Khadim India Limited

August 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit Limits	110.00	110.00	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Term Loan	20.00	0.00	[ICRA]A-(Stable) withdrawn
Letter of Credit/Bank Guarantee	24.50	26.50	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Purchase Bills Discounting/Demand Loan/ Overdraft Limits	16.00	12.50	[ICRA]A1; upgraded from [ICRA]A2+
Total	**170.50**	**149.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus) for the Rs. 110.00-crore cash credit limits and Rs. 26.50-crore non-fund based facilities of Khadim India Limited (KIL)[1]. ICRA has also upgraded the short-term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced as ICRA A two plus) to the Purchase Bills Discounting/Demand Loan/ Overdraft Limits of Rs. 12.50 crore of Khadim India Limited. The outlook on the long-term rating continues to be Stable. ICRA has also withdrawn the [ICRA]A- (pronounced ICRA A minus) rating with a Stable outlook on the Rs. 20-crore term loans, as requested by the company and in accordance with ICRA's Policy on Withdrawal and Suspension of Credit Rating.

Rationale

The upward revision in ratings considers the improved financial performance of KIL in FY2018, driven by healthy growth in volumes in both retail and distribution segments. KIL's capital structure also improved, with the gearing decreasing from 0.59 times in FY2017 to 0.26 times in FY2018 due to healthy accretion to reserves as well as fresh infusion of equity following the initial public offer (IPO). The company used the fresh equity infusion to part fund its working capital requirements, which along with the pre-payment of Rs. 40-crore long-term debt resulted in an overall reduction in debt. This, along with healthy profitability, led to an improvement in the debt coverage indicators, with Total Debt/OPBITDA improving to 0.87 times in FY2018 from 1.64 times in FY2017. The ratings continue to derive strength from KIL's long track record of operations with more than five decades of presence in the domestic footwear industry, its strong distribution network and an established brand name, which mitigate demand risks to some extent. Further, the recent revision in the Goods and Service Tax for footwear in the range of Rs. 500 to Rs. 1,000 to 5% from 18% is expected to improve the business prospects of the company, going forward.

The ratings, however continue to be constrained by the intense competition in the domestic footwear industry, marked by the presence of multiple branded footwear manufacturers, along with the large unorganised sector and KIL's high geographical concentration, with the East markets accounting for around 70% of its revenue. Since KIL outsources most of the the manufacturing process of most of its products, its profits remain exposed to its ability to control trading costs. ICRA also notes that the company's plans to increase its presence in the western and northern regions would increase its

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

marketing costs and higher working capital requirements. Going forward, the company's ability to improve profitability while keeping the working capital requirements under control would remain key determinants of its risk profile.

Outlook: Stable

ICRA believes that KIL will continue to benefit from its established brand presence and a diversified product portfolio. The outlook may be revised to Positive in case a substantial increase in revenue and profitability leads to healthy cash accruals and better working capital management. The outlook may be revised to Negative if there is a deterioration in the financial risk profile, or if there is a stretch in the working capital cycle.

Key rating drivers

Credit strengths

Healthy financial performance in FY2018: KIL's turnover grew by ~23% to reach Rs. 748.71 crore in FY2018, driven by a ~23% increase in volumes. While the retail segment reported a YoY growth of ~12%, the distribution segment registered a 38% YoY growth in FY2018. The OPBITDA increased to Rs. 78.53 crore in FY2018 from Rs. 66.65 crore in FY2017. This growth is likely to continue in the medium term as well with the company expanding its reach, particularly in the western and northern regions of the country.

Conservative capital structure and debt protection metrics: KIL's capital structure remained comfortable, thus lending a considerable financial flexibility. Fresh equity infusion of Rs. 50 crore, along with repayment of its long-term debt, led to a decline in gearing to 0.26 times as of end-FY2018 from 0.59 times as of end-FY2017. This, along with healthy cash accruals led to comfortable debt protection metrics with interest cover at 5.59 times and Total Debt/OPBITDA at 0.87 times in FY2018.

Established brand name with a wide distribution network: KIL has an established brand name with five decades of operations in the footwear retailing and distribution segment. It has a wide distribution network with 893 retail stores and 455 distributors as of FY2018.

Diversified product portfolio across multiple price points: KIL has a large product portfolio with various sub-brands at multiple price points catering to the needs of a wide customer base. Further, the reduction in the GST rates will benefit the company as around 25% of KIL's products belong to this price range.

Credit challenges

Geographical concentration of sales: Although KIL has a pan-India presence, a significant part of its revenue comes from the East markets (~70%), followed by South (~17%). However, ICRA notes that the company is planning to expand its presence in other parts of the country, especially in the northern and western parts. However, such expansion would entail outflow towards marketing, capex and working capital.

Intense competition due to presence of large unorganised sector - The company faces intense competition from multiple branded footwear manufacturers as well as unorganised players, which limit its pricing flexibility and consequently ability to expand its operating margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Rating methodology for Entities in the Footwear Industry]

About the company:

Khadim's was founded in 1965, when Lt. Shri S.P. Roy Burman acquired a single shoe store in Chitpur, Kolkata. Subsequently in 1981, the business was incorporated in the name of S. N. Footwear industries Pvt Ltd. Since then, the company has grown from a single-shop entity to a company having 893 retail outlets for sale of footwear and accessories. During the year 2005, the company's status 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). In November 2017, the private equity investor, Reliance Alternative Investments Fund (erstwhile Fairwinds Private Equity/Reliance Private Equity) sold its stake by way of an IPO and the company got listed on the stock exchanges.

Key financial indicators (audited)

	FY2016	FY2017	FY2018
Operating Income (Rs. crore)	537.5	610.6	748.7
PAT (Rs. crore)	25.2	30.6	37.9
OPBDIT/OI (%)	10.6%	10.9%	10.5%
RoCE (%)	15.4%	19.5%	22.5%
Total Debt/TNW (times)	0.7	0.6	0.3
Total Debt/OPBDIT (times)	2.0	1.6	0.9
Interest coverage (times)	3.6	4.5	5.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
					August 18	-	Mar 17	Aug 16	Oct 15
1	Cash Credit Limits	Long term	110.00	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Term Loan	Long term	20.00	0.00	[ICRA]A- (Stable); Withdrawn	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Letter of Credit/Bank Guarantee	Long term	26.50	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
4	Purchase Bills Discounting/Demand Loan/ Overdraft Limits	Short term	12.50	-	[ICRA]A1	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2

Source: Khadim India Limited

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit Limits				110.00	[ICRA]A(Stable)
	Letter of Credit/Bank Guarantee				26.50	[ICRA]A(Stable)
	Purchase Bills Discounting/Demand Loan/ Overdraft Limits				12.50	[ICRA]A1

Source: Khadim India Limited

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About ICRA Limited:

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