Press Release

Khadim India Ltd.

September 02, 2019

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 continues to derives comfort from its long track record of operations with experienced promoters, established market position backed by strong brand image in Eastern India and wide product range. The rating is also underpinned by its comfortable capital structure and satisfactory debt protection parameter albeit moderation in operating margin in FY19. However, the rating strengths are tempered by the company's presence in a competitive industry with inventory obsolescence risks, exposure to risk associated with outsourcing, geographical concentration of revenue and its working capital-intensive nature of business. Growth in scale of operations with improvement in profitability, capital structure and efficient working capital management are the key rating sensitivities.

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

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 on 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. Total operating income increased by 13.90% in Q1FY20 as compared to Q1FY19 on account of increase in volume sales. The EBITDA margin also improved from 9.49% in Q1FY19 to 9.92% in Q1FY20 on account of increase in sales realization. Further, the company is introducing new brand ambassadors to promote its brand and create mass demand to improve its high margin retail sales in ensuing quarters. However, the trend in margin is a key monitorable.

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 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, any delay in collection from its franchisee and distributors may impact the liquidity of the company to an extent. The average collection period of the company elongated marginally in FY19. Further, with marginal increase in average inventory holding period and increase in the collection period, there is marginal elongation in the operating cycle in FY19.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

<u>Liquidity</u>

The liquidity position of the company has been adequate with consistent positive cash flow from operations over FY17-19 and current ratio at 1.45x as on March 31, 2019. The company does not have any long-term debt and hence there are no major debt servicing obligations in the near future. Comfortable capital structure with sufficient gearing headroom coupled with healthy interest coverage ratio at 4.89x for FY19 imparts comfort. Further, as on June 30, 2019 the company has unencumbered cash and bank balance of Rs.9.85 crore to support its liquidity.

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 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Commercial Paper (Earmarked out of current tied-up fund based working capital limits)	Short Term	30	IVR A1+ (IVR A One Plus)	IVR A1+ (IVR A One Plus)	-	-

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+ (IVR A One Plus)