Khadim India Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	155.24 (Reduced from 162.87)	CARE BBB; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	31.50	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the long-term ratings assigned to the bank facilities of Khadim India Limited (KIL) factors in the improvement in operational and financial performance during FY23 (refers to period April 1 to March 31). The improvement in operating profit in FY23 was on account of pickup in higher margin retail sales and increase in Average Selling Price (ASP) with premiumisation of product range. The improved performance of retail segment has more than compensated for the moderation in performance in the distribution segment. Going forward, with more push towards retail segment, CARE expects the margins to sustain between 11 to 12%. The ratings favourably factor in the experienced management and the long track record of operations of the promoters, a wide retail and distribution network diversified product portfolio and established position in the footwear industry, particularly in East and South India albeit geographically concentrated; The ratings are tempered by a moderate capital structure, susceptibility of profits to volatility in raw material prices, moderate capacity utilisation, working capital intensive nature of operations and fragmented and intensely competitive nature of the footwear industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations (>Rs.800 crore) with PBILDT margins sustaining at current levels.
- Improvement in capital structure with overall gearing (<0.80x) and TDGCA (<5x) on a sustained basis.
- Recovery of long pending institutional debtors.

Negative factors

- Deterioration in overall gearing (>1.6x) on a sustained basis.
- Decrease in PBILDT margins (<6%) on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

The revision in the outlook from 'Stable' to Positive' is on account of expected sustenance of profitability margin at current levels going forward with the company's focus towards higher margin retail sales coupled with continued increase in scale of operations led by retail segment and an expected realisation of long pending debtors against institutional sales which would ease working capital requirement. The outlook may be revised to 'Stable' in case the company is unable to sustain profitability margins while increasing its scale of operation and delay in recovery of institutional debtors.

Detailed description of the key rating drivers

Key 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. He has more than three decades of experience in the footwear industry and is assisted by his son, Mr. Rittick 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 high quality products and commands a nationwide presence (especially in East & South India). The company has an established Retail and Distributor network. It also has several sub-brands for footwear, such as British Walker, Sharon, Lazard, Pro, Softouch, Cleo, Turk, Bonito, Adrianna, etc, available at difference price points ranging between Rs 105 – Rs 4199 under its retail portfolio of brands.
While, under its distributor model, KIL offers EVA, basic & premium Hawai, PVC, PVC DIP and PU products, manufactured in-house, at price points ranging between Rs 75 to Rs 999 per pair.
KIL has spent substantially on the branding and promotion activities related to all its brands. Advertisements as a proportion of sales, has been around 3% of total sales in the last two years. Going forward, the company's major focus will be towards its retail segment, which commands better pricing and in line with the same the company plans to come up with various products under both open and closed footwear segment.

[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 retails stores and distributors operating in 24 states and 4 union territories. Even though having a PAN India presence, the sales are concentrated in East India with close to 63% of retail stores/64% of distributor network coming from the Eastern region, followed by South India. In line with store/distribution network, sales in both retail and distribution are concentrated in East India followed by South India, leading to risk of region-specific economic impact on sales and profits. KIL has a strong retail model with a total of 846 (PY: 782 stores) stores as on March 31, 2023, comprising of 216 Company owned Company Operated (COCO) and 630 Franchise stores. Through its 846 stores, the company sold close to 76 lakhs pair in FY23 (PY: 70 lakhs pair) however it is yet to achieve pre-covid numbers where sales were close to 1 crore pairs.
KIL's wide distribution network of 700 distributors on Mar'23 (627 as on Mar'22) serves to various multi-brand operators (MBO) across the country. Last fiscal, the volume through wholesale was close to 2.42 crore pairs down 14% from FY22 levels, largely due to hike in output GST rate and commodity prices making products dearer. The company's navigation through the stiff competition under its distributor model while sustaining margins and arresting volume de-growth will remain a key monitorable.

Modest improvement in financial performance in FY23: In FY21, the sales in the retail division declined y-o-y by 38% from Rs.477 crore to Rs.296 crore, due to nationwide lockdown and delayed/gradual opening of the retail segment and lower footfalls. However, the same has started seeing improvement from FY22 onwards with operations smoothening out and in FY23, retail sales of KIL recorded a growth of 12% to Rs 660 crores fuelled by y-o-y increase in its sales through retail channels which saw a growth of around 25%, though marred by volume de-growth in its distribution business. PBILDT margin improved from 8.68% in FY22 to 11.32% in FY23 due to higher proportion of sales being derived from higher margined retail business driven by higher ASP on account of premiumization of its product range and some relief on account of declining prices of Crude derived raw materials. Till FY22, the accumulated portion of GST input claim, owing to rate differential for input and output GST, was close to Rs 63 crores. However, during FY23, the company was able to set-off close to Rs 19 crores thus easing its working capital requirements. Sustenance of margins with more focus towards retail channels, arresting volume de-growth under the distributor segment will remain under watch.

Key weaknesses

Modest capital structure albeit improvement in debt protection metrics: The overall gearing deteriorated from 1.26x as of Mar'22 to 1.45x as of Mar'23 largely owing to increase in lease liabilities because of shifting of manufacturing facilities from Kasba to Serampore. However, with improvement in margins the TDGCA improved from 6.31x to 5.39x as of FY23 while the interest coverage ratio of the company which had deteriorated to below unity due to decline in profitability in FY21 had improved to 2.13x in FY22 and 2.39x in FY23. With no debt laden capex in sight, the capital structure is expected to improve going forward.

Moderate capacity utilisation: KIL has in-house manufacturing facility for Hawai, EVA and PVC category of footwear, majority of which is sold through the distribution segment. The retail segment has more premium products and large number of designs are needed in smaller quantities, thus 91% is outsourced (PY: 84% of product requirement). In FY23, the capacity utilisation declined to 48.2 % as compared to 61.5 % in FY22on the back of lower demand from distributor segment.

Susceptibility of margins to volatility in raw material prices: Key raw material required for Khadim India Limited 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 through of raw material prices through hike in prices is difficult. Thus, volatility in prices of key raw materials has the potential to significantly impact the profits of the company. The distribution segment, however, has seen a hike of around 8% in FY23.
The company majorly relies on outsourcing for its retail division (~91% of retail sales in FY23). KIL has large base of outsourced vendors who are having long relationship with the company. Under this model, KIL shares the design requirement as well as the overall specification of the raw materials to be used (including identified vendors for raw materials) with the outsourced vendors. Pricing for each order is finalised upfront and thus, the vendors directly manage the costing of the products. 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. The ASP increased by around 7.75% in FY23.

Working capital intensive nature of business: Because 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. 44 crores and long-pending debtors worth Rs 72 crores from its institutional sales (Rs.37 crore from UP govt and Rs.35 crore from Punjab Govt), which adds to the intensity. The gross current assets days for the company stood at 248 days, similar levels of FY22. Working capital cycle also saw an increase from 73 days in FY22 to 94 days largely owing to increase in receivables and inventory levels on an absolute basis. KIL, owing to its established market position, is also able to negotiate better credit terms from its suppliers to ease the intensity, however creditor days is also stretched at 111 days. However expected realisation of the debtors from institutional sales by this fiscal end will remain a key monitorable.

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 of April 2023. During FY23, the company earned GCA of Rs. 60.63 crores against term debt obligations of around Rs.4.94 crores. The GCA for FY24, is also expected to be sufficient to meet the term debt obligations of Rs.4.25 crore. Liquidity is also supported by free cash and bank balance of Rs.6.40 crores as on March 31, 2023.

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
- Retail
- Wholesale Trading
- Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Footwear

Khadim India Limited (KIL), incorporated in 1981, is engaged in manufacturing, wholesaling & retailing of footwear & related accessories through 846 retail stores (63% of sales) and 700 distributors (34% of sales) as on March 31, 2023. Out of 846 stores, 216 were Company Owned and Company Operated (COCO) and 630 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 son Mr. Rittick Roy Burman and adequate support from a team of experienced personnel.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)
Total operating income	591.08	660.26
PBILDT	51.29	74.77
PAT	6.46	17.51
Overall gearing (times)	1.26	1.45
Interest coverage (times)	2.13	2.39

A: Audited P: Provisionals; Note: 'the above results are latest financial results 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: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	136.00	CARE BBB; Positive
Fund-based - LT-Stand by Limits		-	-	-	4.00	CARE BBB; Positive
Fund-based - LT-Term Loan		-	-	July 2028	15.24	CARE BBB; Positive
Non-fund-based - ST-Bank Guarantee		-	-	-	6.00	CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.50	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A3+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	136.00	CARE BBB; Positive	-	1)CARE BBB; Stable (11-Jul-22) 2)CARE BBB; Stable (01-Apr-22)	-	-
2	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3+	-	1)CARE A3+ (11-Jul-22) 2)CARE A3+ (01-Apr-22)	-	-
3	Fund-based - LT-Stand by Limits	LT	4.00	CARE BBB; Positive	-	1)CARE BBB; Stable (11-Jul-22) 2)CARE BBB; Stable (01-Apr-22)	-	-
4	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A3+	-	1)CARE A3+ (11-Jul-22) 2)CARE A3+ (01-Apr-22)	-	-
5	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A3+	-	1)CARE A3+ (11-Jul-22) 2)CARE A3+ (01-Apr-22)	-	-
6	Fund-based - ST-Line of Credit	ST	-	-	-	1)Withdrawn (11-Jul-22) 2)CARE A3+ (01-Apr-22)	-	-

7	Fund-based - LT-Term Loan	LT	15.24	CARE BBB; Positive	-	1)CARE BBB; Stable (11-Jul-22) 2)CARE BBB; Stable (01-Apr-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Forward Contract	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on the 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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About us:
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