

MAY 3, 2019

	2-May	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	38,981	(0.1)	0.3	6.9
NIFTY Index	11,725	(0.2)	0.5	7.6
NSEBANK Index	29,709	(0.2)	(2.0)	9.7
NIFTY 500 Index	9,638	(0.3)	(0.7)	6.4
CNXMcap Index	17,461	(0.6)	(4.8)	2.8
BSESMCAP Index	14,593	(0.2)	(3.6)	4.6
World Indices				
Dow Jones	26,308	(0.5)	0.3	5.0
Nasdaq	8,037	(0.2)	1.8	10.6
FTSE	7,351	(0.5)	(0.9)	4.7
NIKKEI	22,308	0.5	5.0	7.7
Hangseng	29,944	0.8	(0.8)	6.5
Shanghai	3,062	(0.8)	(2.9)	17.6

Value traded (Rs cr)	2-May	% Chg Day
Cash NSE	33,812	(12.6)
Derivatives	2,214,496	87.0

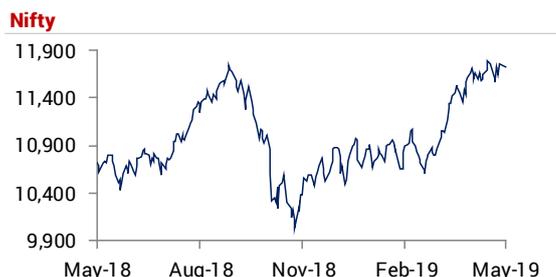
Net inflows (Rs cr)	30-Apr	MTD	YTD
Mutual Fund	826	(4,920)	(2,982)

Nifty Gainers & Losers	Price	Chg	Vol
Gainers			
Yes Bank Ltd	174	3.4	124.2
Bharti Infra	271	3.2	5.5
Power Grid	190	2.0	5.0
Losers			
Britannia Ind	2,783	(3.9)	1.4
Zee Entertainment	418	(3.3)	3.2
Tata Motors	207	(3.3)	22.0

Advances / Declines (BSE)	2-May				
	A	B	T	Total	% total
Advances	183	395	37	615	100
Declines	276	566	76	918	149
Unchanged	2	29	13	44	7

Commodity	2-May	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	70.5	(0.3)	1.7	12.4
Gold (US\$/OZ)	1,270.6	(0.5)	(1.4)	(3.5)
Silver (US\$/OZ)	14.6	(0.3)	(3.4)	(8.1)

Debt / Forex Market	2-May	1 Day	1 Mth	3 Mths
Re/US\$	69.4	69.6	68.7	71.8



Source: Bloomberg

News Highlights

- ▶ Post US sanctions on Iran, India is exploring new geographies to meet its energy needs. This includes an interest in Guyana's oilfields that are being hailed as one of the world's largest oil finds in recent times. (ET)
- ▶ Business activity in India's manufacturing sector further slowed in April, but still held in the expansion zone. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) declined from 52.6 in March to 51.8 in April. (Mint)
- ▶ Cumulative sales of the top six manufacturers of two-wheelers fell to 1.58 million units in April 2019, from 1.88 million in the same month a year before, as manufacturers pared dispatches to reduce stock piling up at their dealerships. (BS)
- ▶ The National Company Law Appellate Tribunal on Thursday allowed the banks to declare the accounts of **IL&FS** and its subsidiaries that have defaulted on payments as non-performing assets. (BS)
- ▶ **DLF** has transferred a retail mall in Noida to one of its subsidiaries for Rs 29.5 bn. The value was derived on the basis of the valuation report of an independent valuer. (ET)
- ▶ RBI approved extension of tenure of Brahm Dutt as Part-Time Chairman of **Yes Bank** till January 10, 2022. (BL)
- ▶ Queensland government rejects **Adani Enterprise** plan to protect a rare species of finch "because it does not meet the requirements of the company's environmental authority. (BS)
- ▶ Promoter Standard Life (Mauritius Holdings) 2006 will sell up to 36 million shares, or 1.78 percent stake in the open market in **HDFC Life**. The floor price is set to Rs 390 per share. (Mint)
- ▶ **Ircon International** received an order worth \$91.27 million from the Sri Lankan Government for upgradation of railway tracks. (BS)
- ▶ **Andhra Bank** board approved increasing authorised capital from Rs 30 bn to Rs 60 bn. (BS)
- ▶ **Persistent Systems** joined Siemens partner program to bring industrial digital solutions to the market. (BL)
- ▶ **Grasim** said its brownfield expansion of 45 TPD value-added specialty fibre capacity at Gujarat Plant has been fully commissioned and the commercial productions has commenced from May 1. (BS)
- ▶ **Coal India** a near monopoly supplier to the country's thermal power plants, would raise dispatches about 9% to 530 million tonnes in FY20, an enhanced target analysts say should help soften power prices and substitute the solid fuel's imports. (ET)
- ▶ JSW Paints will rely on captive consumption from **JSW Steel** colour coated business to generate initial demand for the newly created venture that aims to earn Rs 20 bn worth revenue in the next three years. (BS)

What's Inside

- ▶ **Result Update:** Zensar Technologies Ltd
- ▶ **Company Visit Note:** Kewal Kiran Clothing Ltd (KKCL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

ZENSAR TECHNOLOGIES LTD (ZENSAR)

Stock Details

Market cap (Rs mn)	:	55435
52-wk Hi/Lo (Rs)	:	352 / 196
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	157,636
Shares o/s (mn)	:	225

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	39,663	45,346	51,403
Growth (%)	28	14	13
EBITDA	4,875	5,839	6,890
EBITDA margin (%)	12.3%	12.9%	13.4%
PAT	3,136	3,759	4,465
EPS	13.9	16.7	19.8
EPS Growth (%)	2%	20%	19%
BV (Rs/share)	85	98	114
Dividend/share (Rs)	2.8	3.2	3.7
ROE (%)	17.6	18.2	18.7
ROCE (%)	18.4	18.4	18.9
P/E (x)	17.8	14.9	12.5
EV/EBITDA (x)	11.3	9.2	7.6
P/BV (x)	2.9	2.5	2.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	48.9	48.9	48.9
FII	16.9	16.9	7.5
DII	2.4	2.4	11.4
Others	31.9	31.9	32.3

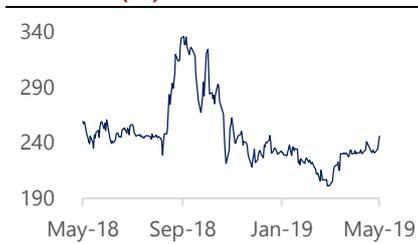
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Zensar Tech	5.7	8.7	(4.9)
Nifty	5.3	1.1	(17.8)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.248

TARGET Rs.267

ADD

Zensar's Q4FY19 revenue grew by 4.5% qoq in USD terms to USD150mn (18.5% yoy), marginally above our estimate of USD148mn. In FY19, revenue grew by 17.6% yoy to USD 566.9 mn. Digital services contributed 46.4% of Q4FY19 revenues and was at 44.7% of FY19 revenues. PAT has increased by 50% qoq and 14% yoy to Rs.827 mn supported by meaningful jump in other income and strong operating performance.

Key Highlights

- Digital is the key focus area for the company which showed a steady growth rate of 8.1% qoq and 35.6% yoy. Within Application Services and IMS the growth driver has been digital services, contributing 41.1% and 5.3% of revenue, respectively. Digital now contributes 46.4% in Q4FY19 v/s 44.9% in previous quarter of the overall revenue. The company has filed few more patents with 5 being granted for Digital & Blockchain—strong push towards innovation continues.
- All of Zensar's acquisitions (all digital in nature) had strong growth over the year with Cynosure leading in the last quarter. Digital & Application Services grew 18.9% yoy owing to the strong growth of 33.8% in Digital Services. Cloud & Infrastructure services grew at 10.9% in FY19. Cloud, Digital led next Gen CIS however grew at 77.3% due to Vinci, Zensar's ROD NeXT based Cloud platform.
- **Steady inflow of large transformational deals:** Zensar has signed USD 150 mn TCv of deals in Q4FY19, taking the deal wins to USD 750mn+ in FY19. The company has highlighted that strong demand environment persists and trend of slightly smaller size deals with increased deal volume in the recent past. Large deals ratio (TCv over \$10m) has improved to 60% in Q4FY19 v/s 55% in Q3FY19. The company indicated that the pipeline continues to be robust with a good mix of Application and Cloud deals. Digital (including RoDand RoDNeXT) seeing tremendous traction across all markets which is helping create niche for Zensar.
- **Core Business performance:** Zensar has more than \$100 mn bookings in the Cloud & Infrastructure space on a trailing twelve months basis. Impressively, top 20 accounts grew 19.3% yoy & top 10 grew at 20.1% yoy. Account management continues to be robust. 10M+ accounts grew to 9, 2% qoq and 5% yoy. Insurance had a slightly soft quarter, however there was healthy increase in deal wins especially in the Guidewire space. Europe continued its steep growth with both Farming & Hunting engines faring well. BFSI continued its growth momentum, growing at a yearly rate of 30.1% while Hi-Tech grew by 22.8% in Q4.
- Zensar had acquired four companies in the last two years. The acquisitions have also been an integral part of new deal wins. All entities reported sequential growth - 1) **Foolproof** – Quarterly revenue growth of 10.2%. Good cross sell helping UK region growth, 2) **Keystone Logic**—Quarterly revenue growth of 16.1%, 3) **Cynosure**—Quarterly revenue growth of 18.3%. Multiple deal wins in the last quarter & 4) **Indigo Slate**—Growth of 6.5% sequentially. Combined GTM in place.

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Valuation & outlook

We are introducing FY21E earnings and roll-forward our valuation on FY21E earnings. We expect Zensar to report an EPS of Rs.16.7/share (earlier Rs.16.5/-) in FY20E and an EPS of Rs. 19.8/share in FY21E supported by strong deal pipeline. Revenue outlook remains strong on the back of the deal momentum of recent quarters. We maintain ADD with a revised target price of Rs.267 (Rs.239 earlier).

Quarterly result update

P&L A/C (Rs. Mn)	Mar-19	Mar-18	YoY (%)	QoQ (%)
Revenue (US\$ Mn)	150	127	18.5	4.5
Currency (INR/US\$)	70.45	64.31	9.5	(2.3)
Revenue	10,574	8,147	29.8	2.1
Total Expenditure	9,304	7,186	29.5	0.6
EBIDTA	1,269	962	32.0	14.9
Depreciation	251	139	80.9	5.9
EBIT	1,018	823	23.7	17.4
Other income	279	268	4.1	1,017.6
Interest-net	110	50	118.6	1.2
PBT	1,187	1,040	14.1	51.5
Tax	355	300	18.5	62.8
Current Tax	355	300	18.5	62.8
PAT	832	741	12.3	47.1
Less: Minority Interest	4	14	(67.9)	(63.6)
Adj PAT (post MI)	827	727	13.8	49.6
EPS (Rs.Share)	3.67	3.23	13.7	49.6

Source: company

Margin details

	Mar-19	Mar-18	YoY (ppts)	QoQ (ppts)
EBITDA Margin (%)	12.0	11.8	0.2	1.3
EBIT Margin (%)	9.6	10.1	(0.5)	1.3
Adj PAT Margin (%)	7.8	8.9	(1.1)	2.5
Other Income/PBT (%)	23.5	25.7	(2.3)	20.3
Tax/PBT (%)	29.9	28.8	1.1	2.1

Source: company

Client Concentration

Revenue from top clients	Q1 FY 18	Q2 FY 18	Q3 FY 18	Q4 FY 18	FY 18	Q1 FY 19	Q2 FY 19	Q3 FY 19	Q4 FY 19	FY 19
Revenue- top 5 clients	34.9%	35.3%	36.2%	38.6%	36.3%	37.6%	38.2%	39.1%	37.6%	37.6%
Revenue- top 10 clients	43.1%	43.6%	44.8%	47.7%	44.8%	45.7%	46.7%	49.5%	48.4%	46.5%
Revenue- top 20 clients	54.5%	56.1%	56.0%	59.3%	56.1%	57.1%	57.6%	60.2%	59.7%	57.1%

Source: company

Quarterly result analysis

- **Revenue in US dollar terms:** Zensar's Q4FY19 consolidated revenue increased by 4.5% qoq (+18.5% yoy) to US\$ 150mn (as against our expectation of US\$ 148 mn). Core revenue stood at US\$142.4 mn—a growth of 5.2% qoq and 22.3%yoy.
- Business growth was broad based with all business segments reported growth, led by Digital and Next Gen Cloud & Infrastructure capabilities and backed by several large deal wins.

- The company has highlighted that it will continue to invest in market winning ROD NeXT suite of digital platforms & solutions that help in delivering enterprise wide digital transformation programs for its clients.
- **Revenue (Rupee terms):** Consolidated revenues increased by 2% qoq to Rs.10.57 bn (+29.8% yoy).
- **Cost of revenue:** Employee cost decreased by 0.2% qoq to Rs.7.56 bn in Q4FY19.
- **Sales and marketing expenses:** The Company's SG&A expenses increased by 2% qoq to Rs.731 mn (+40% yoy). In Q4FY19, SG&A expenses as a percent of revenues decreased by 10 bps qoq to 6.9%.
- **General and administration expenses:** The Company's G&A expenses increased by 6% qoq to Rs.1.01 bn (+11% yoy). In Q4FY19, G&A expenses as a percent of revenues increased by 35 bps qoq to 9.57%.
- **Operating profit (Rs. Mn):** Zensar reported meaningful increase in EBITDA to Rs.1.3 bn in Q4FY19 (14.9% qoq and 32% yoy). Operating profit growth was broad-based with all regions & Service lines seeing margin improvement in FY19.
- **Operating margin (%):** EBITDA margin increased to 12% (130 bps qoq and 20 bps yoy) due to efficient resource optimization, cost management and robust internal systems & processes. Core Business EBITDA was at 14.1% for Q4 and 14.1% for FY19.
- **Depreciation charge:** Depreciation has increased 5.9% qoq to Rs.251 mn. Depreciation as a percentage of revenue stands at 2.4% in Q4FY19 v/s 2.3% in Q3FY19.
- **Forex loss (Other income):** Zensar reported a forex loss of Rs.18 mn during the quarter vs 169 mn loss in Q3FY19.
- **Profit before tax (PBT):** Zensar's PBT increased 51.5% qoq to Rs.1.2 bn in Q4FY19 (+14% yoy) supported by higher operating income and significantly higher other income.
- **PAT:** Zensar's PAT has increased 49.6% qoq to Rs.827 mn (+13.8% yoy) due to higher PBT. Effective tax rate (ETR) increased to 29.9% from 27.8% in Q3FY19. In Q4FY19, the company reported PAT of USD 11.7 mn, a sequential growth of 53.1% and in FY19, PAT grew by 20.2% to \$45.0 mn.

Maintain ADD

We are introducing FY21E earnings and roll-forward our valuation on FY21E earnings. We expect Zensar to report an EPS of Rs.16.7/share (earlier Rs.16.5/-) in FY20E and an EPS of Rs. 19.8/share in FY21E supported by strong deal pipeline. Revenue outlook remains strong on the back of the deal momentum of recent quarters. We maintain ADD with a revised target price of Rs.267 (Rs.239 earlier).

Company Background

Zensar is a leading digital solutions and technology services company that specifies in partnership with global organizations across industries on their Digital Transformation journey. The company has complete technology services portfolio which includes Applications, Infrastructure, Digital and Industry specific solutions lineage. Zensar is a part of the USD \$3bn RPG Enterprises and the US \$40bn APAX portfolio of companies. Digital business is 34% of Zensar revenue and has shown strong growth.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	31,077	39,663	45,346	51,403
% change YoY	0.9	27.6	14.3	13.4
EBITDA	3,700	4,875	5,839	6,890
% change YoY	-5.9	31.8	19.8	18.0
Other Income	695	844	844	800
Depreciation	650	894	1,008	1,137
EBIT	3,745	4,825	5,676	6,553
% change YoY	4.1	28.8	17.6	15.5
Net interest	228	373	386	195
Profit before tax	3,517	4,453	5,290	6,358
% change YoY	0.2	26.6	18.8	20.2
Tax	1,052	1,268	1,481	1,844
as % of PBT	29.9%	28.5%	28.0%	29.0%
Profit after tax	2,465	3,185	3,809	4,514
Minority interest	50	49	49	49
Share of profit of associates	0	0	0	0
Net income	2,416	3,136	3,759	4,465
% change YoY	1.9	29.8	19.9	18.8
Shares outstanding (m)	225	225	225	225
EPS (reported) (Rs)	10.7	13.9	16.7	19.8
CEPS (Rs)	13.6	17.9	21.2	24.9
DPS (Rs)	2.4	2.8	3.2	3.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	3,745	4,825	5,676	6,553
Depreciation	650	894	1,008	1,137
Change in working capital	(46)	(2,007)	(1,138)	(1,902)
Chgs in other net assets	-	-	-	-
Operating cash flow	4,349	3,713	5,545	5,788
Interest	(228)	(373)	(386)	(195)
Taxes paid	(1,052)	(1,268)	(1,481)	(1,844)
Cash flow from operations	3,069	2,073	3,678	3,749
Capex	(2,119)	(4,536)	(1,208)	(1,337)
(Inc)/dec in investments	(319)	1,595	-	-
Cash flow from investments	(2,438)	(2,941)	(1,208)	(1,337)
Others	4	265	49	49
Increase/(decrease) in debt	(1,246)	2,519	(1,297)	(1,002)
Proceeds from share premium	-	-	-	-
Dividends	(621)	(725)	(883)	(1,003)
Cash flow from financing	(1,863)	2,059	(2,131)	(1,956)
Opening cash	3,301	2,069	3,259	3,599
Closing cash	2,069	3,259	3,599	4,055

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	2,069	3,259	3,599	4,055
Accounts receivable	6,423	8,762	9,566	10,844
Inventories	1,060	985	1,126	1,276
Loans and Adv & Others	4,382	6,676	7,632	8,652
Current assets	13,933	19,681	21,923	24,827
Misc exp.	0	0	0	0
LT investments	2,746	1,152	1,152	1,152
Net fixed assets	5,976	9,617	9,817	10,017
Total assets	22,655	30,450	32,892	35,996
Payables	1,839	3,010	3,051	3,155
Others	2,838	3,977	4,547	4,883
Current liabilities	4,677	6,987	7,598	8,038
Provisions	782	1,131	1,233	1,290
LT debt	60	2,578	1,281	279
Min. int and Others	447	331	430	529
Equity	450	450	450	450
Reserves	16,239	18,973	21,899	25,410
Total liabilities	22,655	30,450	32,892	35,996
BVPS (Rs)	73	85	98	114

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	11.9	12.3	12.9	13.4
EBIT margin (%)	12.1	12.2	12.5	12.7
Net profit margin (%)	7.8	7.9	8.3	8.7
Receivables (days)	75.4	80.6	77.0	77.0
Inventory (days)	12.4	9.1	9.1	9.1
Sales/gross assets(x)	1.9	2.0	2.0	2.0
Interest coverage (x)	13.4	10.7	12.5	29.5
Debt/equity ratio(x)	0.0	0.1	0.1	0.0
ROE (%)	15.5	17.6	18.2	18.7
ROCE (%)	16.4	18.4	18.4	18.9
EV/ Sales	1.7	1.4	1.2	1.0
EV/EBITDA	14.6	11.3	9.2	7.6
Price to earnings (P/E)	23.1	17.8	14.9	12.5
Price to book value (P/B)	3.4	2.9	2.5	2.2

Source: Company, Kotak Securities – Private Client Research

Company Visit Note

KEWAL KIRAN CLOTHING LTD (KKCL)

Stock Details

Market cap (Rs mn)	:	16374
52-wk Hi/Lo (Rs)	:	1617 / 1100
Face Value (Rs)	:	10
3M Avg. daily vol (nos)	:	620
Shares o/s (mn)	:	12

Source: Bloomberg

Financial Summary - Standalone

Y/E Mar (Rs mn)	FY16	FY17	FY18
Revenue	4668	4665	4603
Growth (%)	12.0	(0.1)	(1.3)
EBITDA	1040	989	982
EBITDA margin (%)	22.3	21.2	21.3
PAT	680	746	733
EPS	55.1	60.5	59.4
EPS Growth (%)	2.6	9.8	(1.8)
Book value (Rs/share)	242.3	303.7	324.1
Dividend per share (Rs)	60.0	17.5	31.5
ROE (%)	22.0	22.2	18.9
ROCE (%)	29.2	24.7	21.2
P/E (x)	24.1	22.0	22.3
P/BV (x)	5.5	4.4	4.9
EV/EBITDA (x)	15.8	16.3	16.5

Source: Company, Capitaline

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	74.3	74.3	74.3
FII	11.9	12.0	12.0
DII	9.5	9.5	9.4
Others	4.4	4.2	4.3

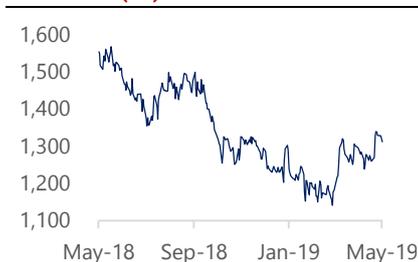
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Kewal Kiran Clothing	1.7	10.0	(1.0)
Nifty	0.5	7.6	13.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.1328

NOT RATED

We recently met the management of Kewal Kiran Clothing Ltd (KKCL) and had also attended the tradeshow organized by the company. KKCL designs, manufactures and sells wide range of products such as jeans, shirts, trouser, T-shirts, shoes and other fashion accessories under its own brand name Killer, LawmanPg3, Integriti and Easies largely catering to men's segment. The company has strong sales and distribution network spread across 209 cities in 25 states. It has over 100 distributors and has a strong retail presence through 325 owned and franchised stores through its EBOs and retail stores under brand name K-Lounge. KKCL is targeting to expand into women's wear segment and has recently acquired Desi Belle brand catering to women's segment. The company has track record of generating strong EBITDA margins of over 20% with robust cash flows and net cash balance sheet, as it has discouraged high discounts and Sale or return (SoR) model.

Outlook & Valuation

KKCL targets to maintain single digit growth rate in revenue with strong margin of over 20%, but we believe that aggressive approach towards some of the brands and increase in geographical penetration may result in rise in working capital. At CMP, the stock is trading at PE of 20.6x based TTM EPS of Rs 64.6. We do not have any rating on the stock.

Key risk

- Increased competition from other domestic and foreign brands
- Sharp volatility in Raw material prices
- Increase in working capital

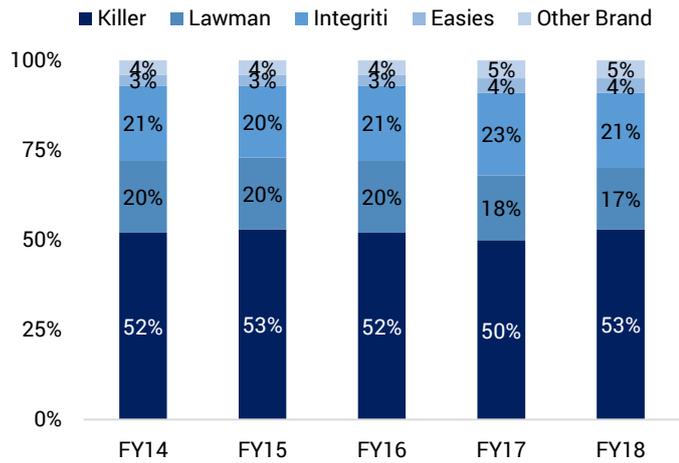
Strong portfolio of home grown brands targeted at various segment

In the last 30 years, KKCL has created strong portfolio of own brands catering to customers across wide profile. The company offers diverse range of products under brand names Killer, LawmanPg3, Integriti and Easies. Its flagship brand, Killer caters to premium men's wear segment in the price range of Rs 2399-3299 for jeans and competes against brands like Levis, Pepe Jeans, Spykar, etc. Killer contributed over 50% revenue in the past 4-5 years and grew at a CAGR of 6.4% in FY14-18. The brand grew at 13% on yoy basis in 9MFY19. Integriti which is targeted at masses contributed over 20% to KKCL's revenue and grew at 5.4% CAGR in FY14-18, with 13.3% yoy growth in 9MFY19. The brand is priced in the range of Rs 1799-2099 and offers fine-quality casual, semiformal and formal wear. Easies, targeted at 25-40 years age group, grew at fastest pace on a low base at a CAGR of 16.4% yoy in FY14-18 and 20.8% in 9MFY19. The company is targeting to revive growth in Lawman Pg3 brand which has been a laggard in the past 1-2 years with 0.9% CAGR in FY14-18 and declined by 17% in 9MFY19. It has added wide variety of new collections with design patents. The company has also reduced prices for certain categories in order to compete against other brands. The management is hopeful on growth in Lawman Pg3 in future.

Pankaj Kumar

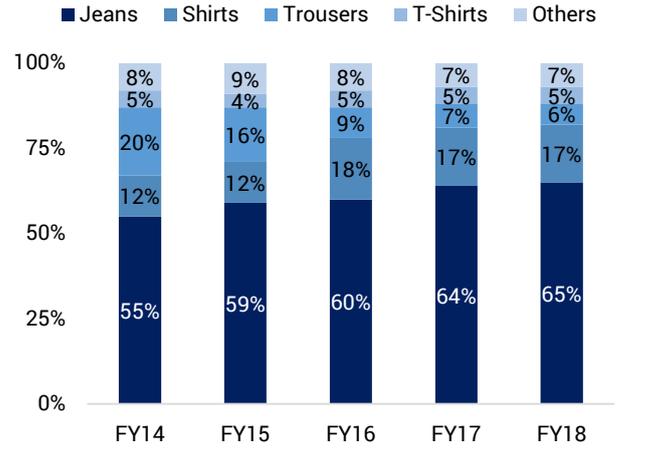
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Brand mix in 5 years



Source: Company

Product mix in 5 years



Source: Company

Brands profile

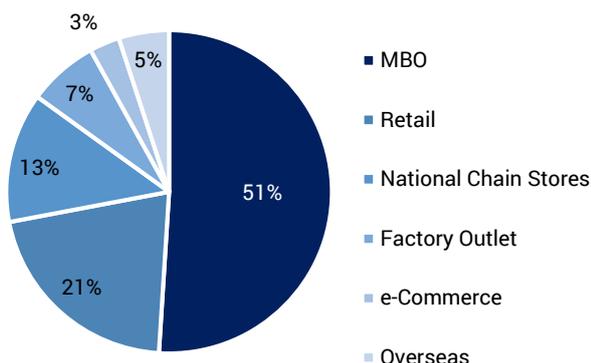
Brands	Details
	It is the flagship brand of the company with powerful international feel and a unique style quotient. Launched in 1989, the brand is focussed on premium men's wear segment. The brand is targeted at youth with age group 16-25 years and is trendy, vibrant and dynamic.
	Launched in 1998, "Lawman" is targeted to the customers between the age group of 18 to 28 years, with a focus on denim and party / club wear. "Lawman" is positioned as a fashion brand.
	Launched in 2002, "Integriti" is positioned as a brand for the masses and is largely distributed through MBOs. The brand ensures a complete package of fine-quality casual, semiformal and formal wear.
	Launched in 1998, "Easies" is targeted to the customers between the age group of 25 to 40 years, mostly corporate executives. The brand offers semi-formals, to polo-tees; from smart trousers to comfortable three-fourths
	K-Lounge is company's own retail brand which sells KKCL's brands, these stores are operated through own as well as franchisee route

Source: Company, Kotak Securities - Private Client Research

Strong distribution across geographies

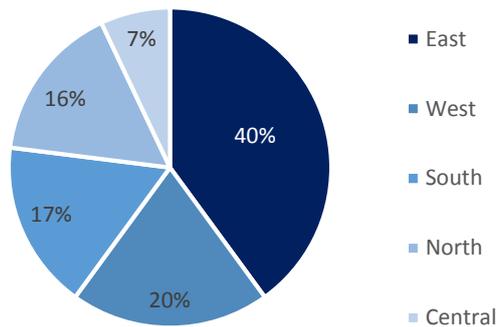
KKCL has wide distribution network with presence across 209 cities in 25 states. The company sells its products through different channels with MBOs contributing to 51% of its revenue in FY18, followed by retail with 21%, national chain stores 13%, etc. These MBOs are catered by its distributors spread across regions. The company is very strong in eastern region which contributed 40% of its revenue in FY18 while it had lower contribution from northern market with 16% revenue from the region in FY18. As per management, northern market is largely SoR based, while the company follows outright sale based distribution and discourages SoR model. Even in case of large format stores which is normally SoR driven, the company derives one third revenue through outright sales.

Channel wise breakup (FY18)



Source: Company

Geographical breakup (FY18)



Source: Company

Expanding to women fashion wear through Desi Belle

KKCL is targeting to expand into women’s fashion wear segment. The company has recently acquired Desi Belle brand catering to women’s segment. The company is offering both Indian and western wear under the brand. As per management, there is very large market for women wear which is mostly unorganized or non-branded and is growing at a faster pace. The company is targeting to grab market share in the space. There will be separate distribution for the women’s wear brand. The company has priced denim in the range of Rs 1699-1999, Kurti in the range of Rs 399-1999 and dresses in the range of Rs 1999-2499 and festive collections in the range of Rs 2599-5000.

Organised Exhibition to showcase all brands under one roof

The company had organized exhibition/tradeshaw in Goa where it displayed all its brands under one roof. The company displayed all its leading brands Killer, Integriti, LawmanPg3, Easies and recently acquired Desi Belle. This gave opportunity to the company to showcase all its brands and product categories under one roof to its distributors and channel partners. This also helped the channel partners in placing orders from wide collections for Autumn Winter season 2019.

KKCL’s Goa exhibition 2019



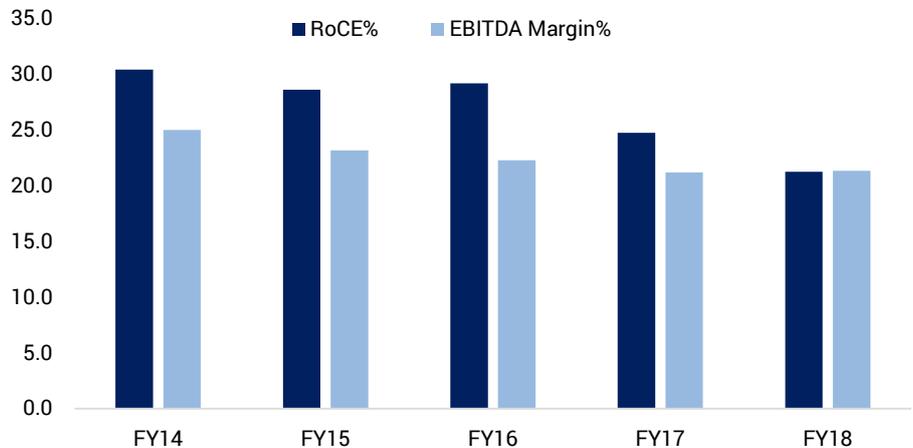


Source: Company

Focus on profitability and cash flows

The company has track record of generating strong EBITDA margins of over 20% with robust cash flows. The company has discouraged discounts and SoR model. As per management, KKCL follows SoR only in case of few large format stores while in case of MBOs and franchisee EBOs, it has outright sale. This distribution model also helps company to generate robust cash flows and returns ratios. The company has been generating positive OCF, FCF with RoCE of over 20% in the last 5 years (FY14-18).

RoCE & EBITDA Margins trend

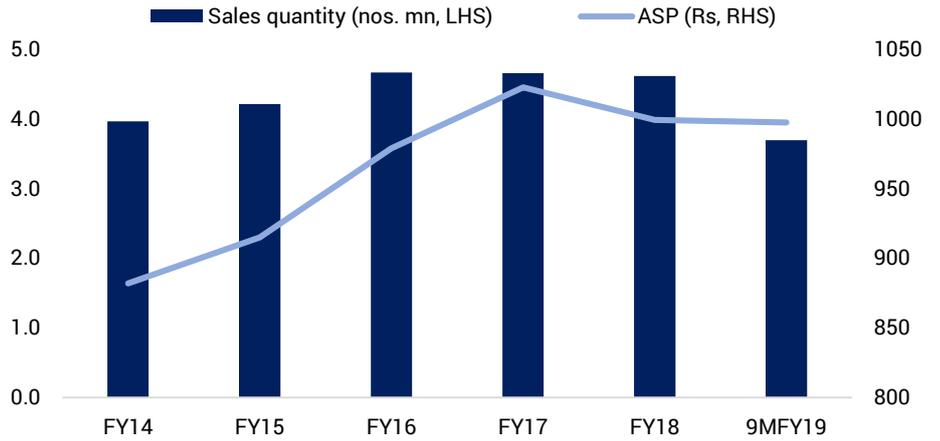


Source: Company, Capitaline

Poised to resume sales trajectory with sustainable margin

In FY14-18, KKCL’s sales grew at a CAGR of 5.9% driven by 3.9% CAGR in volume and 3.2% CAGR in average selling price (ASP) with EBITDA margins maintained at over 20%. The company has track record of generating strong cashflows with 20% plus RoCE based on strong margin and lower working capital. The company is targeting to resume its growth trajectory based on sharpening segmentation of its brands, increasing its reach through expansion in new locations, wide distribution network and aggression in pricing on selective basis, etc. In 9M FY19, sales in value terms grew by 8.5% driven by 9.8% growth in volume and 1.2% decline in ASP with EBITDA margins at 23%.

Sales volume and realization

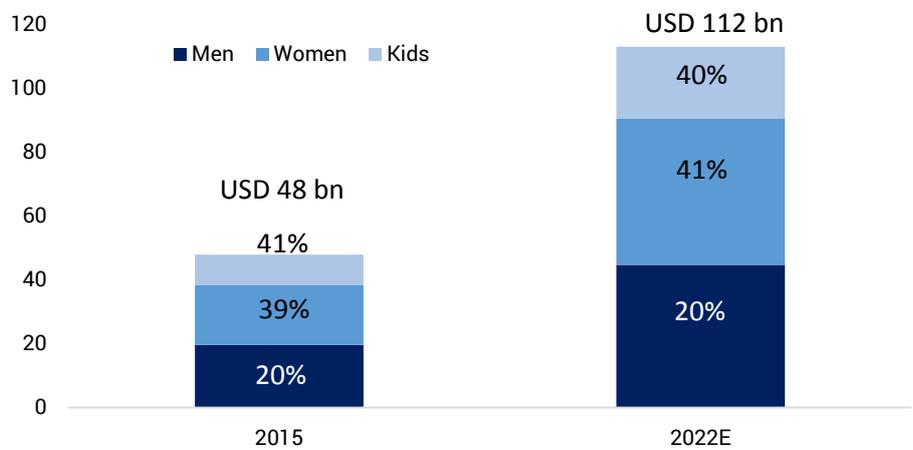


Source: Company

Opportunity in fashion wear segment

The organised apparel market in India is expected to grow at a CAGR of more than 13% over a 10-year period (Source, IBEF). The men’s casualwear market is expected to grow at a CAGR of 18% (2015-2022) and reach USD 12 bn by 2022 (Source: Arvind Fashions, Feb 2019 PPT). The growth is driven by increasing preference towards brands, favorable demographics led by large young population, increasing urbanization, entry of international brands, etc. Globally, the fashion industry witnessed disproportionate growth once per capita GDP crosses over USD 2000 (as witnessed in case of China and Russia) (Source: Arvind Fashions, Feb 2019 PPT). India’s per capita GDP is inching closer to USD 2000 and going by global trend, there is indication of positive future growth outlook for Indian fashion apparel industry. According to World Bank, urban population accounts for ~33 per cent of the total population of India and rising incomes have been a key determinant for increasing brand preference and results in upward push on demand. Increasing urbanization, growing middle class, and rise in per capita income is expected to support growth of branded players.

Indian Apparel market



Source: Arvind Fashions PPT

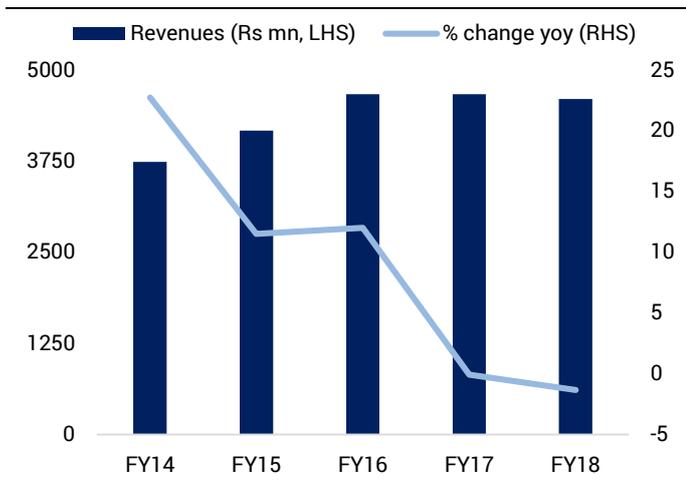
Company Background

Kewal Kiran Clothing Limited (KKCL), founded in 1992, is one of the largest branded apparel manufacturers in India. The company designs, manufactures and markets branded denim wear and is also present in semiformal and casual wear. The company sells wide range of products such as jeans, shirts, trouser, T-shirts, shoes and other fashion accessories under brand name Killer, LawmanPg3, Integriti and Easies. 65% of KKCL’s revenue was contributed by jeans with Killer brand contributed 53% of total revenue in FY18. The company has strong sales and distribution network spread across 209 cities in 25 states. It also has over 100 distributors and has a strong retail presence through 325 stores which includes, 204 K-lounge, 120 EBOs and 1 factory outlet. The company has its own retail stores under the brand name “K-Lounge” which sells company’s own brands and are operated through both own as well as franchisee route. The company is also present in international market with presence in geographies like Asia, Middle East, and CIS nations with exports contributing 5% of company’s sales in FY18.

Outlook & Valuation

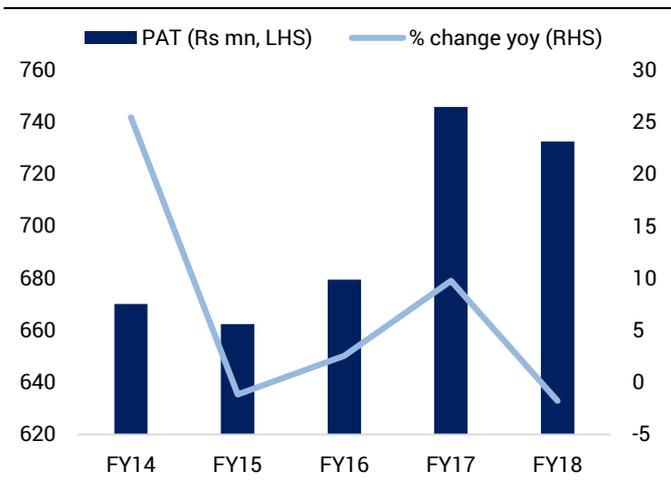
Going forward, the company targets to maintain single digit growth rate in revenue with strong margin of over 20%. We believe that aggressive approach towards some of the brands and increase in geographical penetration may result in rise in working capital. At CMP, the stock is trading at PE of 20.6x based TTM EPS of Rs 64.6. We do not have any rating on the stock.

Revenue trend



Source: Company, Capitaline

PAT Trend



Source: Company, Capitaline

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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