# Khadim India Limited

October 09, 2017

**Ratings**

| **Facilities[@]** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Long-term Bank Facilities | 137.31 (reduced from Rs.147.49 crore) | **CARE A-; Stable (Single A Minus; Outlook: Stable)** | **Revised from CARE BBB+ (Triple B Plus)** |
| Short-term Bank Facilities | 15.50 (reduced from Rs.16.00 crore) | **CARE A2+ (A Two Plus)** | **Revised from CARE A2 (A Two)** |
| **Total** | **152.81 (Rs. One hundred fifty two crore and eighty one lakh only)** | | |

[@] *Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of Khadim India Limited (KIL) takes into account improvement in financial performance of the company in FY17 (refers to the period April 01 to March 31) & Q1FY18. Further, the rating continues to draw strength from long experience of the promoters, established position in domestic footwear industry with satisfactory brand image, diversified product portfolio, rationalization of cost due to procurement of majority of footwear requirement through outsourcing model and wide distribution network albeit concentration in Eastern India. The ratings, however, remain constrained by its working capital intensive nature of business along with highly fragmented and competitive nature of footwear industry. The ability of the company to increase its scale, maintain profitability margin and efficient management of working capital would remain the key rating sensitivities.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Experienced promoters:** The promoters of KIL are engaged in footwear business since 1965. 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) with adequate support from a team of experienced personnel. Shri Siddhartha Roy Burman has a business experience of more than three decades in footwear industry.

**Established position in footwear industry with satisfactory brand image:** KIL has developed a strong brand of Khadim in the footwear industry due to long association in the footwear business and quality produce. Its brand, ‘Khadim’, with a legacy of around 5 decades is a nationally popular brand. It also has a number of well-known sub-brands in footwear.

**Diversified product portfolio:** KIL has a diversified product portfolio with presence in all the categories of footwear and mainly caters to the demand of lower and middle income groups. KIL’s product portfolio consists of a variety of leather, Poly Vinyl Chloride, Ethylene Vinyl Acetate, Polyurathene, and Hawai footwear.

**Rationalization of cost due to high reliance on outsourcing model:** KIL procures 85.6% of its total requirement from outsourced vendors in FY17 due to the fashion oriented nature of the retail business requiring lower volume per SKU. The outsourced vendors are able to deliver smaller quantities of premium high quality products.

**Wide distribution network albeit concentration in Eastern India:** KIL’s has a wide distribution network of 357 distributors, serving to various multi-brand operators across the country. Additionally, the company also has 829 retail outlets as on Mar. 31, 2017 spread across 23 states and 1 Union territory in India. Though KIL has a presence all over India, it has a major presence in Eastern India.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

**Improvement in financial performance in FY17 & Q1FY18**: KIL's total operating income grew by 16.11% y-o-y in FY17 due to increase in revenue from both distributorship segment and retail segment. The increase in retail sales was driven by higher growth in same store sales and contribution from 60 new stores opened in FY17. PBILDT margin improved from 10.66% in FY16 to 11.40% in FY17 on the back of increase in proportion of sale of premium range products and better absorption of fixed cost overheads. Higher PBILDT coupled with marginal decline in interest cost resulted in improvement in interest coverage ratio from 3.65x in FY16 to 4.85x in FY17. The current ratio improved from 0.92x as on Mar 31, 2016 to 1.03x as on Mar 31, 2017 due to improved cash flow from operation and better inventory management.
In Q1FY18, the company reported a PBILDT of Rs.16.66 crore and PAT of Rs.7.11 crore on total operating income of Rs.178.43 crore.

**Satisfactory financial risk profile**: KIL has very low term debt outstanding as on March 31, 2017. Overall gearing and total debt to GCA improved from 0.91x and 2.88x in FY16 to 0.70x and 2.46x in FY17, respectively, mainly due to improved cash accruals. Average utilization of fund-based working capital limit remained moderate at 84% during July 2016 to July 2017.

**Key Rating Weaknesses**

**Working capital intensive nature of the business:** KIL's business is highly working capital intensive on account of high level of inventory required to be maintained to ensure ready availability of stock. Further, the company needs to provide credit period of 15-30 days to its distributors in view of steep competition in the footwear segment. The working capital is mainly financed through a mix of creditors and bank borrowings.

**Competitive nature of footwear industry:** The domestic footwear industry is fragmented and is characterised by large number of unorganised players enjoying tax and excise benefits. Moreover, there is a pressure from cheap imports from China in this segment. KIL has sharpened its focus on the high-income segment and designer footwear to protect its profitability margin.

**Analytical approach:** The rating is based on standalone financials.

**Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

**About the Company**

Khadim India Limited (KIL), incorporated in 1981, is engaged in wholesaling & retailing of footwear & related accessories through 829 stores and 357 distributors (as on Mar'17). Out of 829 stores, 667 were operated by the franchises and 162 stores were owned and operated by the company. KIL's manufacturing facility is located in Kolkata, having an annual capacity of 23.4 million pairs of footwear. It also has an outsourcing arrangement with around 500 small-scale footwear manufacturers. Around 86% of its footwear requirement was met through outsourcing model in FY17. KIL has discontinued the lifestyle and retailing products in FY15 and gold jewellery business in FY16.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 537.96 | 624.62 |
| PBILDT | 57.36 | 71.22 |
| PAT | 25.24 | 30.76 |
| Overall gearing (times) | 0.91 | 0.70 |
| Interest coverage (times) | 3.65 | 4.85 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Annexure-1: Details of Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Term Loan-Long Term | - | - | June 2019 | 2.81 | CARE A-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 110.00 | CARE A-; Stable |
| Non-fund-based-Long Term | - | - | - | 24.50 | CARE A-; Stable |
| Fund-based - ST-Working Capital Demand loan | - | - | - | 15.50 | CARE A2+ |

**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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Term Loan-Long Term | LT | 2.81 | CARE A-; Stable | - | 1)CARE BBB+ (12-Sep-16) | 1)CARE BBB+ (28-Oct-15) | 1)CARE A- (04-Aug-14) |
| 2. | Fund-based - LT-Cash Credit | LT | 110.00 | CARE A-; Stable | - | 1)CARE BBB+ (12-Sep-16) | 1)CARE BBB+ (28-Oct-15) | 1)CARE A- (04-Aug-14) |
| 3. | Non-fund-based-Long Term | LT | 24.50 | CARE A-; Stable | - | 1)CARE BBB+ (12-Sep-16) | 1)CARE BBB+ (28-Oct-15) | 1)CARE A- (04-Aug-14) |
| 4. | Fund-based - ST-Working Capital Demand loan | ST | 15.50 | CARE A2+ | - | 1)CARE A2 (12-Sep-16) | 1)CARE A2 (28-Oct-15) | 1)CARE A2+ (04-Aug-14) |

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