

CMP: Rs 119

Stock Info

BSE	540775
NSE	KHADIM
Bloomberg	KHDM IN
Reuters	KHAD.BO
Sector	Footwear
Face Value (Rs)	10
Equity Capital (Rs mn)	180
Mkt Cap (Rs mn)	2,148
52w H/L (Rs)	281/ 65
Avg Yearly Vol (in 000')	108

Shareholding Pattern %

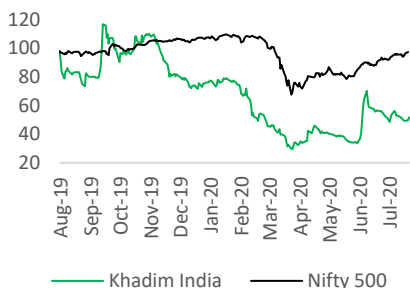
(As on June, 2020)

Promoters	60.83
FII	0.04
DII	20.19
Public & Others	18.94

Stock Performance (%)

	3m	6m	12m
Khadim	22.9	-33.4	-48.2
Nifty 500	18.9	-10.0	-1.9

Khadim Vs Nifty 500



Khadim India has reported weak set of numbers during Q4FY20. Company has registered sharp fall in sales at 23% YoY to Rs 1,582 mn. Sales during the first two months of Q4FY20 were good. However, since the lockdown was implemented in late March' 2020, revenue of the Company got impacted. Due to rise in material cost and lower revenue, Gross profit of the company fell by 30% YoY/32% QoQ to Rs 474 mn. Material cost as a percentage of sales stood at 70% vs. 67% YoY/60% QoQ. Gross profit margin for the quarter contracted sharply by 303bps YoY/ 1003bps QoQ to 30%. Company has reported EBITDA loss of Rs 84 mn vs. gain of Rs 93 mn YoY. Loss during the quarter widened to Rs 198 mn from Rs 132 mn in Q3FY20.

Q4FY20 Segment Wise Performance:

On Segmental basis, Retail business witnessed revenue de-growth of 17% YoY/16% QoQ to Rs 983 mn. Contribution of retail business in the total revenue stood at 62%. Revenue from distribution business de-grew by 5% YoY while on a sequential basis it grew by 13% to Rs 528 mn. Distribution business revenue share stood at 33.4%.

Key Takeaways from Conference Call:

A) Business Strategy Going Forward

- Historically, Financial performance of the company was weak including FY20 but management is hopeful that in next couple of years, Company will achieve ~15-20% topline growth with strong profit. The key levers of the growth are: a) Strong brand recall and company's push towards online channel, Sales are likely to increase b) Company is targeting 6-7% SSSG driven by strong ASP, premiumization and regular price increasing practices c) Expectation of improvement in gross margin and healthy working capital.
- Company is more focusing towards digital media and looking to build a strong presence in that platform.

B) Covid-19 Impact

- Demand of fashion brands remained weak which is high margin product as compared to basic products. In Covid period, People are buying more restricted and basic products which leads to contraction in margins. Demand of Hawai and PVC products remains high.
- In unlock phase 1 during June month, some demand increase was seen in terms of Footfall, average billing value. Distribution business seen good growth during June month. In July month when lockdown was re-imposed in some of the states, footfall remains lower.
- Margins got impacted largely due to lower demand of fashion brand products. However, in good scenario post Covid-19 margins are expected to improve by 100-150 bps YoY.

C) Cost Cutting Measures Taken by Company

- Company has taken several measures for cost optimization like, a) Celebrity cost negotiation b) Company has closed 10 stores and looking to close another 10-15 stores c) Infrastructure cost reduced d) Negotiation going on with the landlord e) Personnel expense is expected to reduce by 10-15%.

D) Store Expansion Plan

- Company is looking to open more franchise stores while there is no plan of opening COCO store. In FY20, Company has opened 20 COCO and 42 franchise stores. In FY21, Company is looking to open 30-35 franchise stores where CAPEX is not required.
- At present, Company has total 795 retail stores and 572 distribution network.

Valuation and View: Khadim India Q4FY20 performance was weak, largely due to lower revenue growth and margin pressure. However, management is optimistic about the growth prospectus of the company driven by focus on new market area, premiumization, strong brand recall and SSSG (Same store sales growth). We believe near term outlook will remain challenging owing to weak consumer sentiment due to Covid-19, margin pressure and lower footfall. Currently, stock is trading at very attractive valuation (at 10x FY19 PE vs. Industry average PE of ~50x) and we believe weak performance of the company is already priced in. The re-rating in the stock is likely to happen as soon as company shows some amount of recovery on business growth front.

Quarterly Result Snapshot

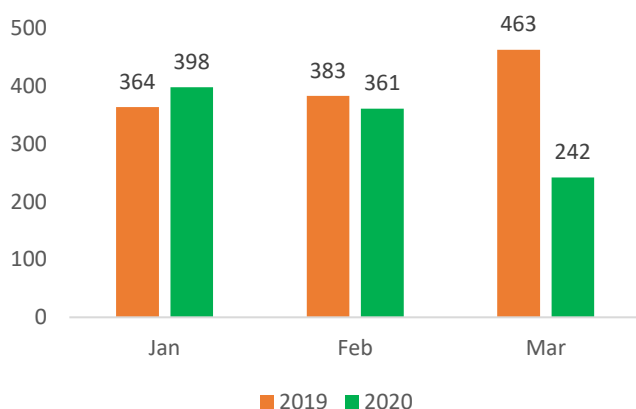
Particulars (in mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Sales	1582.2	2066.7	-23%	1747.6	-9%
COGS	1108.3	1385.1	-20%	1048.9	6%
Gross Profit	473.9	681.6	-30%	698.8	-32%
Gross Margin (%)	30.0%	33.0%	-303bps	40.0%	-1003bps
Employee Cost	183.3	183.4	0%	180.4	2%
Other Expenses	374.7	405.4	-8%	483.5	-23%
EBITDA	-84.0	92.9	NA	34.9	NA
EBITDA Margin (%)	-5.3%	4.5%		2.0%	
Depreciation	107.9	46.3	133%	108.4	0%
Interest	77.7	33.7	130%	80.6	-4%
Other Income	15.4	8.7	77%	14.4	7%
PBT	-254.2	21.6	NA	-139.6	NA
Tax	-55.7	9.6		-7.7	
PAT	-198.5	12.0	NA	-132.0	NA

Segment Wise Revenue Performance

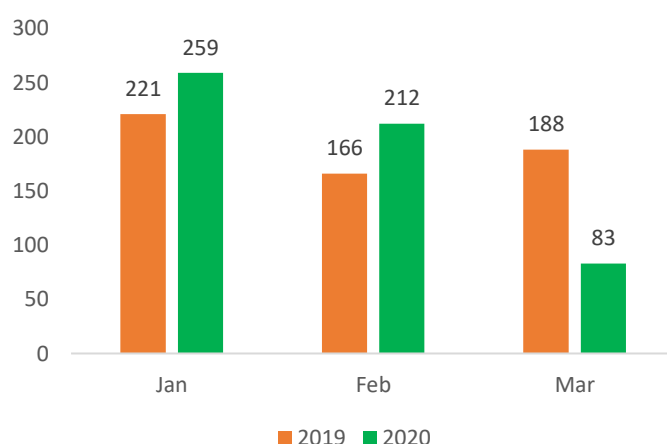
Segment Share (in mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Retail Business	983	1182	-17%	1168	-16%
% Revenue	62.1	57.2	496bps	66.8	-468bps
Distribution	528	556	-5%	468	13%
% Revenue	33.4	26.9	646bps	26.8	658bps
Others	71	329	-78%	112	-36%
% Revenue	4.5	15.9	-1140bps	6.4	-189bps
Total	1582	2067	-23%	1748	-9%

Month Wise Sales Performance

Retail Sales YoY in Q4 (in mn)



Distribution Sales YoY in Q4 (in mn)



Key Financial

Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20
Revenues	7,487	7,992	7,719
<i>Change (%)</i>	22.6%	6.7%	-3.4%
Cost of Goods Sold	4,653	4,965	4,912
Employee costs	652	721	733
Other expenses	1,425	1,737	1,769
Total operating Expense	6,730	7,422	7,414
EBITDA	757	570	305
Other Income	93	63	67
Depreciation	156	184	419
Interest	124	116	293
PBT	570	332	-341
Extra-ordinary	0	0	0
PBT after ext-ord.	570	332	-341
Tax	191	120	-28
<i>Rate (%)</i>	33.5%	36.2%	8.3%
PAT	379	212	-313
<i>Change (%)</i>	23.7%	-44.1%	NA

Source: Company, Arianth Research

Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20
Sources of Funds			
Share Capital	180	180	180
Reserves & Surplus	2,505	2,697	2,155
Net Worth	2,685	2,877	2,335
Long term debt	0	0	0
Short term debt	685	1,090	1,161
Total Debt	685	1,090	1,161
Non Current Liabilities	63	58	1,713
Current liabilities	1,464	1,472	1,777
Total Liabilities	4,897	5,498	6,985
Application of Funds			
Net Block	1,246	1,308	1,300
Other Non-Current Assets	27	26	1,478
Net fixed assets	1,273	1,334	2,777
Deferred/Income tax assets	3	26	151
Other Non-Current Assets	426	420	291
Current Assets	2,691	2,977	2,966
Other Current Assets	504	741	799
Total Assets	4,897	5,498	6,985

Key Financial**Key Ratios**

Y/E March (Rs Mn)	FY18	FY19	FY20
Per share (Rs)			
EPS	21.1	11.8	-17.4
CEPS	29.8	22.0	5.9
BVPS	149.4	160.1	129.9
Valuation (x)			
P/E	5.7	10.1	-6.9
P/CEPS	4.0	5.4	20.1
P/BV	0.8	0.7	0.9
Return Ratios (%)			
Gross Margin	37.9%	37.9%	36.4%
EBIDTA Margin	10.1%	7.1%	3.9%
PAT Margin	5.1%	2.7%	-4.1%
ROE	14.1%	7.4%	-13.4%
ROCE	17.6%	9.6%	-3.3%
Leverage Ratio (%)			
Total D/E	0.3	0.4	0.5
Turnover Ratios			
Asset Turnover (x)	1.5	1.5	1.1
Inventory Days	99	114	126
Receivable Days	62	61	56
Payable days	102	97	118

Source: Company, Aриhant Research

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20
Cash Flow From Operating Activities	141	-107	571
Cash Flow From Investing Activities	-59	-154	-151
Free cash flow (FCF)	-76	-356	407
Cash flow from financing activities	397	-171	-258
Net inc / (dec) in cash	478	-432	162
Opening balance of cash	-828	-350	-782
Closing balance of cash	-350	-782	-620

Source: Company, Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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