Press Release

Khadim India Ltd.

July 10, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Commercial Paper (Earmarked out of current tied-up fund based working capital limits)	30	IVR A1+ (IVR A One Plus)	Assigned
Total	**30**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from the long track record and experienced promoters with established market position, strong brand image and wide product range. Profitable operations, improvement in capital structure and debt protection parameters also support the rating. However, the rating is tempered by the company's presence in the competitive industry, inventory obsolescence risks, higher focus on outsourcing, and geographical concentration and working capital intensive nature of business. Profitability, capital structure and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Long track record and experienced promoters
- Established position with strong brand image
- Wide product range
- Profitable operations
- Improvement in capital structure and debt protection parameters
- The competitive industry and inventory obsolescence risks
- Higher focus on outsourcing
- Geographical concentration
- Working capital intensive nature of business

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, Shri Siddhartha Roy Burman (son of Shri 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. Moreover, gradual shift from the unorganised to the organised market has also enabled the brand, Khadim's, to become more popular 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 455 distributors and 753 retail outlets as on March 31, 2018.

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 Hawai footwear. The company sells both in both wholesale and retail markets and the prices also vary accordingly.

Profitable operations

KIL registered a y-o-y growth of ~23% in its total operating income in FY18 over FY17, driven by increase in volume sales mainly attributable to addition of new retail stores (753 as on March 31, 2018 as against 673 as on March 31, 2017) and distributors (455 as on March 31, 2018 as against 357 as on March 31, 2017). KIL has maintained EBIDTA margin of around 10-11% and PAT margin of around 5% in the past two years.

Improvement in capital structure and debt protection parameters

KIL does not have any long term debt on its books and the capital structure of the company remained comfortable with overall gearing ratio being at 0.26x as on March 31,

2018. During FY18, KIL infused net equity aggregating to ~Rs.50.0 crore and repaid its outstanding long term debts correspondingly resulting in improvement in the overall gearing from 0.60x as on March 31, 2017 to 0.26x as on March 31, 2018. The debt protection parameters of the company also remained comfortable with the interest coverage ratio of 6.12x (4.79x in FY16) and the Total Debt to GCA of 1.28x (2.35x in FY17) in FY18.

Key Weaknesses

The competitive industry and inventory obsolescence risks

The Indian footwear industry is highly fragmented due to presence of a large number of small and medium players operating in unorganised sectors along with presence of organized segment. Unorganised sector has prominence in the Indian scenario due to its price-competitiveness which is more suitable and attractive to the price conscious Indian consumers. The intensity of competition is high between the two segments and currently, both are estimated to have an equal share of the overall domestic market in value terms. The unorganized segment dominates the market in terms of sales volume due to its presence majorly in the low cost rubber/plastic footwear. Further, due to rapidly changing fashion trends and customer requirements, inventory obsolescence risk is critical. In FY15, the company had to sale a large quantum of slow moving and non-moving items at a high discount resulting in net loss.

Higher focus on outsourcing

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. KIL outsources a large portion of its requirement from about 100-120 approved vendors. 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 timely supply of goods by its vendors 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 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 30 to 75 days which also intensifies its working capital requirements. Moreover, any delay in collection from its franchisee and distributors may impact the liquidity of the company to an extent. However, the operating cycle of the company remained moderate at around 50 days in the past two years. The average working capital limit utilisation remained moderate at about 74.6% during the past 12 months ended in April, 2018.

Analytical Approach & **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

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. Today, under the leadership of Chairman and Managing Director, Mr. Siddhartha Roy Burman, son of Late Shri Satya Prasad Roy Burman, KIL has grown to over 750 retail outlets in 23 states and 1 union territory in India as on March 31, 2018. Some of the key brands of KIL are British Walkers, Lazard, Turk, Cleo, Sharon, Softouch, Pro and Charandas. KIL mainly operates through two business verticals - retail and distribution. The company has a network of 455 distributors (as on March 31, 2018). The distribution business constituted over 24% of its net revenue in FY18. KIL has its own raw material testing and manufacturing units at Kasba and Panpur, West Bengal. Up to FY2013, complete ownership of the company was with the promoter group; however, in 2015, Reliance Private Equity (a private equity firm) took 33.8% stake in KIL with an exit clause. KIL made an Initial public offer (IPO)/Offer for Sale (OFS) of 7,240,759 Shares @ Rs.750.00/share aggregating to~ Rs.543 crore in Nov, 2017 and got itself listed in BSE and

NSE. With such equity proceeds, Reliance Private Equity's stake was bought back at Rs.493 crore and the balance ~Rs50 crore was mainly utilised to reduce term debt. The company is governed by the Board of Directors comprising six members with two members from the promoters' family and four independent directors.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	610.60	748.71
EBITDA	64.65	75.85
PAT	30.64	37.90
Total Debt	108.94	68.48
Tangible Net worth	182.57	267.20
EBITDA Margin (%)	10.59	10.13
PAT Margin (%)	4.98	5.00
Overall Gearing Ratio (x)	0.60	0.26

*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 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Commercial Paper (Earmarked out of current tied-up fund based working capital limits)	Short Term	30	IVR A1+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis 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.

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 (Earmarked out of current tied-up fund based working capital limits)	-	-	-	30	IVR A1+