

October 07, 2021

Khadim India Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	112.50	112.50	[ICRA]BBB-(Stable) reaffirmed and withdrawn
Fund-based – Term Loans	26.55	26.55	[ICRA]BBB-(Stable) reaffirmed and withdrawn
Non-Fund based – Letter of Credit/ Bank Guarantee/ Derivative	31.50	31.50	[ICRA]A3 reaffirmed and withdrawn
Non-Fund based – Letter of Credit/ Bank Guarantee ¹	(6.00)	(6.00)	[ICRA]A3 reaffirmed and withdrawn
Fund based – Purchase Bill Discounting/ Short Term Loans	12.50	12.50	[ICRA]A3 reaffirmed and withdrawn
Unallocated Limits	20.95	20.95	[ICRA]BBB-(Stable)/ [ICRA]A3 reaffirmed and withdrawn
Total	204.00	204.00	

*Instrument details are provided in Annexure-1

¹Sublimit of Cash Credit

Rationale

The reaffirmation of Khadim India Limited's (KIL) ratings primarily takes into consideration the long experience of the promoters and its established track record in the footwear industry for around four decades. ICRA also notes the company's strong market presence, and a pan-India network of 881 retail stores and 628 distributors (as on December 31, 2020) that supply Khadim's products. The ratings also derive comfort from the diversified product portfolio of the company across multiple price points, catering to a wide customer base and various segments. The performance, however, remained weak in FY2021 with the company reporting significant deterioration in margins, adversely impacting the debt coverage indicators with an interest coverage of 0.26 times in FY2021. While the performance continued to remain muted in Q1 FY2022, the same remained better than the corresponding period of last year when it incurred significant losses. With the expected improvement in KIL's performance in H2 FY2022, the overall performance is likely to improve in FY2022, though the coverage indicators would continue to remain modest at an absolute level. The rating continues to remain constrained by KIL's high working capital intensity of business, primarily due to accumulation of GST receivables and high inventory level of the company, exerting pressure on its liquidity. The company also remains exposed to the high geographical concentration risk as ~70-72% of its total revenue came from East India in the last two financial years. Highly fragmented industry structure due to low value-additive nature of the business and intense competition from several players further impact the margin of all players including KIL. Besides, the overall profitability remains vulnerable to fluctuations in raw material prices.

The ratings assigned to bank limits of Khadim India Limited have been withdrawn in accordance with ICRA's policy on withdrawal and suspension at the request of the company and based on the no objection certificate provided by its bankers.

Key rating drivers and their description

Credit strengths

Established position of KIL in domestic market – KIL has been in the business of manufacturing footwear and accessories for around four decades and has an established track record in the footwear industry. The company has a pan-India network of 881 retail stores and 628 distributors (as on December 31, 2020), supplying Khadim’s products. East India accounted for around ~70-72% of its total revenue in the last two financial years, which exposes the company to high geographical concentration risk. However, its established presence in the market mitigates such risk to an extent.

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. The company also caters to various segments – retail, distribution and institutional. The growth in the retail segment has remained subdued. However, distribution and institutional sales have witnessed a steady increase over the past few years.

Credit challenges

Weak financial performance in FY2021; likely to improve in the current year, primarily in H2 FY2022 – The performance remained weak in FY2021 with the company reporting a significant deterioration in margins, adversely impacting the debt coverage indicators. While the performance remained weak in Q1 FY2022, the same remained better than the corresponding period of the last year when it incurred significant losses.

High working capital intensity of business – The working capital intensity of operations stood high at 23% in FY2021 primarily due to an accumulation of the GST receivables and high inventory level of the company. This led to high working capital requirements for the company, exerting pressure on its liquidity position.

Fragmented and intensely competitive nature of the industry – The company faces intense competition from multiple branded footwear manufacturers as well as unorganised players, which limit its pricing flexibility and consequently, its ability to expand its operating margins.

Profitability remains susceptible to volatility in raw material prices – As footwear manufacturing is raw material intensive operation, the profit margins remain susceptible to adverse fluctuations in the costs of raw materials. The company’s ability to pass on the increased cost to the customers will remain a key determinant of its profitability, going forward.

Liquidity position: Stretched

ICRA expects the liquidity position of the company to remain stretched on account of lower cash flows from operations. The working capital utilisation remained high at around 80% of the available limits. The company has a cushion of Rs. 26 crore approximately in fund-based limits. Also, the expected improvement of financial performance in H2 FY2022 is likely to be sufficient to meet the debt servicing requirements of the company.

Rating sensitivities

Not applicable as the ratings are being withdrawn.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Footwear Industry
Parent/Group Support	Not Applicable

Consolidation/Standalone

The ratings are based on the standalone financial statements of the company

About the company

Khadim's was founded in 1965, when Late S.P. Roy Burman acquired a single shoe store in Chitpur, Kolkata. Subsequently in 1981, the company was incorporated in the name of S. N. Footwear Industries Pvt. Ltd. Since then, it has grown from a single-shop entity to a company, having 881 retail outlets and 628 distributors for the 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, sold its stake through an IPO and the company got listed on the stock exchanges.

Key financial indicators

	FY2019 (audited)	FY2020 (audited)	FY2021 (audited)
Operating Income (Rs. crore)	799.18	771.87	626.18
PAT (Rs. crore)	21.17	-31.22	-32.91
OPBDIT/OI (%)	7.40%	4.52%	1.13%
PAT/OI (%)	2.65%	-4.04%	-5.26%
Total Outside Liabilities/Tangible Net Worth (times)	0.91	1.95	2.04
Total Debt/OPBDITA (times)	1.85	3.35	15.05
Interest Coverage (times)	4.28	1.07	0.26

Source: Khadim India Limited, ICRA research

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2022)			Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) Mar 31, 2020	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
				October 07, 2021	Apr 7, 2021	Jul 23, 2020	Feb 21, 2020	Jan 28, 2019	Aug 6, 2018	
1	Cash Credit	Long-term	112.50	-	[ICRA]BBB-(Stable) withdrawn	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	[ICRA]BBB + (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long-term	26.55	0.00	[ICRA]BBB-(Stable) withdrawn	[ICRA]BBB-(Stable)	-	-	-	[ICRA]A- (Stable) withdrawn
3	Letter of Credit/ Bank Guarantee/ Derivative	Short-term	31.50	-	[ICRA]A3 withdrawn	[ICRA]A3	[ICRA]A3+	[ICRA]A2	-	-
4	Letter of Credit/ Bank Guarantee ¹	Short-term	(6.00)	-	[ICRA]A3 withdrawn	[ICRA]A3	[ICRA]A3+	[ICRA]A2	-	-
5	Purchase Bill Discounting/ Short Term Loans	Short-term	12.50	-	[ICRA]A3 withdrawn	[ICRA]A3	[ICRA]A3+	[ICRA]A2	[ICRA]A1	[ICRA]A1
6	Unallocated Limits	Long-term/ Short-term	20.95	-	[ICRA]BBB-(Stable)/ [ICRA]A3 withdrawn	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-	-
7	Letter of Credit/ Bank Guarantee	Long-term	-	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)

¹Sublimit of Cash Credit

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Bank Guarantee	Very Simple
Non-Fund based – Letter of Credit/ Bank Guarantee	Very Simple
Fund based – Purchase Bill Discounting/ Short Term Loans	Very Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Cash Credit/ SBLC – 1	-	-	-	64.50	[ICRA]BBB-(Stable) withdrawn
NA	Cash Credit/ WCDL – 2	-	-	-	7.00	[ICRA]BBB-(Stable) withdrawn
NA	Cash Credit/ WCDL – 3	-	-	-	6.00	[ICRA]BBB-(Stable) withdrawn
NA	Cash Credit – 4	-	-	-	35.00	[ICRA]BBB-(Stable) withdrawn
NA	Covid-19 Emergency Credit Line	FY2021	-	FY2022	6.45	[ICRA]BBB-(Stable) withdrawn
NA	Guaranteed Emergency Credit Line – 1	FY2021	-	FY2026	6.86	[ICRA]BBB-(Stable) withdrawn
NA	Guaranteed Emergency Credit Line – 2	FY2021	-	FY2026	3.09	[ICRA]BBB-(Stable) withdrawn
NA	Working Capital Term Loan	FY2021	-	FY2026	0.55	[ICRA]BBB-(Stable) withdrawn
NA	Guaranteed Emergency Credit Line – 3	FY2021	-	FY2026	9.60	[ICRA]BBB-(Stable) withdrawn
NA	Letter of Credit/ Bank Guarantee/ Derivative ¹	-	-	-	27.50	[ICRA]A3 withdrawn
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A3 withdrawn
NA	Letter of Credit	-	-	-	2.00	[ICRA]A3 withdrawn
NA	Bank Guarantee ²	-	-	-	(6.00)	[ICRA]A3 withdrawn
NA	Short term loan	-	-	-	12.50	[ICRA]A3 withdrawn
NA	Unallocated Limits	-	-	-	20.95	[ICRA]BBB-(Stable)/ [ICRA]A3 withdrawn

Source: Khadim India Limited

¹one-way interchangeability limit from letter of credit to bank guarantee up to Rs. 3 crore

²Sublimit of Cash Credit

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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