March 15, 2017

Khadim India Limited

Instrument*	Rated Amount	Rating Action
Cash Credit Limits	Rs. 110.00 crore	Upgraded to [ICRA]A- (Stable) from [ICRA]BBB+(Positive)
Term Loans	Rs. 20.00 crore	Upgraded to [ICRA]A- (Stable) from [ICRA]BBB+(Positive)
Letter of Credit / Bank Guarantee	Rs. 24.50 crore	Upgraded to [ICRA]A- (Stable) from [ICRA]BBB+(Positive)
Purchase Bills Discounting/ Demand Loans/Overdraft Limits	Rs. 16.00 crore	Upgraded to [ICRA]A2+ from [ICRA]A2

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating to the Rs. 110.00-crore[1] cash credit limits, Rs. 20.00-crore term loans and Rs. 24.50-crore for non-fund based limits of Khadim India Limited (KIL)[2] from [ICRA]BBB+ (pronounced ICRA triple B plus) to [ICRA]A- (pronounced ICRA A minus). The outlook on the long term rating has been revised from 'Positive' to 'Stable'. ICRA has also upgraded the short-term rating to the Rs. 16.00-crore (reduced from Rs 21.00 crore) fund-based limits of KIL from [ICRA]A2 (pronounced ICRA A two) to [ICRA]A2+ (pronounced ICRA A two plus).

Rationale

The rating action takes into account the improved financial performance of the company which has continued in 9M FY2017 on the back of streamlining of operations, which has led to control on costs. Consequently, KIL's capital structure and debt coverage indicators also witnessed improvement. The ratings continue to factor in KIL's long track record of operations with more than five decades of presence in the domestic footwear industry, its strong distribution network and established brand name, which mitigates demand risks to an extent.

The ratings, however, continue to be constrained by the competitive nature of the domestic footwear industry, marked by the presence of multiple branded footwear manufacturers, along with a large unorganised sector and high geographical concentration of sales for KIL. Also, as KIL outsources a majority of its production, the company's profits remain exposed to its ability to control the trading costs for outsourced products. ICRA also notes that given the company's plans to increase its presence in the western and northern regions, which is likely to lead to higher marketing costs and higher working capital requirements, the liquidity position is likely to remain under pressure. ICRA also notes that the timeline for the exit of the private equity (PE) investor is approaching, and any potential large payment obligation on the company/promoter, on account of the PE exit, remains a key rating sensitivity. Going forward the company's ability to profitably scale up its wholesale footwear business while keeping the working capital requirements under control would remain key determinants of its risk profile.

[1] 100 lakh = 1 crore = 10 million

2 For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit Strengths

- Improved financial performance in FY2016 and 9M FY2017 (provisional)
- Established brand name and long track record in the domestic footwear industry
- Wide spectrum of products offering (both leather and non-leather) across multiple price points
- Strong distribution network through established retail and franchise outlets

Credit Weaknesses

- Geographical concentration of sales, with revenue from eastern and southern states accounting for ~87% of sales
- Competitive pressure from the unorganised sector; accentuated by the company's product concentration in the mid-market segment
- High working capital requirements as the company is in a rapid growth phase at present

Description of key rating drivers highlighted above:

Founded in the year 1965, KIL has established itself as a renowned brand in the manufacturing and retailing of branded footwear at affordable prices. The company offers a wide array of products - that include flip flops, leather footwear/accessories and non leather footwear/accessories manufactured from a variety of raw-materials that include ethyl vinyl acetate (EVA), poly-vinyl chloride (PVC), synthetic and canvas among others. Being positioned in the mid-market segment, KIL offers products across different price points, which enables it to cater to a broad customer base. However it remains exposed to the competitive pressure marked by the presence of multiple branded footwear manufacturers along with a large unorganised segment. With procurement, retailing and marketing being KIL's core competency, the company outsources a majority portion of its manufacturing operations. As KIL purchases a significant portion of its finished footwear and accessories from vendors, its profits therefore also remain exposed to its ability to control the trading costs for the outsourced products. However, with the company's continued efforts, it has been able to control its costs in FY2016 and 9M FY2017 leading to better margins. Additionally, the term loan repayment along with healthy cash accruals has resulted in improved capital structure with gearing of 0.56 time as on December 31, 2016 compared to 0.74 time as on March 31, 2016. The interest coverage has further increased from 3.63 time for FY2016 to 5.43 time for 9M FY2017.

Majority of KIL's stores are located in eastern and southern India. This exposes the company to risks associated with geographical concentration of sales. To off-set such risks, the company has been opening additional stores in newer geographies in order to increase its retail penetration, especially in the central and western India where it has limited brand presence as of now. As a result, KIL is now (as at end of December 2016) present in the form of 158 company owned outlets and 633 franchise outlets. With the company being in a rapid growth phase at present, tight control over working capital for new stores and timely break-even of stores would be crucial factors in determining the company's liquidity position going forward. ICRA however also notes that notwithstanding such diversification, the eastern and southern states would continue to account for a majority of the sales for the company where the operations are more or less stable.

Analytical approach: Not applicable

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

Rating Methodology for Entities in the Footwear Industry

About the Company:

Khadim's was founded in 1965, when the promoter Lt. S.P Roy Burman acquired a shoe store in Kolkata. Subsequently in 1981 the business was incorporated in the name of S.N. Footwear Industries Pvt. Ltd. During the year 2005, the company's status was changed from a private limited company to a public limited company under the name Khadim Chain Stores Limited. Further, in August 2005, the name was changed to Khadim India Limited (KIL). KIL manufactures and retails footwear and accessories.

Up to FY2013, complete ownership of the company was with the promoter group and associate companies; however, in FY2014, a private equity firm took a stake of 33.8% in KIL.

In FY2016, the company reported a net profit of Rs 25.24 crore on an operating income (OI) of Rs 537.48 crore compared to a net loss of Rs 18.65 crore on an OI of Rs. 461.47 crore during FY2015. The company has reported a provisional net profit of Rs 23.07 crore on an OI of Rs 466.87 crore for 9M FY2017 compared to a provisional net profit of Rs 15.43 crore on an OI of Rs 419.01 crore for 9M FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017	August 2016	September 2015	July 2014
1	Cash credit	Long Term	110.00	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
2	Term loans	Long Term	20.00	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
3	Letter of Credit / Bank Guarantee	Long Term	24.50	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	--
4	Purchase Bills Discounting/ Demand Loans/Overdraft Limits	Short Term	16.00	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash credit	NA	NA	NA	110.00	[ICRA]A- (Stable)
Term Loans	NA	NA	Fully repayable by FY2019	20.00	[ICRA]A- (Stable)
Letter of Credit / Bank Guarantee	NA	NA	NA	24.50	[ICRA]A- (Stable)
Purchase Bills Discounting/ Demand Loans/Overdraft Limits	NA	NA	NA	16.00	[ICRA]A2+

Source: Company; NA: Not available

Name and Contact Details of the Rating Analyst(s):

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Vivek Goenka
+91 33 7150 1188
vivek.goenka@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	