Khadim India Limited

January 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit Limits	110.00	110.00	[ICRA]A(Stable) outstanding
Letter of Credit/Bank Guarantee	26.50	38.00	[ICRA]A(Stable) assigned
Purchase Bills Discounting/Demand Loan/ Overdraft Limits	12.50	22.50	[ICRA]A1 assigned
Total	**149.00**	**170.50**	

*Instrument details are provided in Annexure-1

Rationale

The assignment of ratings favourably factors in the extensive experience of the promoters spanning over five decades in the footwear industry, its strong distribution network and an established brand name. The ratings also factor in KIL's comfortable capital structure with no long-term debt and a gearing of ~0.4 times in H1 FY2019, thus lending considerable financial flexibility. KIL's operating income grew by ~20% on a year-on-year basis to touch Rs. 416 crore in H1 FY2019 compared to Rs. 347 crore in H1 FY2018, supported by robust growth in the distribution segment and institutional sales. While revenue from the retail segment has been sluggish in H1 FY2019, ICRA notes that the company is undertaking various marketing initiatives to increase footfalls in its retail stores, which in turn is likely to support the top-line growth. In H1 FY2019, KIL's profitability margins were impacted by a higher share of low-margin sales from the distribution segment, high crude oil prices and strengthening of the dollar against the rupee. Nonetheless, the debt coverage indicators remained healthy, as reflected by an Interest cover of ~6.8 times and Total Debt/OPBITDA at ~1.7 times (annualised) in H1 FY2019.

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 a major part of 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 widen its presence in the western and northern regions would increase its marketing costs and working capital requirements. Going forward, the company's ability to improve its 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 wide distribution network and long experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if operating profitability remains depressed going forward and/or there is a stretch in the working capital cycle, leading to deterioration in its financial risk profile.

Key rating drivers

Credit strengths

Conservative capital structure and healthy debt protection metrics: KIL's capital structure remains comfortable with no long-term debt and a gearing of ~0.4 times in H1 FY2019, thus lending a considerable financial flexibility. This, along with healthy cash accruals led to a comfortable debt protection metrics with interest cover at ~6.8 times and Total Debt/OPBITDA at ~1.7 times in H1 FY2019.

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 920 retail stores and 509 distributors as of September 2018.

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.

Credit challenges

Geographical concentration of sales: Although KIL has a pan-India presence, a significant part of its revenue comes from the eastern markets (~70%), followed by the southern markets (~17%). 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 a large unorganised sector - The company faces intense competition from multiple branded footwear manufacturers as well as unorganised players, which limits its pricing flexibility and ability to expand its operating margins.

Liquidity position

The liquidity position of KIL remains comfortable with modest cash and liquid investments and sufficient undrawn working capital facilities. The company does not have any long-term debt and so there are no major debt servicing obligations in the near future. Moreover, KIL does not have any major capex plans in the near term, which would support liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Entities in the Footwear Industry
Parent/Group Support	NA
Consolidation / Standalone	NA

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. In June 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 company's name was changed to

Khadim India Limited (KIL). In November 2017, 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

	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	610.6	748.7	416.1
PAT (Rs. crore)	30.6	37.9	16.0
OPBDIT/OI (%)	10.9%	10.5%	8.5%
RoCE (%)	19.5%	22.5%	16.2%
Total Debt/TNW (times)	0.6	0.3	0.4
Total Debt/OPBDIT (times)	1.6	0.9	1.7
Interest coverage (times)	4.5	5.6	6.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
	Instrument				Jan 19	Aug 18	-	Mar 17	Aug 16	Oct 15
1	Cash Credit Limits	Long term	110.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Term Loan	Long term	0.00	0.00	-	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Letter of Credit/Bank Guarantee	Long term	38.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
4	Purchase Bills Discounting/Demand Loan/ Overdraft Limits	Short term	22.50	-	[ICRA]A1	[ICRA]A1	-	[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: 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				38.00	[ICRA]A(Stable)
	Purchase Bills Discounting/Demand Loan/ Overdraft Limits				22.50	[ICRA]A1

Source: Khadim India Limited

ANALYST CONTACTS

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

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

Subholakshmi Bose
+91 33 7150 1219
subholakshmi.bose@icraindia.com

Maitri Vira
+91 33 7150 1103
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents