

Issue Details	
Listing	NSE & BSE
Open Date	2/10/2017
Close Date	6/10/2017
Price Band	745-750

Khadim India (Khadim), established in 1981 is one of the leading footwear brands in India, with a two-pronged focus on retail and distribution of footwear. Khadim is the second largest footwear retailer in India in terms of number of exclusive retail stores operating under the “Khadim’s” brand, with a large presence in East India and a place among of the top three players in South India, in FY16. Moreover, it has the largest footwear retail franchisee network in India in FY16.

Capital Structure (In Cr)	
Sh. pre-IPO	1.7
Fresh issue	5.0
Offer for Sales	0.6

Khadim’s core business objective is ‘Fashion for Everyone’, and it has established an identity as an ‘affordable fashion’ brand, catering to the entire family for all occasions. As on June 30, 2017 and FY17, the company ran 853 and 829 ‘Khadim’s’ branded exclusive retail stores across 23 states and one union territory in India, respectively, through its retail business vertical. Further, the company has a network of 377 and 357 distributors in its distribution business vertical in the three month period ended June 30, 2017 and FY17, respectively.

Shareholding (%)	Pattern	
	Pre	Post
Promoters	100.0	59.7
Public	00.0	40.3
Total	100.0	100.0

Khadim manages through two distinct business verticals, retail and distribution, each with its customer base, sale channels and product range.

- **The retail business operates through its exclusive retail stores catering to middle and upper middle income consumers in metros (including mini-metros) and Tier I – Tier III cities, who primarily shop in high street stores and malls, for fashionable products.**
- **The distribution business is conducted through a wide network of distributors catering to lower and middle income consumers in metros and Tier I – Tier III cities, who primarily shop in multi-brand-outlets (MBO) for functional products. The company is also engaged in the business of institutional sales and export of footwear.**

The retail business constituted 70.0% 73.5%, 75.2% and 72.2% of the net revenue, for the three month periods ended June 30, 2017, FY17, FY16 and FY15, respectively which constituted net revenue of ₹ 124.9 crores, ₹ 456.5 crores, ₹ 402.1 crores and ₹ 332.2 crores, respectively. As on June 30, 2017 and March 31, 2017, 66.6% and 67.2% of its exclusive retail stores catered to East India, 17.6% and 17.4% of its exclusive retail stores catered to South India and 15.8% and 15.4% of its exclusive retail stores catered to the rest of India, respectively.

Key Investment Highlights:

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

Khadim believes that the biggest strength of its 'Khadim's' brand is the product offering, which is 'affordable fashion' for the entire family for every occasion. The widespread 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 affordable footwear products for men, women or children, across age groups. In the retail segment, the maximum retail price (MRP) is ranged from ₹77 to ₹3,599 for its products. Its brand and sub-brands command high consumer recall and is associated with high quality products at affordable prices. Apart from servicing the existing customer base, the company believes that "Khadim's" brand aided it to capture the target audience transitioning from the unorganized to organized market and its sub-brands helped to target and retain its customers, especially given the significant years of brand equity the company has built with them.

Owing to the affordable fashion positioning, the company is able to straddle both the retail and distribution business verticals. It caters to fashion conscious customers through the premium products in the retail segment and it also leverages the brand recall to give impetus to the distribution business.

Owing to the brand positing and product offering, the company is able to grow seamlessly across geographies. The attributes of the brand have also enabled to replicate the brand's success in South India and penetrate markets in West India.

Strong design capabilities to maintain seasonal trends and leading premiumisation through sub-brands

Khadim has a detailed design process pursuant to which it creates designs for consumers across diverse segments for various seasons and festivals. It draws the inspiration from the mood of the season, fashion, and colour of a particular season. Khadim follows and survey fashion trends across international and domestic markets, and continued market research enables it to understand the changing needs of the consumers. The strong in-house design capabilities have enabled the company to create and grow sub-brands organically, through the development of premium products, to cater to its existing customer base. While it continues to target consumers and provide affordable fashion through 'Khadim's' brand, its sub-brands focus on targets and retain customers, especially given the significant years of brand equity the company has built with them. The sub-brands, which include 'Pro', 'Lazard', 'Softouch', 'Cleo', 'British Walker', 'Turk', 'Sharon', 'Bonito' and 'Adrianna', have varied merchandise categories and cater to men, women or children, by providing affordable and fashionable footwear for a variety of occasions. The revenue from all sub-brands as a percentage of the retail footwear business revenue has increased to 51.2% in the three month period ended June

30, 2017 and 52.4% in FY17, from 42.8% in FY13. The change in the product mix along with reasonable price increases has led to an increase in average selling price (ASP). In the distribution business area, the company primarily sells its products under the 'Khadim's' brand. It believes the retail brand recall increases the demand for more premium products, thereby allowing it to upscale the product mix in this business vertical. The company has started introducing premiumised versions of certain of its product offerings, including Hawaii, PVC and PU.

Two-branched market strategy that straddles efficiently across retail and distribution models

Khadim operates through two distinct business models, retail and distribution, each with its own customer base, sale channels and product range. Its retail business operates through the company owned or franchised exclusive retail stores, catering to middle and upper middle income consumers in metros, Tier I – Tier III cities, who primarily shop in high street stores and malls for fashion oriented products. The distribution business operates through a wide network of distributors catering to low and middle income customers in metros and Tier I – Tier III cities, who primarily shop in MBOs for functional products. Both the businesses are independently carried out with dedicated product design teams who have the ability to create distinct product baskets for both the businesses and focused sales teams, responsible for the performance of the individual businesses. The sales team has approximately 66 members in addition to store level sales personnel for the retail business, and 45 members in the sales team for distribution. Both of the business verticals complement each other, as each of them predominantly have separate product ranges, target audience and channels of sale. Also, given the different business profiles, it helps de-risk the company with regard to dependence on any one business.

Extensive geographical reach and penetration across East and South India

Khadim is the second largest footwear retailer in India, with the strong presence in East India and ranks among the top three players in South India. It believes that it has been able to successfully replicate the business model from East India in the Southern Indian markets. The experience of growing and establishing its market position in South India, coupled with the brand positioning, is enabling the company to develop and target new geographies across India. The success and brand acceptance is demonstrated by the number of franchisee operated stores it has been able to open across geographies. In FY16, it had the largest retail footwear franchisee network in India.

Issue Structure & Valuation

The proposed Khadim India Ltd issue is for an aggregate amount of Rs 500 crores (50,000,000 shares) by way of a fresh Issue of shares and also an Offer for Sale of Rs. 6.7 crores (6,574,093 shares) by existing share holders. This is being offered to the public at a price range of Rs 745 per share (lower price band) to Rs 750 per share (upper price band).

Category	No. of shares Offered	Percentage of Shares Offered
QIB	28287046.5	50%
Non institutional Bidders	8486114	15%
Retail	19800933	35%
Total	56574093	100%

The valuation on a trailing basis works out to 42.1x and 41.9x FY17 P/BV at the upper and lower band of Rs 750 and Rs 745 respectively.

SWOT ANALYSIS :

<p style="text-align: center;"><u>STRENGTH</u></p> <ul style="list-style-type: none"> • Asset light model through franchise route • Leading position in East India and amongst top three players in Southern India • Healthy revenue mix through retail and distribution verticals 	<p style="text-align: center;"><u>WEAKNESS</u></p> <ul style="list-style-type: none"> • Failure to successfully procure raw materials or to identify new raw material suppliers • Penetration in new markets may have political, economic and social instability • Default in payment from franchisee operated stores could impact profit
<p style="text-align: center;"><u>OPPORTUNITY</u></p> <ul style="list-style-type: none"> • Shift from unorganized to organized due to GST • Northern and western markets remains under penetrated • Increase in organized market share of footwear industry 	<p style="text-align: center;"><u>THREAT</u></p> <ul style="list-style-type: none"> • Rise in price of raw material may hit margins • Difficult to maintain high growth rate • Stringent competition from bigger players like Bata and Relaxo

Profit and Loss (Rs. In crore)

Particulars	FY13	FY14	FY15	FY16	FY17	3MFY17
Revenue						
Revenue from Operations (Gross)	425.4	480.8	461.8	535.1	621.7	178.5
Less : Excise duty	2.3	2.6	1.7	0.6	0.5	0.1
Revenue from Operations (Net)	423.0	478.1	460.2	534.5	621.2	178.4
Other Income	2.7	4.9	5.5	4.3	4.3	1.3
Expenses						
Cost of material consumed	54.3	50.4	61.2	76.2	105.1	33.0
Purchase Stock-In-Trade	250.2	256.4	254.9	246.7	278.3	86.0
Changes in Inventories of finished goods & Work-in-progress	-24.8	7.4	-3.7	13.1	-12.0	-11.9
Employee Benefit expenses	36.4	42.2	46.1	45.3	55.2	15.5
Finance cost	24.3	25.6	19.2	14.6	13.5	3.3
Depreciation and Amortisation	8.3	10.6	19.2	16.3	15.9	3.9
Other Expenses	63.5	72.4	88.0	100.9	128.9	39.1
Total	412.2	464.8	484.8	513.0	584.8	168.9
EBITDA	13.5	18.3	-19.1	25.8	40.7	10.8
Income tax expenditure						
Net Current tax	3.3	5.2	0.1	1.2	10.6	3.9
Deferred tax	1.3	1.0	-0.5	-0.6	-0.6	-0.1
Profit After Tax	8.9	12.1	-18.7	25.2	30.8	7.1

Balance Sheet (Rs. In crore)

Particulars	FY13	FY14	FY15	FY16	FY17	3MFY17
EQUITY AND LIABILITIES						
Share Capital	12.1	12.1	17.3	17.3	17.3	17.3
Reserves and surplus	91.5	61.7	111.9	137.1	167.9	175.0
Sub-Total	103.6	73.8	129.2	154.4	185.2	192.3
Non Current Liabilities						
Other long-term borrowing	50.8	29.1	16.9	7.1	0.2	0.0
Deferred Tax Liabilities (Net)	8.3	9.2	7.0	6.4	5.8	5.6
Other long-term Liabilities	6.3	6.4	7.7	8.8	9.2	9.5
Long Term Provisions	1.3	1.7	0.8	0.5	0.6	0.5
Sub-Total	66.6	46.5	32.5	22.8	15.8	15.6
Current Liabilities						
Short-Term borrowings	119.4	78.0	105.0	97.6	104.0	136.7
Trade payables	77.4	96.6	57.4	56.8	89.8	119.5
Other Current Liabilities	26.0	104.1	19.6	17.7	13.7	21.1
Short Term Provisions	2.5	2.1	1.9	2.9	1.3	2.2
Sub-Total	225.3	280.7	184.0	175.1	208.8	279.5
Total Liabilities	395.5	401.1	345.6	352.3	409.8	487.4
ASSETS						
Non-Current Assets						
Fixed Assets						
Tangible Assets	149.5	158.1	147.7	142.0	131.6	135.6
Intangible Assets	1.6	1.3	1.1	1.5	1.4	1.4
Capital WIP	8.0	2.2	0.5	0.9	3.1	2.9
Intangible Assets under development	0.3	0.4	1.6	0.0	0.0	0.0
Non-Current Investments	0.0	0.0	0.0	0.0	0.0	0.0
Long - term loans and advances	40.1	21.0	25.9	29.1	28.5	29.0
Other non -current assets	0.5	0.0	0.9	1.1	1.1	1.1
Total Non - Current Assets	200.1	183.0	177.9	174.7	165.8	170.1
Current Assets						
Current investments	0.0	0.0	0.0	1.1	0.0	2.8
Inventories	143.0	114.0	113.8	100.9	114.5	132.1
Trade receivables	22.0	57.1	24.1	34.9	77.2	92.4
Cash and Cash Balances	10.0	31.5	12.4	19.4	16.6	51.7
Short-term loans and advances	14.7	9.1	11.3	15.0	21.5	23.9
Other current assets	5.8	6.4	6.1	6.4	14.3	14.5
Total Current Assets	195.4	218.1	167.7	177.6	244.0	317.3
Total Assets	395.5	401.1	345.6	352.3	409.8	487.4

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