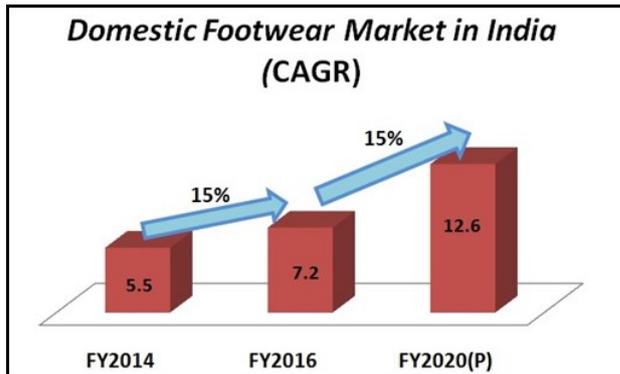


## IPO UPDATE

### Khadim India Limited

#### About the Industry:

The domestic market for footwear in India is anticipated to grow at a CAGR of 15% to reach USD12.6bn by FY2020 from USD7.2bn in FY2016. Some of the key drivers for growth in this segment will include favourable young demography, increased working class, increased disposable income of consumers, increased spending on lifestyle products, shift from unbranded to branded products, penetration beyond the metro and tier I cities etc.



Source: Red Herring Prospectus

#### About the company:

With nearly 853 branded exclusive retail stores and a strength of 377 distributors (as on 30<sup>th</sup> June 2017), in 23 states and one Union territory; Khadim India Ltd (Khadim) is one of the leading footwear brands in India. The company has its manufacturing facilities at Panpur and Kasba (in West Bengal) and 4 distribution centers across India. The company has adopted two-pronged focus on retail and distribution of footwear. In terms of number of exclusive retail stores operating under a brand name, Khadim is the second largest footwear retailer in India. The company has the largest presence in East India and one of the top three players in South India (FY2016).

#### Key strengths:

- Khadim is a leading footwear brand which provides affordable footwear for the entire family. One may also regard the same as fashion for everyone at various price segments.
- The brand has an extensive geographical reach and penetration across East and South India.
- The company follows a two-pronged market strategy that straddles the retail and distribution segments.
- Khadim relies on asset light model which leads to higher operating leverage.
- The company has strong design capability which helps in maintaining the seasonal trends.
- In the long run, (for the retail segment) the company intends to target middle and upper middle income consumers in metros (including mini metros) and Tier I –Tier III cities. The products offered by the company range from Rs75 to Rs3,599 (in FY17). The large range of merchandise offered here are leather and non-leather sandals, slippers, boots, ballerinas, stilettos, moccasins, sports shoes and accessories etc.
- For the distribution channel, the company targets the lower and middle income customers in metros, Tier I – Tier III cities who shop in the range of Rs30 to Rs499 (in FY17) by offering products like those of ethylene-vinyl acetate (EVA), basic and premium Hawaii, injected poly-vinyl chloride (PVC), PVC direct injection process (DIP), polyurethanes (PU) etc. These products are manufactured at company's own manufacturing facilities and through contract manufacturing facilities.

#### SNAPSHOT

Issue Opens	Thursday, November 02, 2017
Issue Closes	Monday, November 06, 2017
Price Band	Rs745 to Rs750
Bid Lot	20 shares and multiples thereafter
Face Value	Rs10
Listing	BSE & NSE
Type of Issue	OFS and Fresh Issue
Offer Size	Fresh Issue Rs500mn OFS Rs4,931 Total Rs5,431
Implied Market Cap	Rs13,474mn
PE (based on FY17 earning)	43.81

#### Details of Selling Shareholder & No of Shares

Fairwinds Trustee Services Private Limited *	58,52,093
Siddhartha Roy Burman	7,22,000
<b>Total</b>	<b>65,74,093</b>

\*Note : Fairwinds Trustee Services Private Limited, acting in its capacity as the trustee of Reliance Alternative Investment Fund- Private Equity Scheme – I

#### Issue allocation

Reservations	% of Net Issue
QIB	50%
NIP	15%
Retail	35%
<b>Total</b>	<b>100%</b>

#### Object of the offer

- OFS– the company will not receive any proceeds from OFS
- Fresh Issue– will be utilized for repayment of term loans and working capital facilities and general corporate purposes.

#### Last 3 year Summarized Profit and Loss

Rs (mn)	FY15	FY16	FY17
Revenue	4601	5345	6212
EBITDA	137	523	657
EBITDA %	3.0	9.8	10.6
PAT	(186)	252	307
PAT %	(4.0)	4.7	4.9

#### Last 3 year Summarized Cash flow

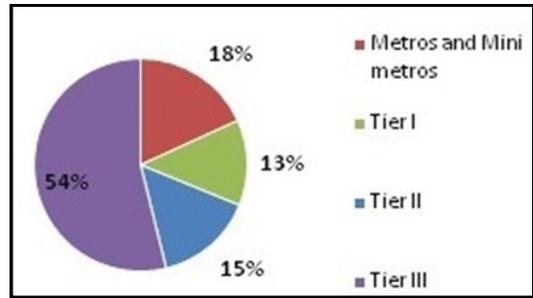
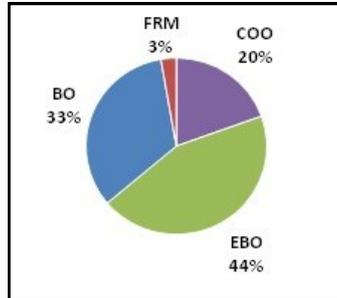
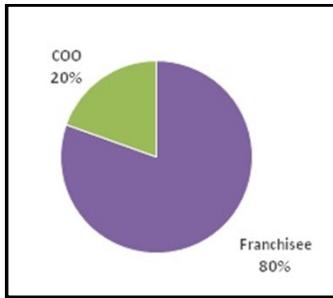
Rs (mn)	FY15	FY16	FY17
Cash flow from Operation	44	498	309
Cash flow from Investing	109	(112)	(188)
Cash flow from financing	(130)	(336)	(186)

## IPO UPDATE

### Khadim India Limited

#### Triggers for Khadims' growth

- GST will be one of the biggest triggers for the company, the shift from unorganised to organised will be a big booster.
- Nearly 78% of the population of India is below 45 years of age, thus the younger demography, increasing number of working women, increasing disposable income of consumer and higher spending on lifestyle products, shift from unbranded to branded products can benefit the company (if the products are marketed well).
- India's favourable macro-economic factors along with increasing penetration beyond the metro and tier I cities and increasing urbanisation can benefit the company, if the sales force are channelised well.
- The company has an extensive geographical reach & penetration via an asset light model leading to higher operating leverage.
- The company has successfully replicated the business model from East India to South India and at the same time is well positioned to develop and target new geographies across India.
- The company has strong design capabilities which has helped create and grow sub-brands. Moreover, the backing of efficient procurement and manufacturing processes, robust supply chain and inventory management favour the company's growth.



Source: Red Herring Prospectus

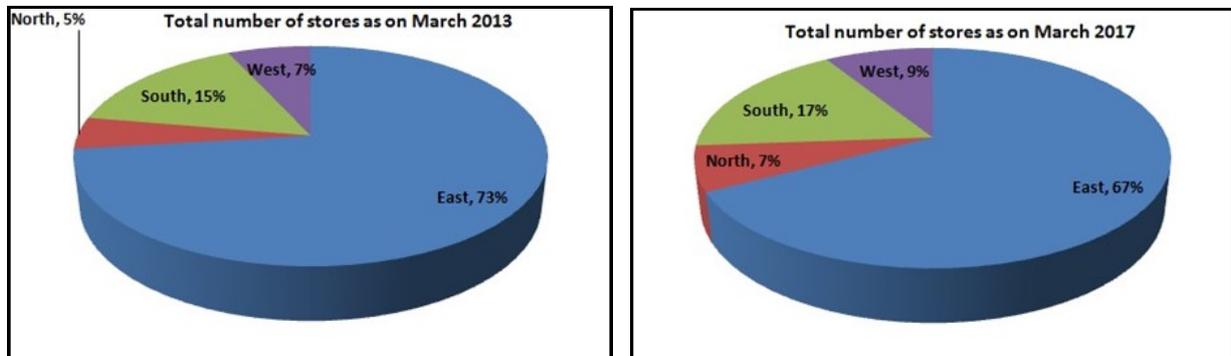
- The retail business constitutes around 73.48% while distribution constitutes nearly 22% of the revenues (FY17). In the retail business, the company presently promotes nine home-grown sub-brands named, Pro, Lazard, Softouch, Cleo, British Walker, Turk, Sharon, Bonito and Adrianna.

Brand/ Sub-brand	Description
Khadim's	Fashionable, casual footwear, for value conscious customers, for men, women and children.
British Walkers	Formal shoes and sandals for men. Features - basic colours of black/ brown, plain uppers, broad construction. Uses premium quality leather.
Lazard	Semi-formal and Casual shoes and sandals for men. Features - colours, fancy uppers, slim construction. Uses premium quality leather and faux leather.
Turk	Outdoor boots and sandals for men. Features - shades of brown and rugged sole. Uses premium quality faux leather
Cleo	Light and trendy sandals for women. Features - delicate upper/back straps, embellishments and laser-cut uppers, slim heels. Uses premium quality faux leather
Sharon	Fashionable yet functional sandals for women. Features - broad upper/back straps, clean lines and uppers, wide heels. Uses premium quality faux leather.
Soft Touch	Closed and Open shoes and sandals for men and women. Features – broad construction with anatomical support and low, platform heels. Uses premium quality soft leather and faux leather.
Pro	Sports and activity sneakers & floater sandals for men and women. Features – wide range of colours and designs, mesh, synthetic and canvas uppers.
Bonite	A range of fun and colorful shoes for toddlers and children.
Adriana	Comfortable and fashionable footwear for pre-teen and teenage girls.

Source: Red Herring Prospectus

**IPO UPDATE**  
**Khadim India Limited**

- As of March 31, 2017, 67.19% of the exclusive retail stores are catered to East India, 17.37% catered to South India and 15.44% catered to the rest of India.



Source: Red Herring Prospectus

**Risk factors:**

- There are certain risks associated with expansion into new geographic markets. The company is an established brand in Eastern part of India and significant advertising and marketing costs could be incurred in times to come in order to promote the brand and sub-brands in future. The company is dependent on the franchises and hence cash flows can be affected.
- The cost of procurement of products from outsourced vendors and the cost of manufacture of products using contract manufacturers may increase with time. The source for procurement of raw material could affect the efficiency of the margins.
- The company is subjected to changes in fashion trends and consumer preferences.
- Seasonality was an issue in the past, however, the same has started tapering down, end of seasons sales (EOSS) is the only seasonality which the company faces as a threat.

**Financials**

Consolidated Rs (mn)	FY13	FY14	FY15	FY16	FY17
Revenue	4230	4781	4602	5345	6212
Expenses	3796	4286	4464	4822	5555
PBT	135	183	(191)	258	407
Tax	46	61	(4)	6	100
PAT	89	121	(187)	252	308
EPS (basic)	5	7	(11)	15	18

Source: Red Herring Prospectus

**Outlook and Recommendations:**

In the long run, the company intends to expand in the western and northern regions of the country. This will invite more cost and expenditure for marketing and sales. The management has the plans to first set up COO retail outlets in these regions and later expand via the franchise model after gauging and understanding the markets in these regions. FY15 saw a loss, as the company was caught unaware of the advent of the online business, which hit the other competitors as well. In the past the company has ventured into some non-core businesses which are closed now, and the management intends to focus on only one segment i.e. footwear. One will see gradual growth in the company as the company intends to expand pan-India. At the price of Rs750 (upper price band) the PE is around 43.8 times EPS of Rs17.1 (FY17); if one compares the PE with Bata India which trades at 57times FY17 EPS of Rs13.5, Relaxo footwear at PE of 51.7 times EPS of Rs10.2 and Liberty at a PE of around 63.6 times EPS of Rs3.8; Khadim is providing little room for appreciation and thus the investment in the stock is also classified as long term.

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