CRISIL IER Independent Equity Research

Kewal Kiran Clothing Ltd

Q2FY15 results first cut: Revenues in line, earnings below expectations

Industry: Textiles, Apparels and Luxury Goods

October 20, 2014

Kewal Kiran Clothing Ltd's (Kewal Kiran's) Q2FY15 revenues were in line but earnings were marginally below CRISIL Research's expectations. Highlights of the results are mentioned below; this will be followed by a detailed quarterly update.

- Revenues grew 11.4% y-o-y to ₹1,298 mn driven by 5.2% y-o-y growth in apparel sales volume.
- EBITDA margin contracted by 320 bps y-o-y to 27.5% owing mainly to 340 bps y-o-y increase in raw material cost as percentage of sales.
- Adjusted PAT grew 3.1% y-o-y to ₹243 mn.
- Debtor and inventory days increased to 88 days and 51 days, respectively, from 48 days and 51 days in FY14 (both calculated on a TTM basis).
- The board declared a second interim dividend of ₹7.5/share.

CRISIL Research's current IER coverage on Kewal Kiran Clothing Ltd

In our report dated August 20, 2014, we had assigned a fundamental grade of 4/5 (superior fundamentals) and fair value of ₹1,554 per share. We are reviewing the results in detail and will release an update report after our discussion with the management. The outstanding fundamental grade and fair value may undergo a revision in the update report.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	3,028	3,053	3,672	4,194	4,863
EBITDA	735	745	929	1,091	1,267
Adj net income	521	539	665	753	881
Adj EPS (₹)	42.4	43.7	54.0	61.1	71.5
EPS growth (%)	13.7	3.1	23.5	13.2	17.0
Dividend yield (%)	1.0	1.0	0.8	1.4	1.7
RoCE (%)	30.3	27.0	30.8	31.7	32.9
RoE (%)	24.7	22.5	24.4	24.3	25.0
PE (x)	41.1	39.8	32.2	28.5	24.4
P/BV (x)	9.5	8.4	7.4	6.5	5.7
EV/EBITDA (x)	27.6	26.6	21.2	17.8	15.1

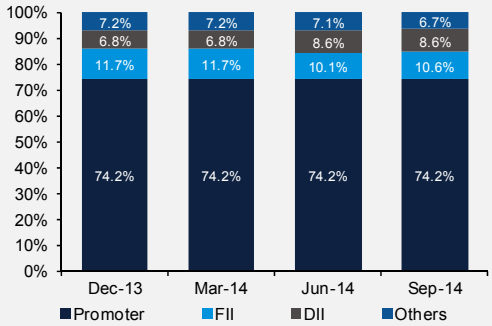
CMP: Current market price

Source: Company, CRISIL Research estimates

KEY STOCK STATISTICS

NIFTY/SENSEX	7879/26430
NSE/BSE ticker	KKCL
Face value (₹ per share)	10
Shares outstanding (mn)	12.3
Market cap (₹ mn)/(US$ mn)	21,457/350
Enterprise value (₹ mn)/(US$ mn)	20,962/342
52-week range (₹)/(H/L)	1,885/840
Beta	1.1
Free float (%)	25.8%
Avg daily volumes (30-days)	1,878
Avg daily value (30-days) (₹ mn)	3.4

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
KKCL	-7%	-3%	40%	118%
CNX 500	-3%	2%	19%	35%

ANALYTICAL CONTACT

Mohit Modi (Director) mohit.modi@crisil.com
Sayan Das Sharma sayan.sharma@crisil.com
Bhaskar Bukrediwala bhaskar.bukrediwala@crisil.com

Client servicing desk
+91 22 3342 3561 clientservicing@crisil.com

Q2FY15 Results Summary

(₹ mn)	Q2FY15	Q1FY15	Q2FY14	q-o-q (%)	y-o-y (%)	H1FY15	H1FY14	y-o-y (%)
Net sales	**1,298**	**853**	**1,166**	**52.2**	**11.4**	**2,151**	**1,910**	**12.6**
Raw materials cost	553	377	457	46.8	21.0	930	740	25.6
Raw materials cost (% of net sales)	42.6%	44.2%	39.2%	-157bps	339bps	43.2%	38.8%	449bps
Employee cost	123	105	109	17.8	13.3	228	202	12.9
Other expenses	264	211	241	25.3	9.5	475	436	9.1
EBITDA	**358**	**161**	**358**	**122.7**	**(0.2)**	**518**	**533**	**(2.7)**
EBITDA margin	**27.5%**	**18.8%**	**30.7%**	**872bps**	**-320bps**	**24.1%**	**27.9%**	**-380bps**
Depreciation	9	9	13	2.2	(29.0)	18	25	(27.3)
EBIT	**348**	**151**	**345**	**130.0**	**0.9**	**500**	**507**	**(1.5)**
Interest and finance charges	8	6	8	31.3	2.4	15	15	(1.3)
Operating PBT	**340**	**145**	**337**	**134.3**	**0.9**	**485**	**492**	**(1.5)**
Other income	26	8	16	241.6	61.3	34	40	(15.4)
PBT	**366**	**153**	**353**	**139.8**	**3.7**	**519**	**533**	**NM**
Tax	124	51	118	140.7	4.7	175	175	(0.3)
PAT	**243**	**101**	**235**	**139.3**	**3.1**	**344**	**357**	**(3.7)**
Adj PAT	**243**	**101**	**235**	**139.3**	**3.1**	**344**	**357**	**(3.7)**
Adj PAT margin	**18.7%**	**11.9%**	**20.2%**	**680bps**	**-150bps**	**16.0%**	**18.7%**	**-270bps**
No. of equity shares (mn)	12.3	12.3	12.3	-	-	25	25	-
Adj EPS (₹)	**19.7**	**8.2**	**19.1**	**139.3**	**3.1**	**27.9**	**29.0**	**(3.7)**

Source: Company, CRISIL Research

For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of McGraw Hill Financial you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view McGraw Hill Financial's Customer Privacy Policy at http://www.mhfi.com/privacy.

Last updated: August, 2014

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Disclaimer:

This **Company commissioned CRISIL IER** report is based on data publicly available or from sources considered reliable. CRISIL Ltd. (CRISIL) does not represent that it is accurate or complete and hence, it should not be relied upon as such. The data / report is subject to change without any prior notice. Opinions expressed herein are our current opinions as on the date of this report. Nothing in this report constitutes investment, legal, accounting or tax advice or any solicitation, whatsoever. The subscriber / user assume the entire risk of any use made of this data / report. CRISIL especially states that, it has no financial liability whatsoever, to the subscribers / users of this report. This report is for the personal information only of the authorised recipient in India only. This report should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person – especially outside India or published or copied in whole or in part, for any purpose.