

Infomerics Valuation And Rating Pvt. Ltd

Press Release

Khadim India Ltd.

March 18, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Commercial Paper Programme (Earmarked out of current tied-up fund based working capital limits)	30.00	IVR A1 (IVR A One)	Revised from IVR A1+ (IVR A One Plus)
Total	30.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the commercial paper programme of Khadim India Limited (KIL) primarily considers moderation in its performance marked by sharp decline in its profits and cash accruals in 9MFY20 primarily due to heavy advertisement and branding expenses incurred by the company to boost its sales amidst weak demand scenario. Further, the working capital intensity of KIL has also increased due to slower movement of inventory affecting the overall financial risk profile. However, the rating continues to derive comfort from its long track record of operations with experienced promoters, established market position backed by strong brand image in Eastern India with wide product range and its comfortable capital structure. Meanwhile, the rating strengths continues to remain constrained by the company's presence in a competitive industry with inventory obsolescence risks, exposure to risk associated with outsourcing and geographical concentration of revenue.

Key Rating Sensitivities:

Upward Factor:

- Significant improvement in revenue and profitability coupled with rise in net cash accruals on a sustained basis while maintaining its operating efficiency and financial risk profile.
- Improvement in the capital structure and improvement in liquidity

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Downward factor:

- More than expected dip in operating income and/or profitability impacting the debt coverage indicators, subdued industry scenario, increase in dependence on working capital borrowings and moderation in overall gearing to more than 1.5 times on a sustained basis.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record and experienced promoters

KIL has been in the business for more than five decades with the current promoters, signifying its long & established track record. Currently, the day-to-day affairs of the company are being looked after by the CMD, Mr. Siddhartha Roy Burman (son of Mr. S. P. Roy Burman) having more than three decades of experience in the footwear industry. He is well supported by a team of experienced personnel.

Established position with strong brand image

KIL has been in the footwear business for more than three decades and has achieved considerable prominence in the footwear business. Its brand, 'Khadim's', with a legacy of about 50 years, is quite a popular brand, especially in Eastern and Southern India. Further, over the years, it has also developed a number of well-known sub-brands for footwear, such as British walkers, Sharon, Lazard, Waves, Pedro, etc. The presence of the Khadim's brand across user segments has grown steadily over the period of time. Further, KIL has diversified its presence in 23 states and 1 Union territory across the country with its wide distribution network of about 544 distributors and 799 retail outlets as on March 31, 2019.

Wide product range

KIL mainly caters to the demand of lower- and middle-income groups. However, it has wide variety of footwear including ladies, gents & children's footwear consisting of a variety of leather, Poly Vinyl Chloride (PVC), Ethylene Vinyl Acetate (EVA) and Hawaii footwear. The company sells both in both wholesale and retail markets and the prices also vary accordingly.

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Comfortable capital structure and satisfactory debt protection parameter albeit moderation in operating margin

KIL's total operating income witnessed a marginal y-o-y growth of 6.74% in FY19. The growth in FY19 was mainly constrained by decline in retail sales during the year. Further, due to relatively slower movement of inventory and consequent increase in marketing initiatives to boost sales the EBIDTA margin dampened during FY19. However, the company continued to have a comfortable capital structure backed by no long-term debt in its books as on March 31, 2019. Further, the overall gearing also continued to remain comfortable at 0.38x as on March 31, 2019. Comfortable gearing with established presence of the company indicates considerable financial flexibility with sufficient gearing headroom.

Key Weaknesses

Competitive nature of the industry and inventory obsolescence risks

The Indian footwear industry is highly fragmented and competitive due to presence of a large number of small and medium players operating in unorganised sectors along with presence of organized segment. Further, due to rapidly changing fashion trends and customer requirements, inventory obsolescence risk is critical.

Risk associated with outsourcing

KIL outsources a large portion of its requirement from about 100-120 approved vendors. Given the need to cater to a varied fashion needs, the company needs to produce its products with lots of designs. Thus, the order quantity of any particular product/design is small and more suitable for SSI units with lower installed capacity. This enables KIL to keep pace with the rapidly changing design & style in the footwear segment and also rationalise production cost for low value-low margin products. However, the ability of the company to maintain a good relation with its vendors, ensure quality and timely supply and drive the procurement in a cost-effective manner is key to its performance.

Geographical concentration

KIL is exposed to geographical concentration risk pursuant to concentration of its sales in the eastern and southern states which caters more than 80% of its total sales in past years. To

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diversify, KIL is opening new retail outlets in new geographies; however, the geographical concentration is likely to continue in the near to medium term.

Working capital intensive nature of business

The operation of the company is working capital intensive as KIL needs to hold a sizable inventory to respond to customer demand effectively and to maintain a full range of products at its exclusive retail stores and distribution channels. Further, KIL is operating with franchisee operated stores and distributors whereby it extends credit period of about 50 to 60 days which also intensifies its working capital requirements. Moreover, accretion of GST receivables and slow movement of inventory due to weak demand scenario led to increase in working capital intensity of the business in H1FY20 and in 9MFY20.

Moderation in financial performance during 9MFY20

Total operating income increased by 3.48% in 9MFY20 as compared to 9MFY19 on account of increase in volume sales from COCO (Company Owned Company Controlled) stores. In spite of the increase in top-line, the operating profit and cash accruals from the business witnessed a significant decline in 9MFY20. The EBITDA margin declined from 8.88% in 9MFY19 to 7.12% in 9MFY20 mainly due to huge promotional expenditure incurred by the company to promote its brand and create mass demand during the period to boost its sales amidst slow demand in the market. With moderation in profit margin, gross cash accruals also witnessed a sharp moderation in 9MFY20. In the near term, Infomerics expects the growth in business will remain flat with dip in profitability.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company has been adequate as the company does not have any long-term debt and hence there are no major debt servicing obligations in the near future.

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Further, comfortable capital structure with sufficient gearing headroom imparts comfort. However, the liquidity position is constrained due to increase in its working capital intensity and dip in profitability. Going forward, movement in profit margin and management of working capital remain key monitorable

About the Company

Khadim India Limited (KIL) commenced its operations in 1965. From 1993, with its foray into retailing, Khadim's emerged as a popular fashion footwear brand, and also one of the leading organized footwear retailers in India.

Financials (Standalone):

			(Rs. crore)
For the year ended* / As On	31-03-2018	31-03-2019	
	Audited	Audited	
Total Operating Income	748.71	799.18	
EBITDA	75.85	56.94	
PAT	37.90	21.17	
Total Debt	68.48	109.04	
Tangible Net worth	267.20	286.82	
EBITDA Margin (%)	10.13	7.12	
PAT Margin (%)	5.00	2.63	
Overall Gearing Ratio (x)	0.26	0.38	

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Commercial Paper Programme (Proposed) (Earmarked out of current tied-up fund based working capital limits)	Short Term	30.00	IVR A1 (IVR A One)	IVR A1+ (IVR A One Plus) (September 02, 2019)	IVR A1+ (IVR A One Plus) (July 10, 2018)	-	-

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it because of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Commercial Paper Programme (Earmarked out of current tied-up fund based working capital limits)	-	-	-	30.00	IVR A1 (IVR A One)