



VALUE PICKS

EQUITY RESEARCH REPORT

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|---------------------------------|------------------------------------|
| KEWAL KIRAN CLOTHING LTD | BSE CODE: 532732 NSE CODE: KKCL |
| Sector: Retail | CMP: Rs. 728.80 (30/11/2012) |
| Market Cap: 8874.6 (Millions) | Target Price: Rs. 990 |
| Date: Nov 30, 2012 | Time Period: 12 – 18 months |



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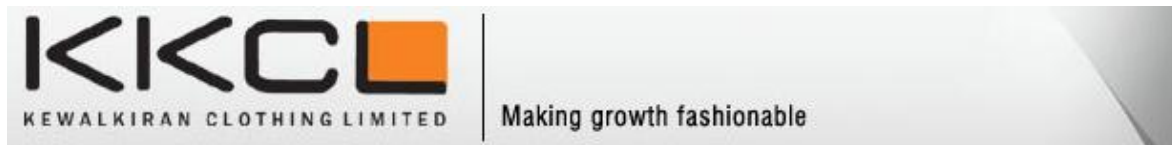
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1. Company Background



Incorporated in 1981, Kewal Kiran Clothing Limited today is amongst the few large branded apparel manufacturers in India. The company has sales in Asia, Middle East and CIS. The company designs, manufactures and markets branded jeans, Semi-formal and casual wear for men and women.

KKCL product line consists of:

| | | |
|----------|-----------------|--|
| Jeans | Jackets | Innerwear (briefs & vests) |
| Trousers | Tee Shirts | Shoes & socks |
| Shirts | Cargos & Capris | Accessories like bags, belts, caps, etc. |

The company began as a manufacturer of men’s wear for reputed brands. The company is exposed to global standards in quality, technology, marketing and branding. In 1989, the company introduced “**Killer**” the first international denim brand created in India. Today “**Killer**” is one of the most successful and widely recognized brands in the Indian apparel industry.

Innovation has been the hallmark of **Kewal Kiran Clothing Limited**. A marriage of design and technology, the company has constantly introduced new fits, finishes and fabrics. The company’s own R & D team working closely with designers is constantly innovating – creating an exciting array of product lines in a variety of fabrics, washes and cuts, using the latest in technology and processes. The company’s own manufacturing and processing set up enables it to have a speedy ‘go-to-market’ time frame – from design to production.

“Fashion” with “Quality” is the cornerstone of each collection introduced by the company. The company’s strong fashion forecasting and trendsetting abilities have created brands which are vibrant, trendy and with an attitude. Each brand has been carefully crafted keeping in mind desires and attitudes of specific market segments. Each brand is an expression of its customer.

The trendiest collections are backed by a strong retail and distribution network. The company’s extensive reach has been built in a strategic and planned manner over the years.



Manufacturing

The success of Kewal Kiran Clothing Limited can be attributed to a great extent to its Manufacturing capacity. The company has inherent core competency in manufacturing. From sourcing to finishing every aspect of the company's manufacturing has added to its success.

With 5 units, an annual capacity of 30 lakh pieces, over 1400 employees, the latest technologies in jeans manufacturing, the company's ability to innovate in manufacturing enables it to quickly go from design to market.

The company has chalked out plans for growth in manufacturing capacities to meet the growing markets for its brands internationally.

Strong Brands in Apparels

1. Killer

Killer is the first truly international Indian brand created and owned by Kewal Kiran Clothing Limited. A brand that is youthful, trendy, vibrant and with an attitude. The focus of the brand is 16-30 years segment. Killer enjoys a leadership position in the premium menswear in this segment.

Launched in 1989, Killer, today is a power brand. Killer jeans is one of the largest selling denim brand in India. Starting as a jeans brand, the Killer product portfolio today, includes women's and men's ready-to-wear jeans, trousers, cargos, capris, shirts, jackets, tee-shirts, innerwear (vests and briefs), footwear (shoes, socks), eye-wear and other addictive accessories (belts, bracelets etc). The 'Killer for her' range (an exclusive style statement for women) was launched in 2007.

Killer products are sold in over 1600 stores across the country through various life style stores like Shoppers' Stop, Lifestyle, Central and Westside. Killer is also available at other multi-brand outlets including KKCL's K-Lounge. Since 2006, over 35 Killer Exclusive Brand Stores enable the brand to be closer to its consumers and evolve the brand with the changing times.

Since 1994, Killer is also exported to countries in the Middle-East, USA, Africa and South-East Asia.

2. Lawman Pg3

Lawman Pg3, the lifestyle apparel brand from Kewal Kiran Clothing Limited (KKCL), is famed for its innovations in apparel design and now holds 3 patents in 3 years.



The LawmanPg3 apparel range has shirts, blazers, jackets, denim and cotton trousers, tee-shirts, cargos, capris, drapes, jeggings, skirts, shorts and adding depth to the wardrobe are a set of addictive accessories to match with the collection; innerwear, socks, footwear, headwear, sunglasses, deodorants, trinkets and the likes.

The extraordinarily exhaustive range of LawmanPg3, LawmanPg3 Chica and the addictive accessory products offers retailers and lifestyle consultants opportunities to create a unique look for each consumer like never before and cater to wider tastes under one brand experience.

LawmanPg3 communications uses multimodal communications to create the brand image and create space in the minds of the brand consumers. Movies, fashion shows, Bollywood fashion diva Kangana Ranaut is the brand ambassador.

3. Integriti

Integriti - a brand that knows exactly how to provide what its customer desires. Kewal Kiran's 'peppy & springy' brand launched in 2002 – Integriti. With a strong presence in men's casual wear with seasonal flavours in jeans, shirts, fashion trousers, tee shirts, formal wear, Integriti, in 2009, extended the range by introducing western casual wear and fashion accessories for women - Integriti Galz



Integriti apparel is also exported to countries in Middle East and Sri Lanka

4. Addictions

Addictions – offers an exhaustive range of accessories to complete the fashion statement.



Addictions is a small store filled with accessories to complete the overall look of an apparel consumer. Potent accessories mostly, including footwear, innerwear, eyewear, headwear, wristwear, personal care products and other fashion –forward accessories, will reveal your fashion passion. Over 50 fashion paraphernalia in shades of the season will move from the store corner to the center-piece as merchandise



5. Easies

A brand for the young executives and for the new times-when being successful is also being cool. A Semi-formal range for men between the age group of 25 – 40 yrs the brand continues relation of Kewal Kiran Clothing Limited with its customers through the various phases of life and the various aspects of life.

Kewal Kiran Clothing Limited maintains a connect with its customers through a brand that carries the cool attitude to the office space in a smooth curve.

6. K-Lounge

K-Lounge is a trendsetting fashion retail chain promoted by KKCL. The portfolio of brands have revolutionised Indian casual wear and fashion wear with 4 men's apparel brands Killer, Easies, Lawman and Integriti. Now K-Lounge also includes complete range for women - Killer for her, Easies femme, LawmanPg3 Chica and Integriti Galz. All these brands have attained a cult status and some of the choicest brand offerings are exclusively available through the K-Lounge fashion chain.

As on 31st March 12, there are over 140 K-Lounge stores spanning the entire country. K-Lounges are mapped on almost every corner of the country and soon will cover every state capital of India. In Mumbai there are over 15 stores strategically located in prime malls like, Nirmal Lifestyle and Raghuleela and also high streets of suburban Mumbai. K-Lounge for her is an exclusive store providing the entire range of trendy international women wear for the Indian femme.



Achievements & Awards

1996 - Killer - Brand of the year

The Arvind Mills Limited



2001-02 (National Garment Fair) - CMAI AWARDS

- **Golden Scale Trophy**
Advertising Campaign of the year
- **Golden Scale Trophy**
Denim Brand of the year
- **Silver Salver**
Most Innovative Display



2003 - (National Garment Fair) CMAI AWARDS

- **Silver Salver**
Presented to 'Lawman'
- **First Prize**
Most Innovative Display (Brand Wagon)



2003 - 1st Inside Fashion Award (IFA)

- "Power Brand – For Excellence in Retail performance"
Award Category – Men’s Wear Jeans - ‘Killer’



2001 - IFA

- HALL of FAME - Jeans wear brand of the year - ‘Killer’
- IFA -3rd Inside Fashion Award - Campaign of the year – ‘Killer’

2005

- **CNBC TV 18 – ICICI Bank Award** for best SME Company in Textile/ Apparel Sector
- **Golden Trophy by CMAI** for casual wear brand of the year (small & medium) INTEGRITI



2. Recent Development

i) Opening / Closing of Retail Stores to operate efficiently

KKCL was operating with 263 stores as on 31 Oct'12. During last 6 months, company has opened 44 new stores and closed existing 33 stores (9 stores out of which were relocated / expanded). This was done taking corrective measures to ensure that company does not incur losses on non performing retail stores.

Company has opened 17 retail stores i.e. 5K-Lounges, 1K-Lounge for Her, 4 Killer EBO, 5 Integriti EBO and 2 Lawman Pg3 during the quarter. Closed 8 K-Lounges, 2 K-Lounge for Her, 9 Killer store, 1-LawmanPg3 / Integriti, 3 integriti stores and 1 Addiction EBO. However, company has opened 12 new stores on Dussehra during Oct'12.

ii) Late Start of Festive Season Impacted Sales Volume in Q2 – FY 2012-13

Shifting of Diwali festival season in November this year against October last year has impacted sales volume by 11.73%. However the Company witnessed uptake in demand during October 12 due to on set of festival season.

Brand Wise Sales

| Sales (Rs crs) | Q2 2013 | Q2 2012 | % Change |
|----------------|--------------|---------------|------------|
| Killer | 47.29 | 46.11 | 3% |
| Lawman | 15.33 | 20.21 | -24% |
| Easies | 1.51 | 2.15 | -30% |
| Integriti | 23.72 | 25.23 | -6% |
| Others | 3.04 | 6.63 | NA |
| Total | 90.88 | 100.33 | -9% |

Product Wise Sales

| Sales (Rs crs) | Q2 2013 | Q2 2012 | % Change |
|----------------|--------------|---------------|------------|
| Jeans | 60.15 | 58.05 | 4% |
| Trousers | 8.97 | 14.23 | -37% |
| Shirts | 14.14 | 18.81 | -25% |
| T-Shirts | 4.01 | 2.95 | 36% |
| Others | 3.61 | 6.29 | -0.43 |
| Total | 90.88 | 100.33 | -9% |

Channel Wise Sales

| Sales (Rs crs) | Q2 2013 | Q2 2012 | % Change |
|----------------|--------------|---------------|------------|
| Retail | 22.48 | 25.25 | -11% |
| MBO | 56.68 | 64.29 | -12% |
| Chain Stores | 4.5 | 5.76 | -22% |
| Factory Outlet | 3.34 | 2.38 | 40% |
| Exports | 3.88 | 2.65 | 0.46 |
| Total | 90.88 | 100.33 | -9% |

Region wise Sales

| Sales (Rs crs) | Q2 2013 | Q2 2012 | % Change |
|----------------|--------------|---------------|------------|
| North | 9.06 | 14.27 | -36% |
| West | 26.49 | 27.05 | -2% |
| South | 17.79 | 20.91 | -15% |
| East | 33.66 | 35.45 | -5% |
| Exports | 3.88 | 2.65 | 0.46 |
| Total | 90.88 | 100.33 | -9% |

iii) Dividend payout

Company has paid dividend of Rs. 7 per share on 23rd Nov 2012 to its share holders.

3. Financial Performance

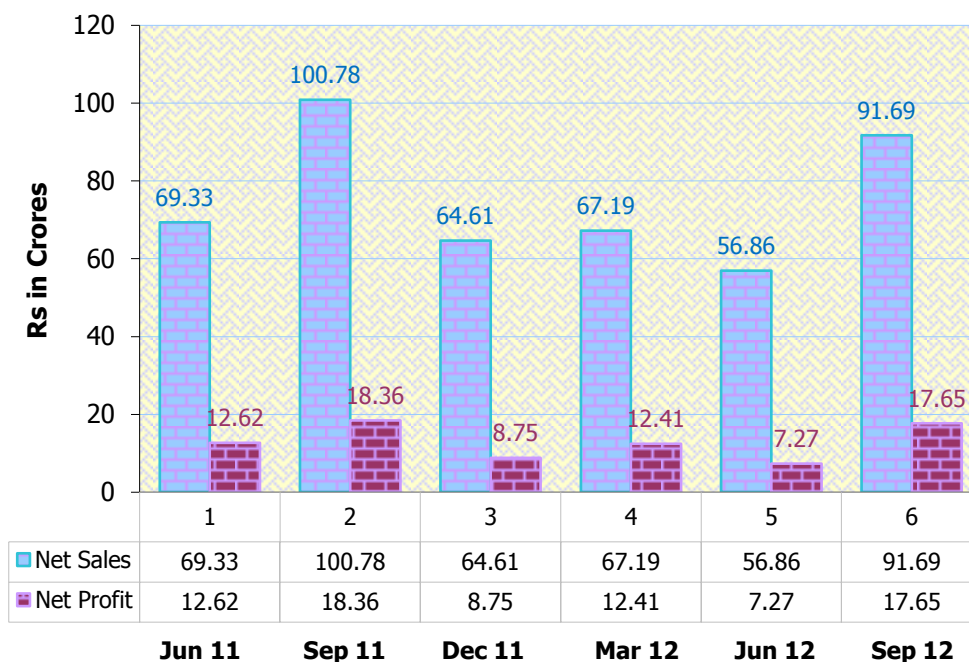
Kewal Kiran Clothing net profit declines 3.87% in the September 2012 quarter

Net profit of Kewal Kiran Clothing declined 3.87% to Rs 17.65 crore in the quarter ended September 2012 as against Rs 18.36 crore during the previous quarter ended September 2011. Sales declined 9.02% to Rs 91.69 crore in the quarter ended September 2012 as against Rs 100.78 crore during the previous quarter ended September 2011

Kewal Kiran Clothing net profit declines 42.39% in the June 2012 quarter

Kewal Kiran Clothing net profit declined 42.39% to Rs 7.27 crore in the quarter ended June 2012 as against Rs 12.62 crore during the previous quarter ended June 2011. Sales declined 17.98% to Rs 56.86 crore in the quarter ended June 2012 as against Rs 69.33 crore during the previous quarter ended June 2011

Last 6 Quarters Net Sales & Profit





Current & Expected Earnings (In crores):

| QUARTERLY RESULTS | Dec '11 | Mar '12 | Jun '12 | Sep '12 | Dec'12E | Mar'13E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales Turnover | 64.61 | 67.19 | 56.86 | 91.69 | 94.65 | 90.58 |
| Other Income | 3.06 | 2.68 | 3.2 | 2.82 | 3.04 | 2.85 |
| Total Income | 67.67 | 69.87 | 60.06 | 94.51 | 97.69 | 92.43 |
| Total Expenses | 52.57 | 49.49 | 47.34 | 66.25 | 66.45 | 64.21 |
| Operating Profit | 12.04 | 17.7 | 9.52 | 25.44 | 28.20 | 26.37 |
| Gross Profit | 15.1 | 20.38 | 12.72 | 28.26 | 31.24 | 29.22 |
| Interest | 0.63 | 0.59 | 0.65 | 0.79 | 0.98 | 0.95 |
| PBDT | 14.47 | 19.79 | 12.07 | 27.47 | 30.26 | 28.27 |
| Depreciation | 1.65 | 1.67 | 1.46 | 1.54 | 1.75 | 1.75 |
| PBT | 12.82 | 18.12 | 10.61 | 25.93 | 28.51 | 26.52 |
| Tax | 4.07 | 5.71 | 3.34 | 8.28 | 9.12 | 8.47 |
| Provisions and contingencies | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit After Tax | 8.75 | 12.41 | 7.27 | 17.65 | 19.39 | 18.05 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 | 0 |
| Prior Period Expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 8.75 | 12.41 | 7.27 | 17.65 | 19.39 | 18.05 |
| Equity Capital | 12.33 | 12.33 | 12.33 | 12.33 | 12.33 | 12.33 |
| Face Value (IN RS) | 10 | 10 | 10 | 10 | 10 | 10 |
| Reserves | | | | | | |
| Calculated EPS | 7.10 | 10.06 | 5.90 | 14.31 | 15.73 | 14.64 |
| Calculated EPS (Annualised) | 28.40 | 40.24 | 23.60 | 57.24 | 62.92 | 58.56 |
| No of Public Share Holdings | 3196740 | 3196740 | 3190739 | 3190739 | -- | -- |
| % of Public Share Holdings | 25.94 | 25.94 | 25.89 | 25.89 | -- | -- |

In H1 FY2012-13, sales value was down by 12.67%. Apparel sales value was down by 10.07% to Rs. 141 crores. Apparel sales quantity was also down by 14.11% where as sales realisation per unit was up by 4.8% to Rs. 786.

We believe company will deliver better topline and bottom line during 2nd half on account of late start of festive season this year. Moreover, apparel sales quantity decreased by 11.7% due to delay in monsoon and festive season this year but company has shown increase in its profit margins of 7% during 2nd quarter, sales realisation per unit was up by 6.3%.



4. Investment Rationale

i) Huge Growth Opportunities in Apparel Industry

Indian Apparel market is expected to grow at over 11% CAGR over the next 10 years and organized retailers can be expected to grow at over 16% CAGR in the same period. This growth comprises of an equal amount of Volume and Value growth which in turn helps strong brands to maintain their margins and growth profitability.

ii) KKCL - History of Establishing Successful Brands

KKCL has shown great ability of launching new products and making them successful by nurturing them over the years. KKCL has established strong brands like Killer, Integriti and Lawman in apparel industry. Killer inspite of bigger base is growing consistently at annualized rate of more than 20%. Launching new products and establishing those as well-known brands is a huge asset for the company.

iii) Targeting Youth Population

Kewal Kiran has a lot of macro positives going in favour of it in the Long term. It is present in a country which is undergoing a major economic expansion, huge youth population, brand conscious society and increasing spending on Apparels. Indian urban youth average spending on Apparel is increased to almost 30% of their Income, compared to 15% of the previous generation. Kewal Kiran with a strong operational presence is well positioned to reap the benefits of structural growth opportunities going forward.

iv) Strong Business Model

Kewal Kiran has an Asset light Business model which gives it tremendous advantage over most of its peers. KKCL's retail stores are mostly Franchisee owned and operated, which has reduced the Capital requirements of KKCL. Company's operates with a vertically integrated model which includes all key verticals of the industry. Company controls fashion designing; manufacturing, marketing and retailing of its brands. Kewal Kiran also outsources the basic manufacturing process which helps it to control costs without increasing fixed costs.

v) Robust Financial Performance

Kewal Kiran operates with negligible debt and have a robust balance sheet. Company has one of the best working capital cycles in the Industry which has helped it to perform far better than all its competitors in the present tough scenario. The company also has a strong control on its costs which can be seen from the superior margins which the company generates.

vi) Prudent Management with Ambitious Goals

KKCL management has set its objective to achieve turnover of 1000 crores by FY 15-16, which is more than 3 times of FY11-12 revenues. With strong distribution and franchise model in place, this will give significant increase in earning of the company without diluting their equity for raising funds.

5. Peer Group Comparison

| PEER GROUP | KEWAL KIRAN | LOVABLE LINGERIE | PAGE INDUSTRIES | PROVOGUE INDIA | ZODIAC CLOTHING |
|-----------------------------|---------------|------------------|-----------------|----------------|-----------------|
| CMP | 728.80 | 375.95 | 3362.00 | 15.16 | 189.80 |
| 52 W H/L | 799.00/485.35 | 479.80/278 | 3500/2275 | 36.40/11.15 | 233.60/164.90 |
| Market Cap | 8620.13 | 6588.12 | 38280.65 | 2172.78 | 3580.84 |
| Results (in Million) | Sep-12 | Sep-12 | Sep-12 | Sep-12 | Jun-12 |
| Sales | 91.69 | 40.11 | 220.11 | 148.83 | 66.84 |
| PAT | 17.65 | 4.32 | 30.75 | 5.96 | 4.78 |
| Equity | 12.33 | 16.80 | 11.15 | 11.44 | 19.27 |
| EPS | 14.32 | 2.57 | 27.57 | 0.52 | 2.48 |
| P/E | 18.71 | 30.10 | 38.10 | 12.04 | 31.63 |

If we look at last few years, Indian apparel retailers have gone through a bad phase. Retailers like Koutons Retail, Vishal Retail, Lilliput Kids, Spykar Retails etc have huge debt on their balance sheets. Aggressive expansion taken by these companies couple of years back during booming economy have impacted their bottom line severely.

Few companies with sound management are compared above. Lovable Lingerie (Lovable) and Page Industries (Jockey) are into business of inner garments and are not direct competitors but are well managed companies like KKCL with established brands. We find Kewal Kiran attractive compared to peer group companies considering its healthy operating and profit margins and reasonable valuations.

6. Risk & Concerns

1.) **Profit Margins:** Kewal Kiran has limited pricing power and can't not pass on the cost to its customers incase of increase in raw material prices, this is one of the reason of decreased margins during periods of high raw material (cotton) prices. Also other cost like excise duty increase has impacted Company's profitability. KKCL's product mix has been shifting to low margin products. Also higher rental costs can further impact margins.

2.) **Increased Competition from Global Brands:** With the opening of 100% FDI in Single brand retail, Indian fashion apparel market is expected to see an inflow of several global brands and thereby increasing the competitive intensity in apparel market.

3.) **Dynamic Fashion Trends:** Fashion trends keep on changing and get obsolete in a short span of time. This is a high risk for fashion retailers and investors. They need to keep a close watch on the new trends.



7. Saral Gyan Recommendation

- ✚ During first half of FY 2012-13, KKCL net sales and profits were declined due to significant increase in raw material prices and limited pricing power with the company for its products. While this is a concern, we believe KKCL with its robust business model is positioned well than its peers to manage such difficult environments.
- ✚ Kewal Kiran operates with negligible debt and have a robust balance sheet. Company has one of the best working capital cycles in the Industry which has helped it to perform far better than all its competitors in the present tough scenario. The company also has a strong control on its costs which can be seen from the superior margins which the company generates.
- ✚ We believe profit margins of KKCL will remain under pressure in near term but company will perform better compared to its competitors. Company manages its capital structure effectively; KKCL has been able to maintain raw material days as 26 days compared to 50 days in case of competitors. Margins may remain under pressure in near term but we believe company will be able to maintain its ROE and ROCE above 20% and 30% respectively.
- ✚ As per our estimates, KKCL can deliver total sales of Rs 334 crores and PAT of Rs 62 crores, resulting in EPS of Rs 50 in FY 2012-13. This translates to an expected PE multiple of 14.5 times based on FY 2012-13 earnings. Company has paid regular interim dividend to share holders and dividend yield at CMP is above 2.
- ✚ With aggressive growth plans (targeting revenue of 1000 crores by 2015-16), strong distribution channel of franchise stores, exclusive outlets, organised retailers network and strong brands portfolio, KKCL can deliver robust growth in top line and bottom line in coming years which makes it a good investment opportunity for long term.
- ✚ On equity of Rs. 12.33 crores the estimated annualized EPS for FY 12-13 works out to Rs. 50 and the Book Value per share is Rs. 195.07. At a CMP of Rs. 728.80, price to book value is 3.7. Currently, the scrip is trading at 14.5X FY 2012-13 and 10.5X FY 2013-14 estimated earnings which make KKCL an attractive bet at CMP.

Saral Gyan Team recommends “BUY” for Kewal Kiran Clothing Ltd at current market price of 728.80 for a target of Rs. 990 over a period of 12-18 months.

Buying Strategy:

- 40% at current market price of 728.80
- 60% at price range of 550-600 (In case of correction in stock price in near term)



8. Disclaimer

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