Khadim India Limited

April 1, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	159.90	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short Term Bank Facilities	44.00	CARE A3+ (A Three Plus)	Assigned
Total Bank Facilities	**203.90 (Rs. Two Hundred Three Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Khadim India Ltd (KIL) factors in the improvement in operational performance during 9MFY22 (refers to period April 1 to December 31), notwithstanding the impact of the second wave of the pandemic in Q1FY22 and following cash loss in FY21 due to COVID related lockdowns which had led to tepid demand scenario for a large part of the fiscal. The turnaround in 9MFY22 was on account of higher gross margins following increase in Average Selling Price (ASP) with premiumisation of product range in 9MFY22. Further, cost control measures and growth in both retail and distribution segment also supported margins. The ratings favourably factor in the experienced management and the long track record of operations of the promoters, wide retail and distribution network and established position in the footwear industry, in particular in East and South India where there is geographic concentration and a diversified product portfolio with more than 800 variety of products through its various brands.

The ratings are also tempered by moderation in capital structure due to losses incurred in the past, susceptibility of profits due to volatility in raw material prices and fragmented and intensely competitive nature of footwear industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations (>Rs.800 crore) with maintaining margins (>10%) on a sustainable basis
- Improvement in capital structure with overall gearing (<0.80x) and TDGCA (<5x) on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing (>1.6x) on a sustained basis.
- Decrease in PBILDT margins (<7%) on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management and the long track record of operations of the promoters:

The promoters of KIL have long experience in footwear business. The founder of KIL, Late S. P. Roy Burman, had been associated with footwear business since 1965. Under his leadership, KIL's business witnessed considerable growth across India. Presently, the day-to-day affairs of the company are being looked after by the CMD, Shri Siddhartha Roy Burman (son of Shri S. P. Roy Burman). He has more than three decades of experience in the footwear industry and is assisted by his sons Mr. Rittick Roy Burman & Mr. Ritoban Roy Burman along with management team having rich experience in the same line of business.

Established position in footwear industry with diversified product portfolio

KIL has developed a strong brand of 'Khadim' with a legacy of 5 decades in the footwear industry backed by quality of its product. The 'Khadim' brand has a nationwide presence. It also has a number of sub-brands for footwear, such as British Walker, Sharon, Lazard, Pro, Softouch, Cleo, Turk, Bonito, Adrianna, etc. KIL has spent substantially on the branding and promotion activities related to all its brands.

KIL has a diversified product portfolio with presence in all the categories of footwear and has product offering through a variety of price points. KIL's product portfolio consists of a variety of Sandals, Canvas, Shoes and Hawai footwear catering to all the customer segments. KIL offers more than 800 varieties of products through its various brands.

Wide presence through retail and distribution network, albeit concentrated in East India and South India

KIL has a pan India presence through its 768 retails stores and 617 distributors operating in 23 states and a union territory as on December 31, 2021. However, sales in both retail and distribution are concentrated in East India with 65% of the revenue from East followed by South (~20% retail and 11% distribution), leading to risk of region-specific economic impact on sales and profits.

Performance impacted in FY21 due to the pandemic, however, robust recovery during 9MFY22

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The turnover in FY21 had been impacted on account of significant impact on the retail sector which decline y-o-y by 38% due to the pandemic, however, increase in lower margined institutional sales partly made up for the decline in sales in the year. The performance in FY20 had suffered due to higher promotional expenses whose benefits couldn't accrue following tepid demand. The operating margins had further tempered in FY21 due to lower off take and KIL reported cash loss.
During 9MFY22, the performance of KIL has seen a turnaround, with turnover increasing y-o-y by 21%, fueled by y-o-y increase in both retail (30%) and distribution (14%) sales. The PBILDT margin also improved from 1.07% in 9MFY21 to 10.74% in 9MFY22. The improvement was primarily due to higher overall gross margins in particular in the retail segment in Q2FY22 and Q3FY22, driven by higher ASP of its products through premiumization of product range. Further cost rationalization measures also supported PBILDT margins in 9MFY22.

Key Rating Weaknesses
Moderation in capital structure due to losses incurred
The overall gearing deteriorated from 0.45x as on March 31, 2019 to 1.31x (0.53x adjusting for IND AS 116) as on Mar'20 & then improved to 1.25x as on Mar'21. Apart from impact of transition to IND AS 116, deterioration of net worth on account of losses had led to moderation as on Mar'20. The gearing improved as on Mar'21 due to lower lease liabilities. The working capital borrowings were also replaced with COVID related term loans with net flow of Rs.23.85 crore in FY21.
The TD/GCA also deteriorated from 3.32x as on March 31, 2019 to 38.59x (17.02x excluding lease liablity) in March 31, 2020 and then became negative as on March 31, 2021. The deterioration was also due to sharp decline in profitability. It must be noted that adjusted TD/GCA (Excl lease debt) stood at 17.02x in FY20.
The interest coverage ratio of the company which had deteriorated to below unity due to decline in profitability in FY21 had improved to 2.82x in 9MFY22.

Susceptibility of margins to volatility in raw material prices
Key raw material for KIL are Poly Vinyl Chloride (PVC), leather, rubber, EVA, Poly Uretane (PU) and other compounds. A large part of this compounds are crude derivatives (PVC, EVA and PU) and the prices of natural rubber are also volatile depending upon demand and supply scenarios. KIL's manufacturing division caters to the distribution segment, where pass on in increase in prices is difficult. The distribution segment however, has seen a hike in the Hawai segment and PVC segment by around 10-11%.
The company majorly relies on outsourcing for its retail division (~86% of retail sales in FY21). KIL has large base of outsourced vendors who are having long relationship with the company. Due to better negotiating power of KIL it is usually able to manage short term volatility. Further, as demand elasticity is relatively lower at the consumer level the company has taken multiple price increases in the retail segment.

Fragmented and intensely competitive nature of footwear industry
The domestic footwear industry is fragmented and is characterised by large number of unorganised players. These players largely target the low/middle-income segment since these consumer groups are not brand conscious. Moreover, there is a pressure from cheap imports (mainly from China) in this segment. Since KIL largely caters to middle-income segment, its profit margins are relatively low. This apart, KIL also faces stiff competition from large players

Liquidity: Adequate
Liquidity is marked by unutilized lines of around 37% for the last 12 months ended Feb 2022. The working capital facilities of the company has also increased to Rs.140 crore in Jan 2022 from Rs.112.50 crore in March 2021. Although the company had reported a loss in FY21, cash flow from operations were positive. The term debt obligations of Rs.2.15 crore was met through COVID related loans taken in FY21/unutilized lines. Further, the company's performance has seen a turnaround in 9MFY22, despite the impact of the second wave in Q1FY22. IL reported a GCA of Rs.31.07 crore in 9MFY22 as against cash loss of Rs.15 crore in 9MFY21. Therefore, the cash accruals for the full year FY22 is also expected to be sufficient to meet the repayment obligation for the current year.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments☐
Manufacturing Companies

About the Company
Khadim India Limited (KIL), incorporated in 1981, is engaged in manufacturing, wholesaling & retailing of footwear & related accessories through 768 retail stores (47% of sales) and 617 distributors (32% of sales) as on Dec'21. Out of 768 stores, 206 were Company Owned and Company Operated (COCO) and 562 were operated by the franchisees.
KIL is a public listed company. The day-to-day affairs of the company are looked after by the CMD, Shri Siddhartha Roy Burman (son of Late Shri S. P. Roy Burman) along with his sons Mr. Rittick Roy Burman & Mr. Ritoban Roy Burman and adequate support from a team of experienced personnel.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	773.78	635.94	448.08
PBILDT	36.77	16.81	48.11
PAT	-31.22	-32.92	3.79
Overall gearing (times)	1.31	1.25	NA
Interest coverage (times)	1.12	0.63	2.83

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable.
Any other information: Not Applicable.
Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	136.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A3+
Fund-based - LT-Stand by Limits		-	-	-	4.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	6.00	CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.50	CARE A3+
Fund-based - ST-Line of Credit		-	-	-	12.50	CARE A3+
Fund-based - LT-Term Loan		-	-	Nov 2026	19.90	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (25-Feb-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (25-Feb-19)
3	Non-fund-based-Long Term	LT	-	-	-	-	-	1)Withdrawn (25-Feb-19)
4	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (25-Feb-19)
5	Fund-based - LT-Cash Credit	LT	136.00	CARE BBB; Stable				
6	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3+				
7	Fund-based - LT-Stand by Limits	LT	4.00	CARE BBB; Stable				
8	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A3+				
9	Non-fund-based -	ST	0.50	CARE				

	ST-Forward Contract			A3+				
10	Fund-based - ST-Line of Credit	ST	12.50	CARE A3+				
11	Fund-based - LT-Term Loan	LT	19.90	CARE BBB; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Stand by Limits	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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