

Khadim India Ltd - Steps behind peers

Established in 1981, Khadim Indian Ltd (KIL), a leading footwear brand has emerged as the third largest retailer in the Indian market. The company has a strong presence in eastern India and has positioned itself as an affordable brand. It has 853 branded exclusive retail stores in 23 states and one Union Territory. KIL has manufacturing facilities at Panpur and Kasba (in West Bengal) and 4 distribution centers across India.

Positives: a) Leading footwear brand, offering affordable fashion across various price segments; b) Asset light model leading to higher operating leverage; c) Experienced Promoters supported by professionally qualified, experienced and entrepreneurial management team.

Investment concerns: a) Despite consumption business, the company had reported huge losses in FY2015; b) KIL's ~67% revenue comes from East geography mainly from Kolkata, which poses geographical concentration risk for the company.

Outlook & Valuation: In terms of valuations, the pre-issue P/E works out to 42.2x its FY2017 earnings (at the upper end of the issue price band), which is slightly lower compared to its peers like Bata. However, Bata has strong presence across India with well-established brand and its entire revenue comes from retail business. On other hand, KIL's most of the revenue comes from East geography mainly from Kolkata and retail revenue is only 70% and balance from distribution business.

Despite the above positives factors and lower valuations compared to Bata, we however, believe that the current valuation for this company is fully factored in the price, which doesn't provide further upside for investors. **Hence, we recommend Neutral rating on the issue.**

Key Financials

Y/E March (Rs cr)	FY2014	FY2015	FY2016	FY2017
Net Sales	478	460	535	621
% chg	13.0	(3.8)	16.2	16.2
Net Profit	12	(19)	25	31
% chg	36.3	(253.6)	(235.3)	21.8
OPM (%)	10.4	3.0	9.8	10.6
EPS (Rs)	7.0	(10.8)	14.6	17.8
P/E (x)	106.8	(69.5)	51.4	42.2
P/BV (x)	17.6	10.0	8.4	7.0
RoE (%)	16.5	(14.4)	16.3	16.6
RoCE (%)	21.6	(2.2)	13.9	17.2
EV/Sales (x)	2.9	3.1	2.6	2.2
EV/EBITDA (x)	27.7	102.3	26.4	21.1

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: Nov 2, 2017

Issue Close: Nov 6, 2017

Issue Details

Face Value: `10

Present Eq. Paid up Capital: `17.3cr

Offer for Sale: **0.66cr Shares

Fresh issue: `50cr

Post Eq. Paid up Capital: `18.0cr

Issue size (amount): *`540cr -**543cr

Price Band: `745-750

Lot Size: 20 shares and in multiple thereafter

Post-issue implied mkt. cap: *`1,338cr - **`1,347cr

Promoters holding Pre-Issue: 66.2%

Promoters holding Post-Issue: 59.7%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	60%
Others	40%

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Company background

Khadim Indian Ltd was established in 1981 and since then it has emerged as the third largest retailer in the Indian market. The company has a strong presence in eastern India and has positioned itself as an affordable brand. It has 853 branded exclusive retail stores in 23 states and one Union territory. The company, through its stores in malls and high street places, targets middle and upper middle class customers looking for fashionable footwear. Also, through its retail chain in tier I and tier II cities, it targets lower and middle income groups. This is categorized under retail business and contributes ~70% to the revenue.

Due to lower quantity and high quality products, the company outsources its production to vendors and procures ~85% of its requirement from them. The company caters to customers who shop at multi-brand outlets (MBOs) through distribution network. It has manufacturing facilities at Panpur and Kasba (in West Bengal) and 4 distribution centers across India (as at 30th Jun 2017). Khadim is promoted by Siddhartha Roy Burman who has 34 years of experience with the Company and has been instrumental in the growth of the business.

Issue details

Khadim India's IPO is a mix of Offer for sale and fresh issue. The issue would constitute fresh issue worth of `50cr and Offer for sale worth of `493cr (at upper band). The company will dilute 3.9% of its post-offer paid-up equity share capital.

Exhibit 1: Pre and post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	11,446,438	66.2%	10,724,438	59.7%
Others	5,852,093	33.8%	7,240,760	40.3%
	17,298,531	100.0%	17,965,198	100.0%

Source: Source: RHP, Note: Calculated on upper price band

Objects of the offer

The net proceeds from the fresh issue are proposed to be utilized towards the following objects:

- Prepayment or scheduled repayment of all or a portion of term loans and working capital facilities availed by the Company (40cr)
- General corporate purposes

Investment Rationale

A leading footwear brand, offering affordable fashion across various price ranges

The company is the second largest footwear retailer in India in terms of number of exclusive retail stores operating under the 'Khadim's' brand, with the largest presence in East India and one of the top three players in South India, in fiscal 2016. We believe that the biggest strength of 'Khadim's' brand is its product offering, which is 'affordable fashion' for the entire family for every occasion. KIL's comprehensive product range offers a wide variety of designs and styles, and caters to various customer segments across a wide range of price points, by providing 105 affordable footwear products for men, women and children across age groups.

Extensive geographical reach and asset light model leading to higher operating leverage

The company had a wide network of 853 exclusive retail stores across 23 States and one Union Territory in India, as at June 30, 2017. In terms of retail business, in order to ensure pan-India presence, the company has adopted scalable and asset light model, which is a less capital intensive business model to operate the exclusive retail stores.

Experienced promoters supported by professionally qualified, experienced and entrepreneurial management team

We believe that KIL would benefit from the vision, strategic guidance, experience, skills and relationships of several key members of the management team, including individual Promoter and Chairman and Managing Director, Siddhartha Roy Burman, who has an overall experience of 34 years with the Company and has been instrumental in the growth over the last three decades.

The company also actively recruits professionally qualified individuals from renowned institutions or organizations in India for important management and executive roles. Further, this helps the company in attaining and maintaining quality across operations, which gives us a competitive advantage, especially vis-à-vis smaller and regional players.

Moreover, the company's employees have been an important factor in our success

Outlook and Valuation:

In terms of valuations, the pre-issue P/E works out to 42.2x its FY2017 earnings (at the upper end of the issue price band), which is slightly lower compared to its peers like Bata. However, Bata has strong presence across India with well-established brand and its entire revenue comes from retail business. On other hand, KIL's most of the revenue comes from East geography mainly from Kolkata and retail revenue is only 70% and balance from distribution business.

Despite the above positives factors and lower valuations compared to Bata, we however, believe that the current valuation for this company is fully factored in the price, which doesn't provide further upside for investors. **Hence, we recommend Neutral rating on the issue.**

Key Risks

- If the company is able to successfully execute its competitive growth strategies, it will pose an upside risk to our view.
- Higher than expected store addition and increase in new geographical reach could pose an upside risk for the company.

Income Statement

Y/E March (cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Total operating income	423	478	460	535	621
<i>% chg</i>		13.0	(3.8)	16.2	16.2
Total Expenditure	380	429	446	482	555
Raw Material	280	314	312	336	371
Personnel	36	42	46	45	55
Others Expenses	64	72	88	101	129
EBITDA	43	50	14	52	66
<i>% chg</i>		14.2	(72.3)	280.9	25.6
<i>(% of Net Sales)</i>	10.3	10.4	3.0	9.8	10.6
Depreciation & Amortisation	8	11	19	16	16
EBIT	35	39	(5)	36	50
<i>% chg</i>		11.0	(113.9)	(763.4)	38.3
<i>(% of Net Sales)</i>	8.3	8.2	(1.2)	6.7	8.0
Interest & other Charges	24	26	19	15	13
Other Income	3	5	6	4	4
<i>(% of PBT)</i>	19.9	26.8	(29.0)	16.7	10.6
Share in profit of Associates	-	-	-	-	-
Recurring PBT	14	18	(19)	26	41
<i>% chg</i>		35.3	(204.4)	(235.2)	57.6
Tax	5	6	0	1	10
<i>(% of PBT)</i>	34.1	33.6	2.3	2.2	24.4
PAT (reported)	9	12	(19)	25	31
Extraordinary Items	-	-	-	-	-
ADJ. PAT	9	12	(19)	25	31
<i>% chg</i>		36.3	(253.6)	(235.3)	21.8
<i>(% of Net Sales)</i>	2.1	2.5	(4.1)	4.7	5.0
Basic EPS (Rs)	5.2	7.0	(10.8)	14.6	17.8
Fully Diluted EPS (Rs)	5.2	7.0	(10.8)	14.6	17.8
<i>% chg</i>		36.3	(253.6)	(235.3)	21.8

Source: RHP, SH - Share Holder

Exhibit 2: Balance Sheet

Y/E March (cr)	FY2013	FY2014	FY2015	FY2016	FY2017
SOURCES OF FUNDS					
Equity Share Capital	12	12	17	17	17
Reserves & Surplus	92	62	112	137	168
Shareholders Funds	104	74	129	154	185
Minority Interest	-	-	-	-	-
Total Loans	170	107	122	105	104
Deferred Tax Liability	8	9	7	6	6
Total Liabilities	282	190	258	266	295
APPLICATION OF FUNDS					
Gross Block	187	204	215	219	216
Less: Acc. Depreciation	36	45	66	75	83
Net Block	151	159	149	143	133
Capital Work-in-Progress	8	2	2	1	3
Investments	0	0	0	1	-
Current Assets	236	239	195	207	274
Inventories	143	114	114	101	114
Sundry Debtors	22	57	24	35	77
Cash	10	31	12	19	17
Loans & Advances	55	30	37	44	50
Other Assets	6	6	7	8	15
Current liabilities	113	211	88	87	115
Net Current Assets	123	29	107	120	159
Deferred Tax Asset	-	-	-	-	-
Total Assets	282	190	258	266	295

Source: RHP

Exhibit 3: Cash Flow Statement

Y/E March (cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Profit before tax	14	18	(19)	26	41
Depreciation	8	11	19	16	16
Change in Working Capital	(9)	(4)	(8)	(3)	(30)
Interest / Dividend (Net)	1	0	(2)	1	1
Direct taxes paid	(3)	(4)	(3)	(3)	(9)
Others	20	17	17	13	12
Cash Flow from Operations	30	38	4	50	31
(Inc.)/ Dec. in Fixed Assets	(312)	(86)	(146)	(92)	(182)
(Inc.)/ Dec. in Investments	286	58	157	81	163
Cash Flow from Investing	(26)	(28)	11	(11)	(19)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	2	(6)	1	(2)	(1)
Dividend Paid (Incl. Tax)	0	0	0	0	0
Interest / Dividend (Net)	(8)	(5)	(14)	(32)	(18)
Cash Flow from Financing	(5)	(11)	(13)	(34)	(19)
Inc./(Dec.) in Cash	(1)	(1)	2	5	(7)
Opening Cash balances	3	2	1	3	8
Closing Cash balances	2	1	3	8	2

Source: Company, Angel Research

Exhibit 4: Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017
Valuation Ratio (x)					
P/E (on FDEPS)	145.5	106.8	(69.5)	51.4	42.2
P/CEPS	75.5	57.1	2,485.4	31.2	27.8
P/BV	12.5	17.6	10.0	8.4	7.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	3.4	2.9	3.1	2.6	2.2
EV/EBITDA	33.6	27.7	102.3	26.4	21.1
EV / Total Assets	5.2	7.2	5.4	5.2	4.7
Per Share Data (Rs)					
EPS (Basic)	5.2	7.0	(10.8)	14.6	17.8
EPS (fully diluted)	5.2	7.0	(10.8)	14.6	17.8
Cash EPS	9.9	13.1	0.3	24.0	27.0
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	59.9	42.7	74.7	89.3	107.0
Returns (%)					
ROCE	12.8	21.6	(2.2)	13.9	17.2
Angel ROIC (Pre-tax)	13.3	26.2	(2.3)	15.1	18.3
ROE	8.6	16.5	(14.4)	16.3	16.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.3	2.3	2.1	2.4	2.9
Inventory / Sales (days)	123	87	90	69	67
Receivables (days)	19	44	19	24	45
Payables (days)	67	74	46	39	53
Working capital cycle (ex-cash) (days)	76	57	64	54	60

Source: Company, Angel Research

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