Khadim India Limited (Revised)

July 11, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	162.87 (Enhanced from 159.90)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	31.50	CARE A3+ (A Three Plus)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**194.37 (₹ One Hundred Ninety-Four Crore and Thirty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Khadim India Ltd (KIL) factors in the improvement in financial performance during FY22 (refers to period April 1 to March 31), notwithstanding the impact of the second wave of the pandemic in Q1FY22 and omicron in Q4FY22, impacting retail demand and increase in GST rates on footwear below Rs.1000 per pair impacting demand in distributor business segment. The improvement in operating profit in FY22 was on account of pickup in higher margin retail sales, increase in Average Selling Price (ASP) with premiumisation of product range and pass through of inflationary pressures to end consumers. Furthermore, cost control measures, absence of lower margin institutional sales supported margin growth. The ratings favourably factor in the experienced management and the long track record of operations of the promoters, a wide retail and distribution network and established position in the footwear industry, particularly in East and South India, albeit geographic concentration, with a diversified product portfolio.
The ratings are tempered by a moderate capital structure, susceptibility of profits to volatility in raw material prices, working capital intensive nature of operations and fragmented and intensely competitive nature of the footwear industry.

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

- Increase in scale of operations (>Rs.800 crore) with PBILDT 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 (<6%) 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 five 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 a large variety of product through its various brands.

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

Wide presence through retail and distribution network, albeit concentrated in East India and South India
KIL has a pan India presence through its 782 retails stores and 627 distributors operating in 23 states and a union territory as on March 31, 2022. However, sales are concentrated in East India with 64% of revenue in both retail and distribution followed by South with 20% of revenue in retail and 11% in distribution. This leads to risk of region-specific economic impact on sales and profits.

Significant improvement in financial performance in FY22
Net sales in FY21 had been impacted on account of significant impact on the retail sector which declined y-o-y by 38% due to the pandemic, however, increase in lower margined institutional sales partly made up for the decline in sales during the year.
In FY22, the net sales decreased y-o-y from Rs.623 crore to Rs.588 crore, due to company's strategy of discontinuing lower margin institutional sales. However, the retail and distribution segment grew by around 15-16% y-o-y in FY22. It must also be noted that sales were adversely impacted in Q1FY22 due to the second wave and in Q4FY22 due to the third omicron wave and increase in GST rates. Even though increase in GST has led to some moderation in demand, adjustment of accumulated service GST is expected to ease working capital requirement going forward. On the current demand front, the retail segment has shown improvement since then and the distribution segment is still facing relatively slower demand due to inflationary pressures.
The PBILDT margin of the company improved from 2.27% in FY21 to 8.68% in FY22, following pickup in higher margin retail sales, premiumization of product range, absence of institutional sales and cost control measures undertaken by the company.

Key Rating Weaknesses
Moderate capital structure
The overall gearing improved from 1.25x as on March 31, 2021, to 1.18x as on March 31, 2022, with debt levels remaining by and large in line with that as on March 2021, marked by reduction in term debt but increase in working capital borrowings for increase in scale. With recovery in retail and distribution sales, the TDGCA which had become negative as on March 31, 2021, improved to 5.90x as on March 31, 2022.
The interest coverage ratio of the company which had deteriorated to below unity due to decline in profitability in FY21 had also improved to 2.13x in FY22.

Susceptibility of margins to volatility in raw material prices
Key raw material for KIL are Poly Vinyl Chloride (PVC), leather, rubber, EVA, Poly Urethane (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 of around 20-22% in FY22.
The company majorly relies on outsourcing for its retail division (~84% of retail sales in FY22). KIL has a 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.

Working capital intensive nature of business
On account of large SKUs, the company's inventory requirements remain high. Further with increase in competition, the company has had to extend credit period to its distributors. Apart from the above, the company also had accumulated GST to the tune of Rs.64 crore in its balance sheet which added to the intensity. The gross current assets days for the company increased from 205 days in FY21 to 246 days in FY22. The increase was on account of increase in inventory due to stocking of raw material in scenario of rising prices and slowdown in distributorship business offtake owing to higher GST prices. Furthermore, some aberration was also due to uneven sales in the year and a slow Q1FY22. KIL, owing to its established market position, is also able to negotiate better credit terms from its suppliers to ease the intensity. Moreover, increase in GST rates on footwear priced below Rs.1000/pair from January 1, 2022, from 5% to 12%, ease also expected to provide headroom for adjustment of service GST and also gradual realization of accumulated service-related GST inputs going forward.

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 Rs.30 crore as on April 30, 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, in light of increasing raw material prices, necessitating greater working capital fund deployment. During FY22, the company earned GCA of Rs.41 crore against term debt obligations of around Rs.4.56 crore. The GCA for FY23, is also expected to be sufficient to meet the term debt obligations for FY23. Liquidity is also supported by free cash and bank balance of Rs.8 crore as on March 31, 2022.

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
Withdrawal Policy

About the company

Khadim India Limited (KIL), incorporated in 1981, is engaged in manufacturing, wholesaling & retailing of footwear & related accessories through 782 retail stores (58% of sales) and 627 distributors (39% of sales) as on March 31, 2022. Out of 782 stores, 207 were Company Owned and Company Operated (COCO) and 575 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Abrid.)	Q1FY23 (UA)
Total operating income	633.50	591.08	NA
PBILDT	14.37	51.29	NA
PAT	-32.92	6.46	NA
Overall gearing (times)	1.25	1.18	NA
Interest coverage (times)	0.54	2.13	NA

A: Audited; Abrid.: Abridged, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ 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		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	July 2028	22.87	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	136.00	CARE BBB; Stable	1)CARE BBB; Stable (01-Apr-22)	-	-	-
2	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3+	1)CARE A3+ (01-Apr-22)	-	-	-
3	Fund-based - LT-Stand by Limits	LT	4.00	CARE BBB; Stable	1)CARE BBB; Stable (01-Apr-22)	-	-	-
4	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A3+	1)CARE A3+ (01-Apr-22)	-	-	-
5	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A3+	1)CARE A3+ (01-Apr-22)	-	-	-
6	Fund-based - ST-Line of Credit	ST	-	-	1)CARE A3+ (01-Apr-22)	-	-	-
7	Fund-based - LT-Term Loan	LT	22.87	CARE BBB; Stable	1)CARE BBB; Stable (01-Apr-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Line of Credit	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Forward Contract	Simple
7	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 instruments: CARE Ratings 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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