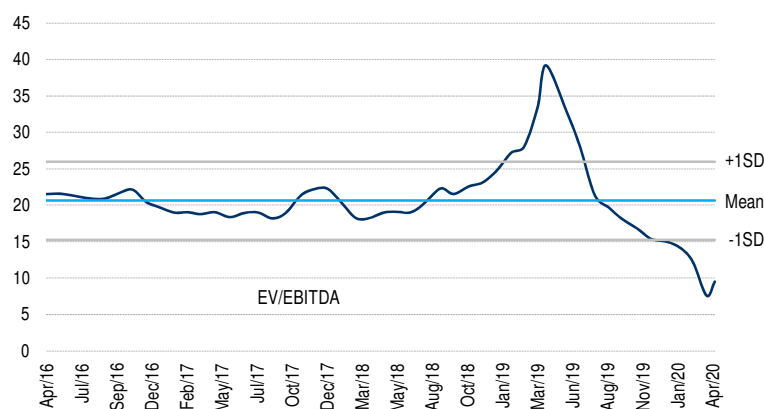
Source: Company, Anand Rathi Research

Fig 18 – Valuation table (₹ m)

EBITDA	928
Multiple (x)	12
Enterprise value	11,142
Net debt	(1,831)
Market cap	12,973
No. of shares outstanding (m)	12.3
Target price (₹)	1,052
CMP (₹)	678.0
Upside (%)	55.1
Total value	1,051.7

Source: Anand Rathi Research

Fig 19 – One-year-forward EV/EBITDA



Source: Bloomberg, Company

Risk

- Stiffer competition would trim volume and realisation growth.

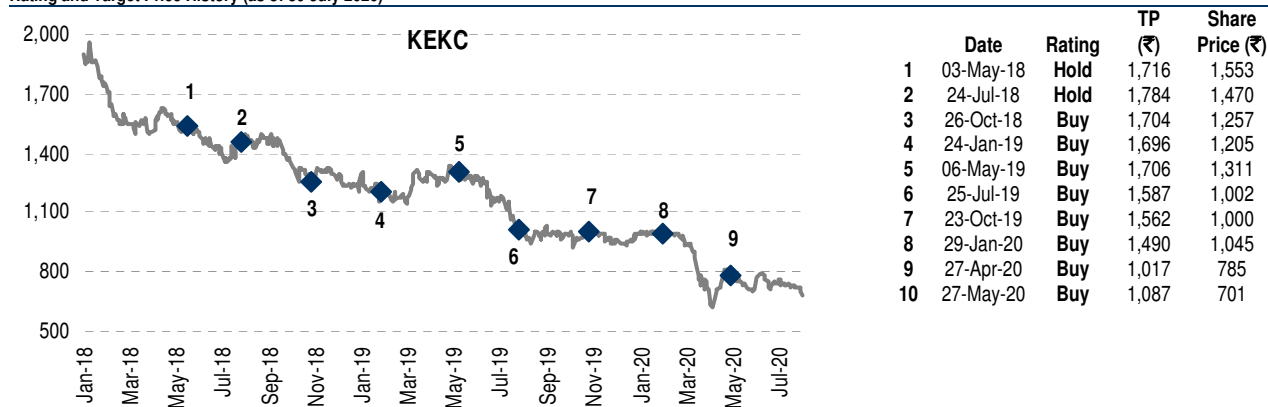
Appendix

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