ICRA

April 07, 2021

Khadim India Limited: Ratings downgraded to [ICRA]BBB-/ [ICRA]A3; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	125.00	112.50	[ICRA]BBB-; Rating downgraded from [ICRA]BBB and outlook revised to Stable from Negative
Fund-based – Term Loans	-	26.55	[ICRA]BBB-; Rating downgraded from [ICRA]BBB and outlook revised to Stable from Negative
Non-Fund based – Letter of Credit/ Bank Guarantee/ Derivative	41.50	31.50	[ICRA]A3; Rating downgraded from [ICRA]A3+
Non-Fund based – Letter of Credit/ Bank Guarantee[1]	(17.00)	(6.00)	[ICRA]A3; Rating downgraded from [ICRA]A3+
Fund based – Purchase Bill Discounting/ Short Term Loans	37.50	12.50	[ICRA]A3; Rating downgraded from [ICRA]A3+
Unallocated Limits	-	20.95	[ICRA]BBB-/ [ICRA]A3; Rating downgraded from [ICRA]BBB/ [ICRA]A3+ and outlook revised to Stable from Negative
Total	**204.00**	**204.00**	

**Instrument details are provided in Annexure-1*
[1]Sublimit of Cash Credit

Rationale

The downward revision in the ratings of Khadim India Limited (KIL) primarily takes into consideration the unfavourable domestic demand growth prospects, particularly in the retail segment due to the ongoing pandemic, which is likely to adversely impact the business risk profile of the company in the near term, at least.

Meanwhile, the ratings derive comfort from 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. However, KIL continues to remain exposed to the high geographical concentration risk as ~72% of its revenues came from East India in 9M FY2021. 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 ratings also consider the conservative capital structure of the company despite an increase in the short-term borrowings over the past two fiscals and an erosion of net worth in FY2020 and FY2021.

The ratings, however, continued to be constrained by a steep decline in the top line of the company by 40% in 9M FY2021 vis-a-vis 9M FY2020 owing to lower sales volume, which resulted in a net loss of Rs. 44.94 crore in 9M FY2021 against Rs. 11.37 crore in 9M FY2020. Consequently, the coverage indicators also weakened during this period, as reflected by an interest coverage of 0.20 times in 9M FY2021 vis-a-vis 2.05 times in 9M FY2020. Given the weak demand scenario, ICRA expects a significant decline in the top line and an increase in the net losses of the company in FY2021 against FY2020, which are likely to result in weak financial performance during the year. The ratings also consider the high working capital intensity of business, primarily due to the accumulation of GST receivables and high inventory level of the company, exerting pressure on its liquidity. The ratings also factor in the highly fragmented industry structure, characterised by low value-additive nature of business and intense competition from several players, which impact margin. Besides, the overall profitability remains vulnerable to fluctuations in raw material prices.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that KIL will continue to benefit from its strong market presence and established brand, particularly in eastern India.

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 69% and 72% of its revenues in FY2020 and 9M FY2021, respectively, 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.

Conservative capital structure – The capital structure of the company remained conservative, as depicted by a gearing of 0.50 times (0.38 times as on March 31, 2019) as on March 31, 2020, on the back of a healthy net worth of KIL. However, ICRA notes that an increase in the working capital requirements along with a decline in the cash accruals from the business resulted in an increase in short-term borrowings to Rs. 116.61 crore as on March 31, 2020 from Rs. 109.15 crore as on March 31, 2019. Further, the net loss registered by the company in FY2020 resulted in an erosion of net worth, which stood at Rs. 233.50 crore as on March 31, 2020 against Rs. 287.67 crore as on March 31, 2019.

Credit challenges

Unfavourable domestic demand growth prospects – ICRA expects the company's business risk profile to remain under pressure at least in the near term because of continued tepid demand in the domestic market amid the ongoing pandemic, particularly in the retail segment. The timing of a pick-up in demand would remain a key monitorable.

Steep decline in the top line and weak financial performance in FY2021 – An unprecedented nationwide lockdown announced by the Government of India (GoI) from March 25, 2020, following the Covid-19 pandemic, led to a closure of most of the company's showrooms for the major part of Q1 FY2021, which resulted in low sales volume. Accordingly, the operating income of the company stood at Rs. 370.79 crore in 9M FY2021 vis-a-vis Rs. 618.78 crore in 9M FY2020, depicting a decline of 40% on a YoY basis. This also resulted in net losses of Rs. 44.94 crore in 9M FY2021 against Rs. 11.37 crore in 9M FY2020. Consequently, the coverage indicators also weakened during this period, as reflected by an interest coverage of 0.20 times in 9M FY2021 vis-a-vis 2.05 times in 9M FY2020. Given the weak demand scenario, ICRA expects a significant decline in the top line and an increase in the net losses of the company in FY2021 against FY2020, which is likely to result in weak financial performance during the year.

High working capital intensity of business – The working capital intensity of operations stood high at 23% in FY2020 (28% in FY2019) 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 the company's profitability, going forward.

Liquidity position: Stretched

ICRA expects the liquidity position of the company to remain stretched on account of a consistent decline in the fund flow from operations over the past few years, and high working capital intensity of operations, which in turn will restrict its financial flexibility to a large extent. The company had availed moratorium for interest payment on the major portion of its bank loans in April and May 2020, as per the RBI guidelines. However, KIL did not opt for the extended moratorium from July 2020 and all the interest due for the moratorium period has been paid. The company also availed COVID-19 Emergency Credit Line and Guaranteed Emergency Credit Line facilities in FY2021, which will provide some cushion to its liquidity position in the near term.

Rating sensitivities

Positive factors – ICRA may revise KIL's ratings if the DSCR remains more than 1.40 times on a sustained basis.

Negative factors – Pressure on KIL's ratings may arise if there is any further decline in the top line and/ or profitability, and/or a deterioration in the liquidity position of the company.

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)	9M FY2020 (unaudited)	9M FY2021 (unaudited)
Operating Income (Rs. crore)	799.18	771.87	618.78	370.79
PAT (Rs. crore)	21.17	-31.22	-11.37	-44.94
OPBDIT/OI (%)	7.40%	4.52%	7.12%	1.04%
PAT/OI (%)	2.65%	-4.04%	-1.84%	-12.12%
Total Outside Liabilities/Tangible Net Worth (times)	0.91	1.95	-	-
Total Debt/OPBDIT (times)	1.85	3.35	-	-
Interest Coverage (times)	4.28	1.07	2.05	0.20

Source: *Khadim India Limited, ICRA research*

PAT: Profit after Tax; OPBDIT: 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	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) Mar 31, 2020	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					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)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loans	Long-term	26.55	0.00	[ICRA]BBB- (Stable)	-	-	-	[ICRA]A- (Stable) withdrawn
3	Letter of Credit/ Bank Guarantee/ Derivative	Short-term	31.50	-	[ICRA]A3	[ICRA]A3+	[ICRA]A2	-	-
4	Letter of Credit/ Bank Guarantee[1]	Short-term	(6.00)	-	[ICRA]A3	[ICRA]A3+	[ICRA]A2	-	-
5	Purchase Bill Discounting/ Short Term Loans	Short-term	12.50	-	[ICRA]A3	[ICRA]A3+	[ICRA]A2	[ICRA]A1	[ICRA]A1
6	Unallocated Limits	Long-term/ Short-term	20.95	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-	-
7	Letter of Credit/ Bank Guarantee	Long-term	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)

[1]Sublimit of Cash Credit

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 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)
NA	Cash Credit/ WCDL – 2	-	-	-	7.00	[ICRA]BBB- (Stable)
NA	Cash Credit/ WCDL – 3	-	-	-	6.00	[ICRA]BBB- (Stable)
NA	Cash Credit – 4	-	-	-	35.00	[ICRA]BBB- (Stable)
NA	Covid-19 Emergency Credit Line	FY2021	-	FY2022	6.45	[ICRA]BBB- (Stable)
NA	Guaranteed Emergency Credit Line – 1	FY2021	-	FY2026	6.86	[ICRA]BBB- (Stable)
NA	Guaranteed Emergency Credit Line – 2	FY2021	-	FY2026	3.09	[ICRA]BBB- (Stable)
NA	Working Capital Term Loan	FY2021	-	FY2026	0.55	[ICRA]BBB- (Stable)
NA	Guaranteed Emergency Credit Line – 3	FY2021	-	FY2026	9.60	[ICRA]BBB- (Stable)
NA	Letter of Credit/ Bank Guarantee/ Derivative[1]	-	-	-	27.50	[ICRA]A3
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A3
NA	Letter of Credit	-	-	-	2.00	[ICRA]A3
NA	Bank Guarantee[2]	-	-	-	(6.00)	[ICRA]A3
NA	Short term loan	-	-	-	12.50	[ICRA]A3
NA	Unallocated Limits	-	-	-	20.95	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: *Khadim India Limited*

[1]one-way interchangeability limit from letter of credit to bank guarantee up to Rs. 3 crore
[2]Sublimit of Cash Credit

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

ANALYST CONTACTS

Mr. Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

Mr. Sandeep Khaitan
+91 33 7150 1124
sandeep.khaitan@icraindia.com

RELATIONSHIP CONTACT

Mr. 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

+91-9354738909 (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

Registered Office

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

Branches