

Textile

Company Overview

Kitex Garments Limited established in 1992, is an India-based company engaged in the manufacture of fabric and readymade garments. The Company operates through two business segments: Garments and Fabric. The vertically integrated manufacturing plant makes infant wear as well as fabrics. The company is into 100% exports of cotton garments especially infant wear. . The company has 4000 employees and 2,70,000 units capacity per of infant wear. The products are exported to US and European markets. Products include Body suits, Rompers, Bibs, Sleepwear, Burps, and Training pants.

Investment Rationale

New clients and products along with capex investment would help achieve a 20%CAGR growth

Kitex plans to add new clients and has also signed agreement with Target, few other retailers and wholesale channels. Kitex has launched its brand named Little stars and licensing of private labels (Lamaze) in the US market. These brands will help cover a large amount of market share in the infant wear value chain. Apart from this the company is moving towards high value and innovative products like 100% organic clothes this would help increase the margins. The company plans on spending a capex of Rs 1.6bn with ~Rs 550-600mn in FY17 to increase the efficiency of the company. In FY18 and FY19 the company plans on spending around Rs 600mn and Rs 500-550mn respectively. The management aims at a 20% CAGR over FY16-FY19 through these strategies of expanding the customer base and adding new products along with an increase capex plan to improve efficiency.

High entry barriers to be in favor for the company:

Kitex garments is the 3rd largest vendor in the niche segment of infant wear clothing in the global markets. It is the largest exporter of infant-wear clothing and has a 70% market share in India for all infant -wear clothing exports out of India. The company has been following to the strict safety measures, maintaining high quality standards, higher degree of complexity (than adult garments) due to involvement of small sizes, a need for greater variety these are some entry barriers in this industry which is in favor for the company which helps in the profitability of the company.

Healthy return ratios

The company has been delivering a very high return ratios because of a strong business model which helps in generating a high free cash flow. It has been delivering RoE of 30.5% and has a RoCE of 41.8% which is higher than the industry. In this capital intensive industry of textile exports where the average RoCE is ~10%, Kitex is has been giving a good return compared to the other listed textile exporters. We believe that the company stands out amongst other textile exporters and we expect the return ratios to be high in the future.

Valuation & Outlook

Kitex garments has a 70% market share in the Indian domestic market for infant wear and is positioned well in the US and European markets. We expect the company to grow at a 20% CARG for FY16-FY18. The stock is currently trading at a PE of 11.5x to its FY18E earnings. Considering the good growth potential and the healthy return ratios we are confident on the growth of the company and give a "BUY" rating on the stock with a PE of 13.8x to its FY18E earnings to arrive at a target price of Rs.580 (20% upside from the CMP).

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (Rs)	481
Target Price (Rs)	580
BSE code	521248
NSE Symbol	KITEX
Bloomberg	KTG IN
Reuters	KITE.BO

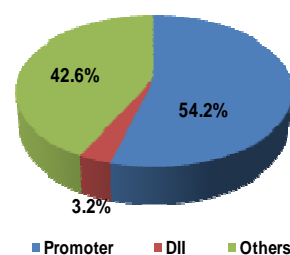
Key Data

Nifty	8,089
52WeekH/L(Rs)	1,070/340
O/s Shares (mn)	47.5
Market Cap (Rs Bn)	22.8
Face Value (Rs)	1

Average volume

3 months	1,32,670
6 months	1,61,120
1 year	1,62,250

Share Holding Pattern (%)



Relative Price Chart





Weekly Fundamental Pick

Key Financials					
YE March (Rs. mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	4,422	5,111	5,458	6,566	7,905
Growth%	39.5%	15.6%	6.8%	20.3%	20.4%
EBITDA	968	1,707	1,887	2,355	2,930
Growth%	56.8%	76.3%	10.5%	24.8%	24.4%
Net Profit	574	985	1,121	1,493	1,995
Growth%	95.3%	71.7%	13.8%	33.2%	33.6%
Diluted EPS (Rs.)	12.1	20.7	23.6	31.4	42.0
Growth%	95.3%	71.7%	13.8%	33.2%	33.6%
Key Ratios					
EBITDA(%)	21.9%	33.4%	34.6%	35.9%	37.1%
NPM (%)	13.0%	19.3%	20.5%	22.7%	25.2%
RoE (%)	32.9%	37.3%	30.5%	29.4%	28.7%
BV/Per Share (Rs.)	37	56	77	107	146
Valuation Ratios					
P/E (x)		23.2x	20.4x	15.3x	11.5x
EV/EBITDA (x)		13.0x	11.3x	8.9x	7.1x
Market Cap./ Sales (x)		4.5x	4.2x	3.5x	2.9x

Source: Company, BP Equities Research



Research Desk

Tel: +91 22 61596464

Institutional Sales Desk

Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP WEALTH MANAGEMENT Pvt. Ltd. and BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP WEALTH MANAGEMENT Pvt. Ltd. and BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP Wealth MANAGEMENT Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP Wealth and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP Wealth or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:**4th Floor, Rustom Bldg, 29, Veer Nariman Road, Fort, Mumbai – 400001****Phone- +91 22 61596161 Website- www.bpwealth.com**