



## AJCON GLOBAL

### IPO note: Khadim India Ltd. - Taking giant strides..."SUBSCRIBE"

Incorporated on December 3, 1981 and through the next several years, they were involved in wholesaling and distribution of branded basic utility footwear, and they forayed into the retail business in 1993.

Khadim India Limited ("Khadim") is one of the leading Footwear Brands in India, with a two-pronged focus on Retail and Distribution of Footwear. Khadim is 2nd 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 3 players in South India, in fiscal 2016. Khadim also had the largest Footwear Retail Franchisee Network in India in fiscal 2016.

The Company's core business objective is 'Fashion for Everyone', and Khadim has established an identity as an 'affordable fashion' brand, catering to the entire family for all occasions. As at June 30, 2017, Khadim operated 853 'Khadim's' branded exclusive retail stores across 23 states and 1 union territory in India, respectively, through their retail business vertical. Further, they had a network of 377 distributors in the 3 month period ended June 30, 2017, in their distribution business vertical.

Khadim has manufacturing unit at Panpur and Kasba in West Bengal. Further, they also manufacture products through facilities located at Amgachia, West Bengal and Bahadurgarh, Haryana, for which raw material is supplied by Khadim, catering primarily to their Distribution Business. As at June 30, 2017, they procured raw materials, including PVC, leather, rubber, EVA, PU and other compounds from 33 major suppliers. Khadim has 4 distribution centers across India, located at Bantala and Titagarh in West Bengal, Chennai in Tamil Nadu and New Delhi.

The company operates through 2 distinct business verticals, Retail and Distribution, each with its predominantly own customer base, sale channels and product range. The Retail Business operates through their 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 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.

During fiscal year 2017, Khadim commenced the Institutional Business and supplied products directly to several institutions, including certain government departments in the states of West Bengal and Tamil Nadu.

As at June 30, 2017, Khadim operated 853 'Khadim's' branded exclusive retail stores which constitute their channels of sale, of which 168 are company owned and operated outlets ("COO") and 685 are franchisee operated stores (which are further categorized as exclusive branded outlets ("EBO"), branded outlets ("BO") and franchisee run and managed outlets ("FRM") across 23 States and 1 Union Territory in India.

Khadim had a network of 377 distributors in the 3 month period ended June 30, 2017, in their Distribution Business vertical

IPO note date	1 <sup>st</sup> November, 2017
Issue date	Nov. 2 – Nov. 6, 2017
Listing date	Nov. 14, 2017
Type of issue	Fresh issue: Rs. 500 mn Offer for sale: 6.57 mn equity shares
Face Value	Rs. 10
Price Band	Rs. 745 – Rs. 750
Issue allocation	QIB: 50% HNI: 15% Retail: 35%
Lot size	20 equity shares and in multiple thereof
Equity shares post issue	17.96 mn equity shares
Post issue market cap	Rs. 13.5 bn
Book Running Lead Managers	Axis Capital, IDFC Bank
Registrar to the issue	Link Intime India Pvt. Ltd.

Y/e 31 Mar (Rs. mn)	Q1FY18	FY17	FY16
Revenues	1,784	6,212	5,345
EBITDA	180	701	567
OPM (%)	10	11.3	10.6
PAT	71.05	308	252
PAT (%)	3.98	4.96	4.71
Share Capital	172.99	172.99	172.99
Networth	1,923	1,852	1,544
ROE (%)	-	16.6	16.3
Book value (Rs.)	111	107	89
Post IPO EPS (Rs.)#	-	17.1	14

Source: RHP, # EPS/NAV adjusted for Sub-division & bonus shares approved in Aug'2017. ^ not annualized

### Investment recommendation and rationale

At the upper end of the price band of Rs. 750, the IPO is valued at a P/E of 44x which is at a slight discount to peers in listed space like Bata and Relaxo Footwear at 50x. With due consideration to factors like a) a leading footwear brand offering affordable fashion across various price segments, b) strong design capabilities to maintain seasonal trends and leading premiumisation through sub brands, c) two – pronged market strategy that straddles efficiently across retail and distribution models, d) extensive geographical reach and penetration across East and South India, e) asset light model leading to higher operating leverage, f) scope for high growth and penetration in other markets, we recommend "SUBSCRIBE" to the issue.



## Objects of the issue

The Issue comprises of a Fresh Issue by the Company and an Offer for Sale by the Selling Shareholder.

### The Offer for Sale (OFS)

The proceeds of the Offer for Sale shall be received by the Selling Shareholder. The Company will not receive any proceeds from the Offer for Sale. The following are the selling shareholders:

- a) Siddhartha Roy Burman – 7,22,000 equity shares offered in OFS
- b) Fairwinds Trustees Services Pvt. Ltd., acting in its capacity as the trustee to Reliance Alternative Investments Fund – Private Equity Scheme – I - 5,852,093 equity shares offered in OFS

### The Fresh Issue

The Company proposes to utilise the Net Proceeds towards funding of the following objects:

1. Prepayment or scheduled repayment of all or a portion of term loans and working capital facilities availed by the Company
2. General Corporate Expenses

## Promoters' background

**Khadim India Limited ("Khadim")** was incorporated on December 3, 1981. Khadim is 2<sup>nd</sup> 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 3 players in South India, in fiscal 2016. Company's Corporate Promoter is Knightsville Private Limited.

**Siddhartha Roy Burman** is the Chairman and Managing Director of the company and is the individual Promoter. He is responsible for the overall strategic decision making of the company and provides leadership to all operations. He has been associated with the company since its incorporation and has 34 years of experience in the Footwear Industry.

**Vinayak V. Kamath** is a Non-Executive, Nominee Director of the company. He has 23 years of experience including 5 years in textiles, 6 years in information technology and services and 12 years in private equity and asset management.

**Namrata A. Chotrani** is a Non-Executive, Nominee Director of the company. She has total experience of over 9 years in Tax, Private Equity and Mergers

**Dr. Indra Nath Chatterjee** is a Non-Executive, Independent Director of the company. He has 42 years of experience working in MNC, Public Sector Undertakings, and Educational Institutions.

**Ashoke Kumar Dutta** is a Non-Executive, Independent Director of the company. He has over 40 years of experience in working in MNC, Public Sector Undertakings, Media Houses and Educational Institutions.

**Prof. (Dr.) Surabhi Banerjee** is a Non-Executive, Independent Director of the company. She has 37 years of experience as an academician.

**Ishani Ray** is the Chief Financial Officer of the company. She has an experience of more than 25 years in Finance and Accounts, Taxation, Audit and Investor Relations

## Business Model

### Retail Business

Brand / Sub-Brand	Description
Khadim's	Fashionable, casual footwear, for value conscious customers, for men, women and children.



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<b>British Walker</b>	Formal shoes and sandals for men. Features - basic colours of black/ brown, plain uppers, broad construction. Uses premium quality leather.
<b>Lazard</b>	Semi-formal and Casual shoes and sandals for men. Features - colours, fancy uppers, slim construction. Uses premium quality leather and faux leather.
<b>Turk</b>	Outdoor boots and sandals for men. Features - shades of brown and rugged sole. Uses premium quality faux leather.
<b>Cleo</b>	Light and trendy sandals for women. Features - delicate upper/back straps, embellishments and laser-cut uppers, slim heels. Uses premium quality faux leather.
<b>Sharon</b>	Fashionable yet functional sandals for women. Features - broad upper/back straps, clean lines and uppers, wide heels. Uses premium quality faux leather.
<b>Softtouch</b>	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.
<b>Pro</b>	Sports and activity sneakers & floater sandals for men and women. Features – wide range of colours and designs, mesh, synthetic and canvas uppers.
<b>Bonito</b>	A range of fun and colourful shoes for toddlers and children.
<b>Adrianna</b>	Comfortable and fashionable footwear for pre-teen and teenage girls.

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### Distribution Business

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Footwear	Description
<b>EVA</b>	Ethylene vinyl acetate is a type of co-polymer which is widely used in making Injected Footwear. Khadim prepares compounds using EVA as base material with additives, through mixing /granule process. By putting such compound through the injection moulding machine, they produce footwear, which is referred to as the injected EVA manufacturing process.
<b>Hawai</b>	Hawai is type of footwear made through the process of mixing, using various kind of material like rubber, EVA , plasticizers, fillers and vulcanizing agent which is Processed through compressed moulding system for making foamed sheets and cut into pairs fitted with straps to make complete slipper.
<b>Injected PVC</b>	Poly vinyl chloride is a co-polymer, used for making PVC footwear. PVC is widely used as base material with combination of plasticizers and stabilizers through the mixing process. By putting it through the injection moulding machine we produce footwear, which is referred to as the Injected PVC manufacturing process.
<b>PU</b>	Polyurethane is a liquid co-polymer, which is used for making footwear through injection and pouring process and moulded with fabricated uppers.
<b>PVC DIP</b>	Direct injection process is a process where the PVC compound is injected by a machine fitted with upper in the end, making a complete shoe through the direct injection system.
<b>STRUCK ON</b>	This process is mainly used for making Hi-profile leather and sports shoes, where the readymade upper and sole is fitted by applying adhesive for strong bonding between sole and upper, which is passed through an assembling line and chilling process to make a complete shoe.

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