Khadim India Limited

Issue Snapshot:

Issue Open: Nov 02 – Nov 06, 2017

Price Band: Rs. 745 – 750

Issue Size: *7,240,760 Equity Shares (Including Fresh issue of *666,667 eq sh + Offer for sale of 6,574,093 eq sh)

Offer Size: Rs.539.44 crs – 543.05 crs

QIB	Upto 50% eq sh
Retail	atleast 35% eq sh
Non Institutional	atleast 15% eq sh

Face Value: Rs 10

Book value: Rs 111.14 (June 30, 2017)

Bid size: - 20 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 17.30 cr
Post issue Equity:	Rs. 17.96 cr*

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Limited and IDFC Bank Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	66.17	59.70
Public & Others	33.83	40.30
Total	**100.0**	**100.0**

Source for this Note: RHP
* = Assuming issue subscribed at the higher band

Background & Operations:

Khadim India is one of the leading footwear brands in India, with a two-pronged focus on retail and distribution of footwear. It 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. It also had the largest footwear retail franchisee network in India in fiscal 2016. Its 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 at June 30, 2017 and March 31, 2017, KIL operated 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, it had a network of 377 and 357 distributors in the three month period ended June 30, 2017 and fiscal 2017, respectively, in its distribution business vertical.

KIL operates through two distinct business verticals, retail and distribution, each with its predominantly own customer base, sale channels and product range. Its retail business operates through 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. Its distribution business operates 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. It is also engaged in the business of institutional sales and export of footwear.

Objects of Issue:

The Offer comprises a Fresh Issue by KIL and an Offer for Sale by the Selling Shareholders.

The Offer for Sale

The Selling Shareholders will be entitled to the proceeds of the Offer for Sale of their respective portion of the Equity Shares after deducting their portion of the Offer related expenses and relevant taxes thereon. KIL will not receive any proceeds from the Offer for Sale.

The Fresh Issue

The Net Proceeds from the Fresh Issue are proposed to be utilised towards the following objects:

- Prepayment or scheduled repayment of all or a portion of term loans and working capital facilities availed by the Company; and
- General corporate purposes.

In addition to the aforementioned objects, KIL intends to strengthen its capital base and expects to receive the benefits of listing of its Equity Shares on the Stock Exchanges, including among other things, enhancing the visibility of its brand and Company.

Requirements of Funds

Particulars	Amount
Prepayment or scheduled repayment of all or a portion of term loans and working capital facilities availed by the Company; and	400
General corporate purposes	*
Total	*

Competitive Strengths

A leading footwear brand, offering affordable fashion across various price segments: The biggest strength of KIL's 'Khadim's' brand is its product offering, which is "affordable fashion" for the entire family for every occasion. Its 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 affordable footwear products for men, women or children, across age groups. Its brand and sub-brands command high consumer recall and is associated with high quality products at affordable prices. Apart from servicing its existing customer base, its "Khadim's" brand helps to capture the target audience transitioning from the unorganised to organised market and its sub-brands helps it to target and retain its aspirational customers, especially given the significant years of brand equity KIL has built with them. Owing to its affordable fashion positioning, KIL is able to straddle both the retail and distribution business verticals. It caters to fashion conscious customers through premium products in the retail segment and it is also able to leverage its brand recall to give impetus to its distribution business. KIL 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. KIL also had the largest footwear retail franchisee network in India in fiscal 2016.

Strong design capabilities to maintain seasonal trends and leading premiumisation through sub-brands: KIL has a detailed design process pursuant to which it creates designs for consumers across diverse segments for various seasons and festivals. It draws its inspiration from the mood of the season, fashion, and colour of a particular season. It follow and survey fashion trends across international and domestic markets, and continued market research enables it to understand the changing needs of the consumers. Its strong in-house design capabilities has enabled KIL to create and grow its sub-brands organically, through the development of premium products, to cater to its existing customer base. KIL's sub-brands including 'Pro', 'Lazard', 'Softouch', 'Cleo', 'British Walker', 'Turk',' Sharon','Bonito' and 'Adrianna', has varied merchandise categories and cater to men, women or children, by providing affordable and fashionable footwear for a variety of occasions. In its distribution business, it primarily sells its products under the 'Khadim's' brand. Given the changing consumer preferences and trends towards premium products, since fiscal 2015, the Company has started introducing premiumised versions of certain of its product offerings, including Hawai, PVC and PU. Its design capabilities has resulted in the growth and development of its sub-brands which has allowed to cater to premium customers with higher consumer spend and also make reasonable price increases, thereby resulting in a growth in its ASP and gross margins.

Two-pronged market strategy that straddles efficiently across retail and distribution models*:* KIL 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 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. Its 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. KIL's two businesses are independently carried with dedicated product design teams who has the ability to create distinct product baskets for both the businesses and focused sales teams, responsible for the performance of the individual businesses. Both its business verticals complement each other, as each of them predominantly has 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. Given its ability to straddle between both the retail and distribution markets, KIL is able to capitalize on growth potential, and target the Indian branded retail footwear market, which is proposed to grow at a CAGR of 18%, and the branded footwear distribution market which is proposed to grow at 23%, from fiscal 2016 to fiscal 2020. It is also able to leverage its already established brand recall in the retail segment to drive growth in its distribution business. KIL is accordingly able to cross leverage its experience in each segment to develop and grow its businesses.

Extensive geographical reach and penetration across East and South India: KIL had a wide network of 853 and 829 exclusive retail stores across 23 States and one Union Territory in India, as at June 30, 2017 and March 31, 2017, respectively. It is the second largest footwear retailer in India, with the largest presence in East India and one of the top three players in South India, in fiscal 2016. KIL has been able to successfully replicate its business model from East India in the Southern Indian markets. Its experience to grow and establish its market position in South India, coupled with its brand positioning, is enabling it to develop and target new geographies across India. The success and acceptance of its brand is demonstrated by the number of franchisee operated stores it has been able to open across geographies. In fiscal 2016, KIL had the largest retail footwear franchisee network in India. As at June 30, 2017 and March 31, 2017, out of its 853 and 829 exclusive retail stores, 685 and 667, respectively, were operated by franchisees. With respect to its distribution business, it has established its presence across East and South India and has also forayed into markets in West India and primarily in Uttar Pradesh in North India.

Asset light model leading to higher operating leverage: In terms of KIL's retail business, in order to ensure pan-India presence, it has adopted to be a scalable, asset-light and less capital-intensive business model to operate its exclusive retail stores. While expanding into new markets KIL enter through flagship COOs and further augment its presence in such markets through franchisees, once its brand is reasonably established in such markets. Moreover, KIL typically take on lease the premises from which it operates its COOs. KIL's net revenue from new exclusive retail stores over the last five fiscal years was Rs.3,433.23 million, with capital expenditure of Rs. 142.61 million for the same period. Its limited capital expenditure and inventory investment will result in higher operating leverage. Further, it has tried to apply the asset light approach with regards to its procurement of products. The portion of products procured from outsourced vendors with respect to its retail business amounted to 89.18% and 85.60% of its products, in the three month period ended June 30, 2017 and fiscal 2017, respectively. With respect to its distribution business, since it started tracking it as a separate business vertical only from fiscal 2015, KIL's initial focus has been to increase utilisation of existing installed capacity and invest in machines and moulds at its existing manufacturing facilities. Subsequently, it has grown its distribution business, by adopting an asset light model of manufacturing, by engaging contract manufacturers. KIL's asset light model, with minimum capital expenditure, has enabled to leverage its growth and profitability.

Experienced Promoters supported by professionally qualified, experienced and entrepreneurial management team: KIL benefit from the vision, strategic guidance, experience, skills and relationships of several key members of its management team, including its individual Promoter and its Chairman and Managing Director, Siddhartha Roy Burman, who has an overall experience of 34 years with the Company and has been instrumental in its growth over the last three decades. It also actively recruit professionally qualified individuals from renowned institutions or organizations in India for important management and executive roles. This helps KIL in attaining and maintaining quality across its operations, which gives a competitive advantage, especially vis-à-vis smaller and regional players. It has dedicated teams including with respect to design, sales, procurement, for each business vertical. With the continuing involvement of the core members of its management team and key executives, KIL is well positioned to continue to tap growth opportunities across the footwear business in the future.

Business Strategy:

Expand geographical footprint in western India and certain markets in northern India and further penetrate markets in south India:
Retail Business: KIL has established its presence in East and South India through exclusive retail network. In the last few years, its presence in West and primarily in Uttar Pradesh in North India, has also witnessed sustained growth. It intends to continue expanding its geographical footprint in markets across South India, West India and in Uttar Pradesh in North India, through flagship COOs and further augment its presence in such markets through franchisees.

Distribution Business: KIL had started manufacturing products including Hawai, PU, PVC and EVA in 2002, in order to complement its retail business. However, it started focusing on the distribution business as a separate vertical since fiscal 2015. It has established its presence across East and South India and has also forayed into markets in West and North India. KIL has a network of 377 and 357 distributors during the three month period ended June 30, 2017 and fiscal 2017, which include 291 and 280 in the East, 25 and 19 in the South and 61 and 58 in North and West India, for such respective periods. It intends to continue to penetrate existing markets in Eastern and Southern India by increasing its distribution network. KIL further intends to capitalize on its retail brand recall and target markets in West and North India by increasing its distribution network in such markets.

Continue to focus on an asset light model led growth:
Retail Business: KIL intends to continue to expand its retail business, by entering into new markets and penetrating existing markets, and further augment its presence in such markets through franchisees, once its brand is reasonably established in such markets. Further, given the fashion oriented nature of its products, it intends to continue to source a significant portion of its products which are sold through its exclusive retail stores from outsourced vendors, who are able to deliver small quantities, without compromising on the quality of products or incurring significant capital expenditure.

Distribution Business: KIL intends to continue growing its distribution business through an asset light model by utilising infrastructure and production capacity of contract manufacturers. While its contract manufacturers owns and operate the factory on their premises, KIL is involved to the extent of strengthening their infrastructure by providing the necessary machinery and moulds to manufacture its products on a case to case basis. It intends to continue to develop new designs and would continue to control the production process, monitoring quality control and safety and provide raw materials to such contract manufacturers.

Premiumise product offering to increase average selling price and gross margins
Retail Business*:* In line with KIL's brand ethos, it intends to continue catering to the entire family for all occasions across its target audiences. Hence, the company intends to continue focussing on its home brand, 'Khadim's' as well as the subbrands without compromising on providing affordable fashion to its entire consumer base it has increased focus on its sub-brands which will continue to grow as a proportion of retail sales to drive its premiumisation strategy. The creation of KL's sub-brands has enabled it to provide customers with a varied product mix. The change in the product mix along with reasonable price increases has led to increase in ASP. The ASP increase, coupled with its ability to pass on cost increases, has positively impacted retail business gross margins which has grown from 42.54% in fiscal 2013 to 46.89% in fiscal 2017.

Distribution Business: KIL's primarily focus on distribution of Hawai, PVC, EVA and PU footwear primarily under the 'Khadim's' brand. Its retail brand recall increases the demand for its more premium products, thereby enabling to upscale the product mix in this business vertical. KIL intends to continue to enhance its product range with new-to market introductions. It intends to continue to increase the ASP of its products, by focussing on distributing premium products and upscale its product mix, while continuing to provide its existing range of products to its distributors. KIL also intends to increase its profitability by increasing its gross margins from the distribution business, by increasing its volume of sales of premium products

Industry:

Distribution of Merchandise Consumer Spending

In 2016, India's GDP is estimated at ~US$ 2,115 billion, of which private consumption constituted 60%. Retail constitutes ~50% of private consumption. India's GDP growth will therefore translate to an increase in merchandise retail market, from the current ~US$ 616 billion to US$ 960 billion by FY 2020. Share of urban retail is expected to grow from 49% in FY 2016 to 52% in FY 2020 due to increasing urbanisation, higher increase in urban household income, rural distress due to erratic monsoon and increasing penetration of organized retail in urban centres. Organized brick and mortar retail (which is largely concentrated in urban India) was 9% of total retail (US$ 55 billion) in FY 2016 and this is expected to become 12% (US$ 115 billion) by FY 2020 and was 7% of total retail in FY 2010.

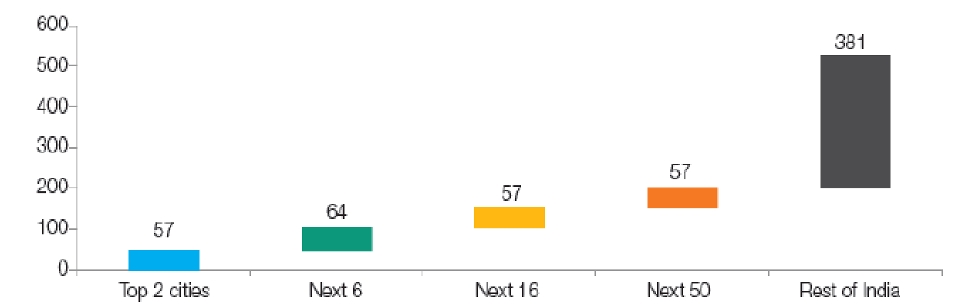
Retail Consumption across Key Categories

Currently, the food and groceries ("**F&G**") segment forms the major share of the retail market (67%). F&G will continue to be the dominant contributor in the retail market even four years hence with 66% share in 2020. Apparel and accessories, and consumer electronics are the other two key categories which account for 8% and 6% of retail, respectively.

Categories	2012	2016	2020
Total Retail (US$ bn)	386	616	960
Food and Grocery	67.5%	67%	66%
Apparel & Accessories*	8.25%	8.0%	7.75%
Footwear	1.15%	1.18%	1.30%
Jewellery & Watches	7.3%	7.6%	8.05%
Pharmacy & Wellness	2.8%	2.9%	2.95%
Consumer Electronics	5.2%	5.7%	6.6%
Home & Living	4.15%	4.3%	4.35%
Others	~3.6%	~3.3%	~3.1%
Total	100%	100%	100%

Share of Retail Consumer Spending In Cities

India retail spend of US$ 616 billion in 2016 across different city and region types



Top 2 Cities: Delhi and Mumbai

Next 6 Cities: Bangalore, Chennai, Hyderabad, Ahmedabad, Pune, Kolkata

Next 16 Cities: Surat, Jaipur, Lucknow, Nagpur, Patna, Indore, Coimbatore, Vadodara, Ludhiana, Bhopal, Kochi, Vishakapatnam, Madurai, Nashik, Jamshedpur, Guwahati

Source: Technopak Research & Analysis

Delhi and Mumbai clusters contribute about 9% of India's total retail spending. Top 22 cities account for 29% of total retail, and top 72 cities account for almost 39%.

Organized Retail and Category Consumption

While organized retail, primarily brick and mortar, has been in India for two decades, its contribution to total retail is low at 9% (US$ 55 billion) in FY 2016. The organized retail penetration was only ~7% in FY 2012.

Organised Retail – Inter Category Penetration

FY 16 (US$ bn)	Share of Retail	Retail Size	% of Organized Retail	Organized Market Sized (US$ bn)	Key Retailers
Food and Grocery	67%	413	3%	13	DMart, Reliance Fresh, More, Big Bazaar
Apparel & Accessories*	8%	49.25	22%	10.85	Shoppers Stop, Lifestyle, Westside
Jewellery & Watches	7.60%	46.8	27%	12.65	Kalyan Jewellers, Tanishq, Malabar
CDIT	5.70%	35	25%	8.78	Croma, Reliance Digital, eZone
Home & Living	4.30%	26.5	10%	2.65	Home Centre, Home Stop, Home Town
Pharmacy & Wellness	2.90%	17.8	10%	1.8	Apollo, MedPlus
Footwear	1.18%	7.2	26%	1.9	Khadims, Bata India, Metro Shoes, Adidas
Others	3.3%	20.3	12%	2.45	
Total	100%	616	9%	~55	

Footwear has the highest organised penetration at 26% whereas F&G is the least penetrated, with 3% organized share. Apparel and accessories, jewellery, and consumer durables and IT, reflect a penetration of 22%, 27% and 25%, respectively. The key formats that mark the organized pie of brick and mortar organised are:

- Multi brand retail chains: Highly fragmented with several national and regional chains
- Single brand retail chains: Highly fragmented with several brand stores specially in apparel and lifestyle, and consumer durables and IT space
- Modern independent retail stores: These are standalone stores which have upgraded themselves into organized stores.

The increased focus from general merchandise players shall also drive offtake of apparel and footwear within the value segment resulting in further increase of organized penetration within apparel and footwear segment. Further, Indian footwear retailers too will leverage the growth to increase retail penetration. Combining the above factors will result in 12% organized penetration in FY 2020 and the footwear organized pie will increase from 26% to 29% penetration in FY 2020.

Modern retail journey in India in general merchandise retail started to take off in the early 2000s. The period uphill 2006 can be classified as the period of entry and rapid expansion. Many conglomerates sensed retail as a growth opportunity and entered the business. Some vertically integrated players in fashion, food and real estate also entered modern retail business. The initial aim was to grow foot prints in the form of number of stores. The expansion was largely driven by multi-category presence and multi -city presence across regions. Since 2010, the brick retailing industry went through a period of consolidation and focus. Growth of E-commerce also promoted retailers to revisit their strategies. Electronics focused brick formats and home focused stores for instance came under pressure. Apparel and footwear segment has been the harbinger of organized retail in India. Along this journey, footwear retailers have garnered learnings and retailers that have adopted (i) relevant merchandise offering, (ii) expansive city penetration, (iii) robust distribution network, and (iv) optimum store size have witnessed traction in scale along with profitability. Metro, Relaxo, Bata and Khadim have demonstrated growth and profitability through focus on these key business elements.

Indian Footwear Market

Domestic Footwear Market in India

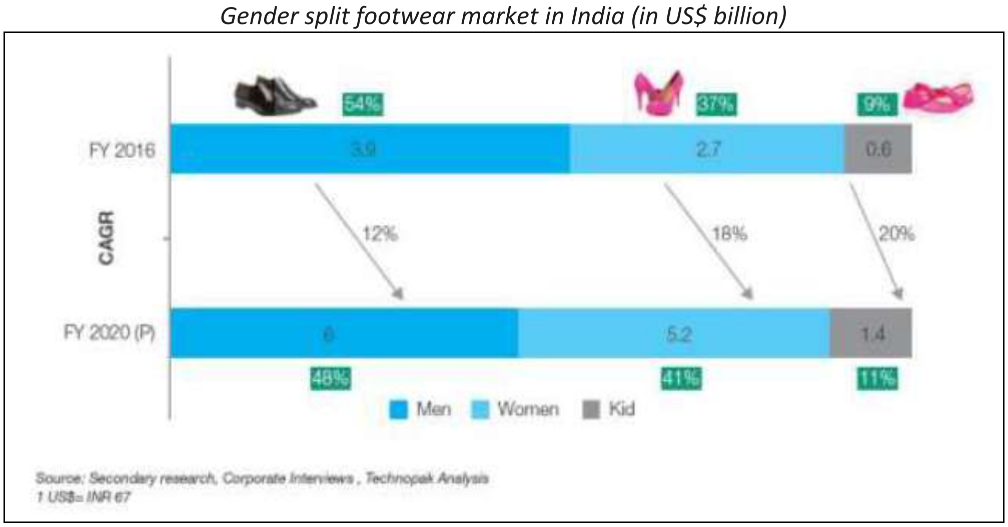
Domestic footwear market in India at retail price (in US$ billion)

The domestic footwear market in India is projected to grow at a CAGR of 15% to reach US$ 12.6 billion by FY 2020 from US$ 7.2 billion in FY 2016. The key drivers for the footwear segment will be: a) increased adoption owing to versatility in usage, and b) shift from unbranded to branded. Men's footwear currently dominates this market with ~54% share, however women's segment will outpace the men's growth to take 41% of the footwear market in FY 2020 against the current share of 37%. Further growth ill be driven by:

- Increasing disposable income of consumer and higher spending on lifestyle products, leading to shift from unbranded to branded play
- Increasing middle class population and working population
- Increase in number of working women driving the growth of women's footwear market
- Increasing urbanisation and more focus towards branded footwear
- Easy availability and assortment width with the advent of online channel
- Surge in sale of sports and health based footwear with increasing focus towards sports and events: marathons, adventure trips, etc.

Gender and Category wise breakup of footwear in India

Gender split footwear market in India (in US$ billion)



Indian footwear market is broadly categorised as dress, casual and activewear segments. Casual segment is the largest segment and its growth has outpaced growth of other segments. However, women and kids segments are expected to grow at a faster pace as compared to men's segment to account for 41% and 11% of market respectively, by FY 2020. Growth in women's segment will be driven by increasing number of working women and increasing disposable income. Also, women are not loyal to particular brand and change their fashion trend with specific occasion, which will drive volume growth. Kid's market is growing rapidly with increasing number of working parents resulting in higher spending on kids. Also, with the advent of activity based learning in schools, different shoe types are needed for varied different activities.

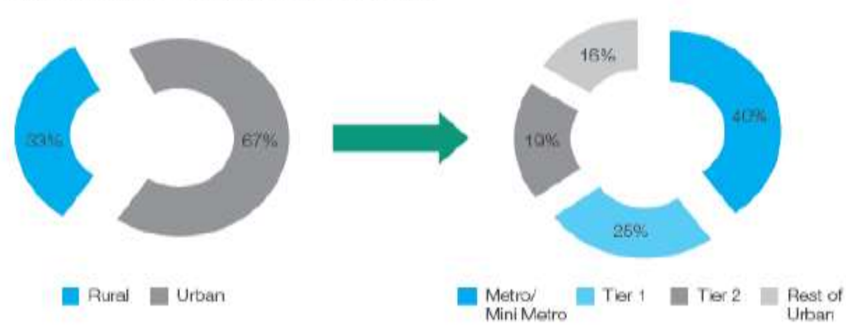
Branded and Organized Share of Footwear in India

Branded Footwear market is expected to grow at a CAGR of 20% to account for ~50% of the overall market by FY 2020 from current ~40% of total market. The footwear segment is unique compared to other lifestyle and retail categories. Other key lifestyle categories such as men's shirts and women's ethnic reflect ~30% and ~18% branded play, respectively. The combined factors of footwear demonstrating high propensity towards, (a) organized retail, and (b) branded play, which presents an opportunity for branded play to grow further. Footwear demonstrates highest receptivity to modern retail with 26% share of channel sales attributed by modern retail. For other key lifestyle categories viz. apparel, jewellery and watches, modern retail channel averages ~22% share of total pie.

The share of branded footwear in India is expected to increase from 42% at present to 50% by FY 2020 owing to penetration of existing brands such as Bata, Khadim etc. in Tier 2 and smaller cities. Also, existing international premium brands are expanding their presence by launching new stores. Growth will also be driven by the increasing reach of mid and economy brands to Tier II/III Indian cities. Growth in the branded segment will also be driven by shift of consumers from unbranded product with increase in disposable income, better availability of product and increasing health consciousness. The mass footwear segment driven by chappals and sandals too, is witnessing consumers adopting branded products owing to strong distribution network of brands: Khadim, VKC, Paragon, Relaxo etc. Branded retail segment will grow at the rate of CAGR of 18% and branded distribution segment at the rate of 23% CAGR over next five years.

Whilst organized retail is estimated at 10% penetration of the total retail sector, the footwear retail sector enjoys a high share of organized retail at 26%. Other key aspirational and lifestyle segment such as apparel sector also reflects double digit penetration of 20%. Footwear retail market is expected to witness further penetration of organized retail driving growth beyond major urban clusters. This shall be driven by growth of multiple retail formats across Exclusive Branded Outlet, Large Format Department Stores, Multi-branded Outlets and e-commerce. Thus this share is poised to grow sharply over the next five years to contribute 29% share by FY 2020. Footwear market is among the most organized category in the country with 26% of the organized share with presence of EBOs of leading brands. However, the unorganized pie of 74% will reflect a growth of 14%. Organized market is expected to grow at a CAGR of 18% to account for ~29% of the market by FY 2021, however distribution segment will still comprise 70% share. Growth in organized format will be driven by increasing penetration of EBOs in Tier II, Tier III and below towns, across the country. Also, the industry has witnessed the entry of leading international brands such New Balance, ASICS, Kenneth Cole etc. with their own retail stores to cater to the mid to premium and premium segment.

City type wise break up of footwear market in urban India



Source : Secondary research, Corporate Interviews , Technopak Analysis

Metro/Mini Metro cities (top 8): population >5 million, Tier I cities : population 1 to 5 million, Tier II cities : population 0.3 to 1 million, Tier III has population less than 0.3 million

Urban India accounts for 2/3rd of the footwear market in India by value. Top 8 cities (Metro and Mini Metro Cities) contribute to 40% of the urban footwear market and is dominated by the presence of leading national and international brands. Tier II and below cities contributes to ~35% of the overall urban footwear market and it is expected to grow further with increasing penetration of EBOs in these cities. Also, with the advent of online retail, people in Tier II cities and below have an access to branded footwear which will further drive the growth in these markets.

Segmentation of Footwear market in India

The premium segment is dotted by international brands such as Aldo, Charles & Keith, Kenneth Cole, Clarks etc. that are currently focussing on Indian metro-centric centres. The segment is marked primarily by the Exclusive Branded Outlet format. The Mid and Economy segment with a share of 40%, witnesses a mix of national footwear retailers as well as regional champions such as Khadim, Bata, Metro, Woodland, Lotto etc. All the key retailers: Bata, Clarks, Aldo, Liberty, Metro, Khadim, Inc.5 offer i) equitable mix of men's and women's offering ii) comprehensive assortment covering Casual, Dress, Sandals across both the genders. The retail-centricity of the sector implies a SKU offering in the range of 200-300 across dress, casual, outdoors and sports. Hence key retailers necessarily play across a) both gender segments as well as b) usage segment for completing the SKU range.

International brands dwell into the international principals for design ideas and are leveraging compliant and quality hubs across India for sourcing. Indian brands have increasingly focused on offering relevant fashion at smart pricing, therefore the potential for design to act as a product differentiator. Footwear retailers have garnered significant learnings in the journey of modern retailing, footwear retailers have garnered learnings across a) assortment b) city penetration and c) store size. Within the footwear segment, retailers such as Khadim and Bata succeed in carving a niche with a value segment proposition, coupled with relevant fashion offering at smart pricing. The brand Khadim enjoys mass appeal amongst consumers owing to the unique positioning of smart priced value fashion targeted for the entire family. The brand has also succeeded in taping the potential in Tier II and III Indian cities in addition to optimum store size for maximum productivity.

Mass footwear brand retailers such as Action Shoes, VKC, Lakhani Shoes, Ajanta Footwear, Lancer etc. That occupy 54% of the market, are characterized by a predominant distribution channel. Most players have distinct positioning allowing them to capitalize on either retail or distribution business. Owing to its positioning, Khadim which is one of the key retailer from the economy segment has been able to capitalise on the distribution business, thus addressing ~85% of the total market potential. Retailer brands comprise 55% (INR 11,300 cr) and distribution brands comprise 45% (INR 9,050 cr) of the footwear branded pie. Whilst, distribution brands are dependent on the efficiencies of distribution network only to drive growth, retail centric brands have to rely on all the organized channels viz. EBOs, large format stores (LFS) and online channel. Growth of retail brands is a factor of own store growth, own store foray and LFS roll-out. Since, access to quality real estate pose challenges, consequently the growth get restrictive leading to relatively lower growth level of the branded organized segment (at18%) vis-a-vis branded distribution (at 23%). Adoption of branded vis-a-vis unbranded, shift towards quality & design within the mass segment will also be driving factors for growth of branded distribution. Key distribution brands of significant scale : Relaxo, Paragon, VKC, have reflected an historic average growth of 24%. Whilst, their growth is expected to stabilize – entry of new brands, increase in leverage of existent distributors of mid-sized brands will drive the branded distribution growth of 23%.

Distributor Selection and Dynamics

Selection Criteria

- Prior Experience: Brands want its distributors to have prior experience in the industry along with good knowledge about product quality and material. Eg: Shift from EVA to PU based footwear
- Regional Expertise: A sound knowledge of the regional market and dynamics is an important aspect for distribution selection
- Good financial history with other clients
- Good reach and reputation in local/regional footwear market
- Infrastructure (warehouse, manpower etc.), availability to support company targets
- The distributor must not keep competing brands in the same price range (varies from brand to brand)
- Distributor reach
- A distributor's reach depends on the city. Generally, a distributors reach will vary from around 20-30 retailers in
- A small city to 100-150 retailers in a big city. Most brands have a strong network of distributors that are serviced by local company distribution centres.

PU's market share is significant regardless of region due to its better durability, easier manufacturing process and scope for better design. Hawai is still a dominant category in most regions. However, players are shifting their focus from basic Hawai to premium Hawai chappals, as customers have become more fashion oriented. Khadim has a strong presence in East India and is spreading its presence over other regions by appointing distributors in these regions. However, Relaxo is dominant in North and East region of the country and has started venturing into southern and western region of the country in last 4-5 years. Similarly, Paragon and VKC are based out of South India and thus have managed to create a dominant presence in the southern region of the country.

Benchmarking of Key Retailers - Modern retail has a relatively high share of channel sales in footwear at 26% and traditional channel account for the remaining 74% of the footwear market. Bata with the highest number of stores has equitable presence across the regions in the country. The brand has ensured penetration into Tier 1 and Tier 2 cities in addition to Metro centric cities. Metro has relatively lesser retail presence compared to Bata, Khadim and Liberty. However, Metro has demonstrated optimum presence across all the four regions of the country. Footwear retailers succeeded by adopting either of the strategies – 1) pan- India penetration or 2) initial regional focus. Bata and Metro have demonstrated the first business model for growth. Khadim has focused on a particular region and is now planning to replicate the learnings of regional leadership to other potential regions. The brand has successfully replicated the learnings of East region to gain significant penetration in the South and West regions. Men's segments contributes to highest sales across all key brands: Bata, Metro, Khadim and Liberty in sync with the higher share of men's segment in the overall footwear market in India. The women's segment is gaining traction and this trend is being recognized by these brands in their assortment mix. Khadim ranks 2nd in the overall number of stores across the country and has the largest footwear franchisee run store in the country in FY 2016. Khadim has largest presence in East Region and is one of the top three players in the South region, while Bata has largest presence in North and South Region across all brands in FY 2016.

Key Concerns

KIL is subject to risks associated with expansion into new geographic markets*:* Expansion into new geographic regions, including different states in India, subjects KIL to various challenges, including those relating to its lack of familiarity with the culture, consumer preferences, regulations and economic conditions of these new regions. Language barriers, difficulties in staffing and managing such operations coupled with, the lack of brand recognition and reputation in such regions may also affect its ability to expand into newer geographic regions. The risks involved in entering new geographic markets and expanding operations, may be higher than expected, and it may face significant competition in such markets. Further, KIL may also face significant competition from other players who may already be established in such markets and may have a significant market share. Any inability to enter into new geographic markets or penetrate existing markets could adversely affect KIL's growth, future prospects, financial condition and results of operation.

Any delay or default in payment from franchisee operated stores or distributors could adversely impact the profits and affect cash flows: KIL's operations involve extending credit for periods of time, ranging typically from 30 to 75 days, to its franchisee operated stores and its distributors, and consequently, it faced the risk of the uncertainty regarding the receipt of these outstanding amounts. Accordingly, it may have high levels of outstanding receivables. If its distributors and customers delay or default in making payments in the future, its profits margins and cash flows could be adversely affected.

KIL may not be able to obtain sufficient quantities or desired quality of finished products from outsourced vendors in a timely manner or at acceptable prices: KIL rely on outsourced vendors for manufacturing of finished products including accessories sold through its retail business at exclusive retail stores. During the three month period ended June 30, 2017 and in fiscal 2017, 89.18% and 85.60%, respectively, of total products sold through its retail business were procured from outsourced vendors. Further, some of its products distributed through distribution business is also procured from outsourced vendors. Thus, any shortfall or disruption in supply of products from its outsourced vendors, or insufficiency in the quality and consistency of the products supplied, would result in shortfall in supply, lower stock in stores and /or lower sales. Such disruption in supply would materially and adversely affect the business, profitability and reputation.

Rely on franchisees with respect to retail business and on distributors with respect to distribution business*:* KIL operates its retail business substantially through franchisees, with whom it enters into contractual arrangements. As at June 30, 2017 and March 31, 2017, of its 853 and 829 exclusive retail stores, 685 and 667 exclusive retails stores, respectively, were operated by its franchisees. It cannot be assured that its franchisees will be able to fulfill their obligations under such agreements entirely, in a manner acceptable to the company, or at all. Further, agreements with its franchisees are typically for a period of three years, which are renewable at the end of the term, for additional periods at the option of the Company, on terms mutually agreed between the franchisee and the Company. It cannot be assured that it will be able to continue to renew its agreements with its franchisee partners on terms that are commercially acceptable to it, or at all. KIL do not enter into any short or long term agreements with its distributors, and conduct its distribution business through purchase orders, received from distributors. Distributors, as independent business operators, may, from time to time, disagree with it and its strategies regarding the business or its interpretation of its respective rights and obligations, its default on their payment obligations, which may result in higher provisioning. Any adverse experience of franchisees or distributors, or negative publicity attracted by such franchisees or distributors could adversely affect its reputation and brand and business prospects. If KIL is unable to establish or maintain its relationship with such third parties, its business, results of operations and financial condition may be materially and adversely affected.

Cost of procurement of products from outsourced vendors or cost of manufacture of products using contract manufacturers may increase in the future*:* KIL rely on outsourced vendors for the manufacture of finished products with respect to its retail business. Further one of its key attributes is to provide affordable fashion for the entire family. The MRP of each stock keeping unit ("SKU") and the average selling price ("ASP") of KIL's products is dependent on, the cost at which it procure such products from outsourced vendors. Typically, its products sold through its exclusive retail stores are high value products, which also entail higher production costs. KIL may not be able to control the costs of production of its outsourced vendors, which may increase in the future, including due to increase in the cost of raw materials, cost of labour and other utilities. Further, KIL manufacture some of its products for the distribution business through two manufacturing units, on a contract basis. It may also be susceptible to increase in production costs for any of the reasons specified above. Any increase in production costs, may result in lower margins, and any consequent inability to pass on such costs to its distributors effectively, may affect KIL's profitability and financial condition.

Inability to maintain an optimal level of inventory in stores may impact KIL's operations adversely: KIL estimates its sales based on the forecast, demand and requirements for the forthcoming season. In general, it monitors the sale of its products and plan the manufacture of relevant SKUs before the actual delivery of products in the stores. An optimal level of inventory is important to its business as it allows to respond to customer demand effectively and to maintain a full range of products at its exclusive retail stores and for distribution business. While KIL aims to avoid under-stocking and over-stocking, its estimates and forecasts may not always be accurate. Its forecasts are also dependent on its ability to track secondary sales with respect to its retail stores as well as distribution business, and predicting consumer preferences for its products. Further, KIL's franchisees also faced pile-up of inventory, which resulted in display of old stock in its franchisee operated retail stores. To clear such inventory, the company had in the past, suspended further sales of products to certain franchisees, thereby impacting overall sales. This inventory mismatch resulted in a reduction of overall gross margins and profits for the Company. There can be no assurance that it will not face similar inventory mismatch in the future. Any mismatch between its planning and actual consumer consumption could lead to potential excess inventory or out-of-stock situations, either of which could have an adverse effect on its business, financial condition and results of operation.

Failure to successfully procure raw materials or to identify new raw material suppliers could adversely affect KIL: KIL's distribution business depends on its ability to attract and retain high quality and cost efficient raw material suppliers. In the event it is unable to continue to procure raw materials at competitive prices, at terms acceptable to it or at all, its business will be adversely affected. Furthermore, the success of its supplier relationships depends significantly on satisfactory performance by its suppliers and their fulfillment of their obligations. There can be no assurance that there will not be a significant disruption in the supply of raw materials currently sourced by KIL or, in the event of a disruption, that it would be able to locate alternative suppliers of materials or third party manufacturers of comparable quality at an acceptable price, or at all. Further, some of the raw materials KIL use for its products in the retail and distribution verticals are generated synthetically, and may be banned for use in the future, due to perceived potential environmental risks and adverse effects on human health. Any raw materials, which may be banned in the future, for environment, health, safety or public law and policy concerns, would require KIL to invest significant time and resources to redesign some or a significant number of its products and seek suitable alternative raw materials, which may not be able to procure at competitive rates or at all.

If KIL is unable to maintain and enhance the 'Khadim's' brand, the sales of its products may suffer: The brand KIL developed has significantly contributed to the success of its business. Maintaining and enhancing the 'Khadim's' brand and sub-brands, are critical to maintaining and expanding its customer base. Maintaining and enhancing its brand and sub-brands may require KIL to make substantial investments in areas such as research and development, marketing and brand building activities, and these investments may not be successful. There can be no assurance that consumers will continue to be receptive to its sub-brands. Its brand and sub-brands may also be adversely affected if its public image or reputation is tarnished by any negative publicity. Maintaining and enhancing its brand and sub-brands will depend largely on KIL's ability to anticipate, gauge and respond in a timely manner to changing fashion trends and consumer demands and preferences, and to continue to provide high quality products, which may not do successfully. If KIL is unable to maintain or enhance its brand image, its results of operations may suffer and its business may be harmed.

Any inability to increase market share in premium products may have an adverse effect on business, financial condition, results of operations and prospects*:* KIL intends to premiumize its products by continually changing its product mix, to offer premium products through its sub-brands, 'Pro', 'Lazard', 'Softouch', 'Cleo', 'British Walker', 'Turk', 'Sharon', 'Bonito' and 'Adrianna', with respect to its retail business, and 'Waves' and 'Wash 'n' Wear', with respect to its distribution business, which target specific segments and cater to either men, women or children, across age groups. Given the aspirational nature of its customer base, KIL has increased its focus on sub-brands which will continue to grow as a proportion of retail sales to drive its premiumisation strategy. However, there can be no assurance that it will be able to increase its consumer base, with respect to its premium products. Further, there can be no assurance that its target consumer base will not prefer its competitor's products over KIL's.

Results of operations may be materially adversely affected by failure to anticipate and respond to changes in fashion trends and consumer preferences in a timely manner*:* KIL markets for products are characterised by rapidly changing consumer preferences and new product introductions. Its results of operations are dependent on its ability to anticipate such changes in consumer preferences and design new products or modify its existing products in line with changes in fashion trends as well as consumer demands and preferences. decline in demand for its products or a misjudgement on its part could, among other things, lead to lower sales, excess inventories and higher markdowns, each of which could have a material adverse effect on KIL's brand, reputation, results of operations and financial condition.

Operate in a highly competitive environment and may not be able to maintain market position*:* The footwear industry is highly competitive and KIL's results of operations and financial conditions are sensitive to, and may be materially and adversely affected by, competitive pricing and other factors. Competition may result in pricing pressures, reduced profit margins or lost market share or a failure to grow market share, any of which could substantially harm company's business and results of operations. Further, KIL also compete with online retailing business, which is highly competitive with companies selling a wide variety of products at different price points and they may be able to provide higher discounts to customers owning to lower infrastructure and personnel costs. In the event KIL is required to compete with e-retailers, specifically with respect to pricing, its margins from sale of its products may be adversely affected. Furthermore, its sales from e-retailing division are technology driven and any breakdown in its technical systems could adversely affect its revenues and profitability.

Any decline in the growth of distribution business and inability to sustain growth may adversely affect future prospects, financial condition and results of operations: KIL's distribution business has grown at a CAGR of 42.04% from fiscal 2015 to fiscal 2017. It has been tracking its distribution business as a separate business vertical since fiscal 2015 and has invested in this business by creating a dedicated team for this business vertical. Its distributors procure products from KIL on a purchase order basis and it do not have any long term arrangements with them. There can be no assurance that its distributors will continue to procure products from it in terms of volume and value or at all, in the absence of any contractual arrangements. KIL competitors may offer better rates, discounts and incentives for products similar to it, and it may not be able to compete at such price ranges. The above factors may adversely affect its future prospects, financial condition and results of operations.

Business is relatively concentrated in East India and may be affected by various factors associated with East India and may affect business, financial condition and results of operations: Although KIL's geographical footprint has reached 23 states and one union territory, its exclusive retail stores has historically been concentrated in East India. As at June 30, 2017 and March 31, 2017, 66.59% and 67.19%, respectively, of its exclusive retail stores catered to East India. This concentration of KIL's business in East India subjects it to various risks. While it strives to diversify across states and reduce concentration risk, there is no guarantee that the above factors associated with East India will not continue to have a significant impact on its business. If it is not able to mitigate this concentration risk, KIL may not be able to develop its business as planned, and its business, financial condition and results of operations could be materially and adversely affected.

May incur significant advertising and marketing costs to promote brand and sub-brands in the future: KIL's future success will be partially influenced by further development of its brand and sub-brands. Its ability to communicate effectively about the products to various target consumers through consistent and focused marketing and advertising initiatives. Insufficient investments in marketing and brand building could also erode or impede the development of its brand. Further, it cannot be assured that its marketing and advertising ventures will be successful and achieve their objectives or it may not be required to make further investments than anticipated. This could have an adverse effect on its prospects and growth.

KIL is also involved in the export of its products and institutional sales of its products*:* KIL's ability to continue to generate revenue and increase demand for its products outside of India significantly depends on its international customers. Changes in relationships with such international customers, non-adherence to product standards or other contractual breaches or irregularities may adversely affect its business. It cannot be assured that it will be able to retain or attract international customers who has the business abilities or financial resources necessary to develop and operate their businesses on schedule, or who will conduct operations in a manner consistent with its standards and requirements. Any inability to sustain such businesses, including due to reduced demand or change in public policy, may adversely affect its profitability, business and results of operations.

Exposed to foreign currency exchange rate fluctuations*:* KIL's financial statements are presented in Indian Rupees. However, its revenues and operating expenses and finance charges are influenced by the currencies of those countries where sell its products and import of raw materials. The exchange rate between the Indian Rupee and foreign currencies, primarily the U.S. dollar, has fluctuated in the past and its results of operations may be impacted by such fluctuations. While it seeks to hedge its foreign currency exchange risk by entering into forward exchange contracts, any amounts that KIL spends or invest in order to hedge the risks to its business due to fluctuations in currencies may not adequately hedge against any losses that it may incur due to such fluctuations.

May face product liability claims and legal proceedings if the quality of products does not meet customers' expectations*:* KIL's products may contain quality issues or undetected errors or defects, especially when first introduced or when new SKUs are developed, resulting from the design or manufacture of the product or raw materials used in the product. Additionally, a large portion of products sold through its retail business are manufactured by third party contract manufacturers. Further, it also provides warranty for three months primarily for manufacturing defects. It has from time to time, replaced or repaired such products. It cannot be assured that it will not experience any material product liability losses in the future or that it will not incur significant costs to defend any such claims. A product liability claim may adversely affect it reputation and brand image, as well as entail significant costs in excess of its available insurance coverage, which may adversely affect its reputation, business and financial condition.

Business is manpower intensive and a high proportion of its total staff comprises of employees on contract: KIL's business is manpower intensive and its continued growth depends in part on its ability to recruit and retain suitable staff. As it expand its network, it will need experienced manpower that has knowledge of the local market and the retail industry to operate its stores. Typically, the retail industry suffers from high attrition rates especially at the store level. There can be no assurance that attrition rates for its employees, particularly its sales personnel, will not increase. Further, an increase in costs to retain such employees could also adversely affect its financial condition.

Changing laws, rules and regulations and legal uncertainties, including adverse application of tax laws and regulations, may adversely affect the business and financial performance: KIL's business and financial performance could be adversely affected by changes in law, or interpretations of existing laws, rules and regulations, or the promulgation of new laws, rules and regulations in India, applicable to it and its business. The governmental and regulatory bodies in India and other jurisdictions where KIL operates may notify new regulations and/or policies, which may require it to obtain approvals and licenses from the government and other regulatory bodies, or impose onerous requirements and conditions on its operations, in addition to those which it is undertaking currently. Any such changes and the related uncertainties with respect to the implementation of new regulations may have a material adverse effect on its business, financial condition and results of operations.

Profit & Loss **Rs in million**

Particulars	Q1FY18	FY17	FY16	FY15
Revenue from Operations	1784.3	6212.5	5345.2	4601.6
Other Operating Income	0.0	0.0	0.0	0.0
Other Income	13.3	43.0	43.1	55.5
Total Income	1797.6	6255.5	5388.3	4657.0
Total Expenditure	1617.8	5554.8	4821.7	4464.2
Cost of raw material Consumed	329.9	1051.0	761.8	612.0
Purchase of Stock -in-trade	860.3	2783.0	2467.1	2548.5
Change in inventories of Finished goods	-119.1	-119.8	130.7	-36.9
Employee benefits expense	155.4	551.9	452.8	460.7
Other expenses	391.2	1288.7	1009.3	879.8
PBIDT	179.9	700.7	566.6	192.9
Interest	32.6	134.6	145.5	192.2
PBDT	147.3	566.1	421.1	0.7
Depreciation	38.9	159.0	162.9	191.8
PBT	108.4	407.1	258.2	-191.1
Tax (incl. DT & FBT)	37.3	99.5	5.8	-4.5
Tax	38.6	105.9	11.8	0.6
Deferred Tax	-1.3	-6.4	-6.0	-5.1
PAT	71.0	307.6	252.4	-186.6
EPS (Rs.)	4.11	17.8	14.6	-10.8
Equity	173.0	173.0	173.0	173.0
Face Value	10.0	10.0	10.0	10.0
OPM (%)	9.3	10.6	9.8	3.0
PATM (%)	4.0	5.0	4.7	-4.1

Balance Sheet: **Rs in million**

Particulars	As at 30 June2017	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**1922.6**	**1851.6**	**1544.0**	**1291.6**
Share Capital	173.0	173.0	173.0	173.0
Reserves and surplus	1749.6	1678.6	1371.0	1118.6
Non-Current Liabilities	**156.0**	**158.3**	**227.7**	**324.5**
Long-term borrowings	0.0	2.0	70.6	168.6
Deferred tax liabilities	56.5	57.7	64.1	70.2
Other long-term liabilities	94.6	92.5	88.0	77.5
Long-term provisions	4.9	6.1	5.1	8.3
Current Liabilities	**2795.0**	**2088.2**	**1751.2**	**1839.9**
Short-term borrowings	1367.3	1039.7	976.4	1050.5
Trade payables				
Total outstanding dues to micro enterprises and small enterprises	19.8	21.6	21.3	13.4
Total outstanding dues to creditors other than micro enterprises	1174.8	876.6	547.2	560.9
Other current liabilities	211.2	136.9	177.1	195.8

Short term provisions	21.9	13.4	29.3	19.3
Total Equity & Liabilities	**4873.6**	**4098.0**	**3523.0**	**3456.0**
Assets				
Fixed Assets	**1700.6**	**1658.3**	**1746.6**	**1778.7**
Tangible Assets	1355.97	1316.5	1420.4	1477.5
Intangible assets	14.1	13.9	14.6	11.3
Capital work in progress	28.8	31.5	8.6	5.2
Intangible assets under development	0.0	0.0	0.0	16.0
Non-current investments	0.0	0.0	0.5	0.5
Long-term loans and advances	290.3	285.0	291.1	259.3
Other non-current assets	11.5	11.5	11.5	9.0
Current Assets	**3173.0**	**2439.8**	**1776.4**	**1677.4**
Current Investments	27.8	0.0	10.5	0.0
Inventories	1320.8	1144.6	1009.0	1137.8
Trade receivables	923.6	771.7	348.6	240.9
Cash and bank balances	516.7	166.4	194.2	124.4
Short-term loans and advances	239.4	214.6	150.4	113.4
Other current assets	144.7	142.5	63.7	60.9
Total Assets	**4873.6**	**4098.0**	**3523.0**	**3456.0**

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