

Delay in price hike impacted margins

Khadim's Q2FY19 revenues beat our estimates, but EBITDA and APAT came below our estimate. The revenue growth in retail business was at 7% - below the company's target of 10-14% primarily due to – (1) decline in footfalls (25-30% decline in H1FY19) (2) de-growth in SSSG at 2% and (3) delay in price hikes. The distribution business posted 32% sales growth but GM were impacted due to significant delay in price pass on. The company gained institutional contract from UP government worth ₹ 350mn which helped the top-line to grow. Going ahead, we believe that the company would regain its lost momentum with (1) Penetration into new geographies (2) Increasing distribution reach (3) Incremental spends on brand building and (4) New launches. In addition, margins would improve slowly with softening crude oil prices and price hike plans in Q3FY19E. In a long run Khadim's sales growth would remain strong vs peers, mainly due to lower penetration, increasing reach, better economic offerings and ongoing store additions. However, in the ensuing quarters, the company would have to battle against a very strong base and increased competition. Consequently, we have revised FY19E and FY20E estimates downward to ₹ 21.3 and ₹ 30.2 to factor in Q2 performance. Valuing Khadim at 28x FY20E EPS (35% discount to BATA) to arrive at a TP of ₹ 846. Maintain Buy.

Results Below Estimates

Revenue increased by 30.7% YoY to ₹ 2,264mn. GM contracted 390bps to 38.0%. A 140bps decline in employee cost was completely offset by 390/140bps increase in RM/ other expenses. Consequently, EBITDA margin fell by 390bps to 8.3%. EBITDA decreased 11.1% YoY to ₹ 187mn and APAT fell 24.7% YoY to ₹ 86mn – came below estimates.

Impacted as Bata regaining lost momentum – Survey highlight

Retail business delivered mere 7% growth with 2% SSS de-growth. In our recent survey report we highlighted that Bata has gained momentum against Khadim across India. This was mainly due to its new launches and advertising campaigns. We believe that Khadim would continue to witness steep competition during the festive season. We believe that the discount offers are most important for Khadim which help increase footfalls. Consequently, we believe that the retail business would revamp post festive season when the company can offer better discounts vs peers.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	2,264	1,732	30.7	1,896	19.4
Total Expense	2,077	1,521	36.5	1,730	20.0
EBITDA	187	211	(11.1)	166	12.8
Depreciation	47	39	19.2	43	7.7
EBIT	141	172	(18.0)	123	14.6
Other Income	21	46	(53.4)	15	41.4
Interest	29	39	(25.7)	23	27.3
EBT	132	178	(18.0)	114	15.7
Tax	47	64	(26.8)	41	14.9
RPAT	85	114	(25.2)	73	16.1
APAT	86	114	(24.7)	74	15.9
			(bps)		(bps)
Gross Margin (%)	38.0	41.9	(392)	39.8	(183)
EBITDA Margin (%)	8.3	12.2	(390)	8.8	(49)
NPM (%)	3.8	6.6	(282)	3.9	(11)
Tax Rate (%)	35.6	36.1	(48)	35.8	(24)
EBIT Margin (%)	6.2	9.9	(370)	6.5	(26)

CMP	₹ 590
Target / Upside	₹ 846 / 43%
BSE Sensex	34,951
NSE Nifty	10,524

Scrip Details

Equity / FV	₹ 180mn / ₹ 10
Market Cap	₹ 11bn
	US\$ 145mn
52-week High/Low	₹ 863/₹ 570
Avg. Volume (no)	10,896
NSE Symbol	KHADIM
Bloomberg Code	KHDM IN

Shareholding Pattern Sep'18(%)

Promoters	59.7
MF/Banks/FIs	24.8
FIIIs	5.6
Public / Others	9.9

Valuation (x)

	FY18A	FY19E	FY20E
P/E	28.0	27.8	19.5
EV/EBITDA	14.7	14.0	10.3
ROE (%)	16.6	13.3	16.4
RoACE (%)	12.5	11.1	13.8

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	7,487	8,651	10,019
EBITDA	757	767	1,021
PAT	376	382	543
EPS (₹)	21.1	21.3	30.2

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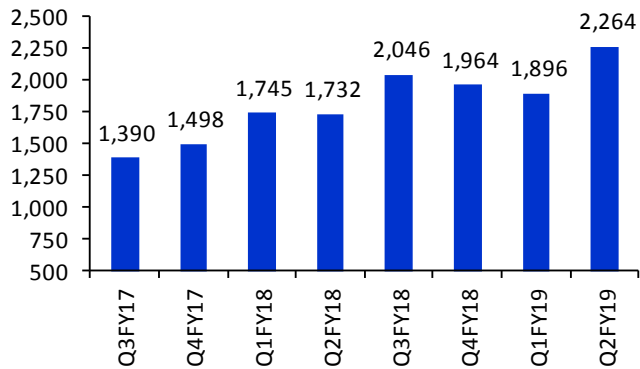
Exhibit 1: Change in estimate

₹ Mn	FY19E			FY20E		
	New	Previous	Change (%)	New	Previous	Change (%)
Revenue	8,651	8,449	2.4	10,019	9,702	3.3
EBITDA	767	865	(11.4)	1,021	1,054	(3.1)
EBITDA Margin (%)	8.9	10.2	(140)	10.2	10.9	(70)
PAT	382	449	(14.9)	543	565	(3.9)
EPS	21.3	25.0	(14.9)	30.2	31.4	(3.9)

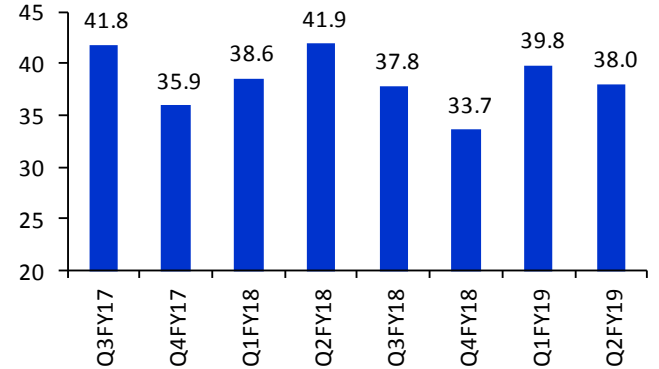
Source: DART, Company

Concall Highlights

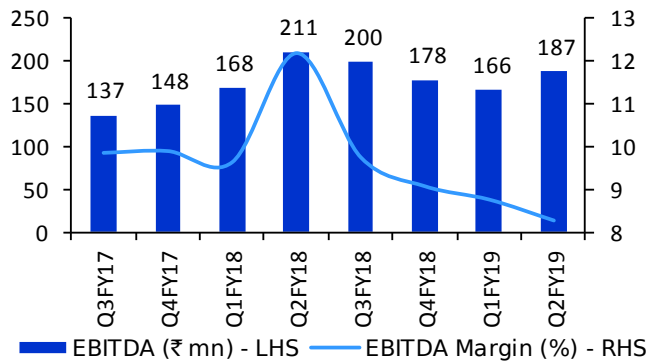
- Khadim added 19 new retail and 24 new distributors during the quarter to take the total count to 785 outlets and 509 distributors.
- Retail increased 7%YoY to ₹ 1,442mn while Distribution increased 32% YoY to ₹ 509mn. Retail constituted 62% while Distribution accounted for 22% of the business.
- Decline in Distribution Gross margin from 41.5% to 32.2% was due to increase in crude oil and currency depreciation. Change in mix also resulted in gross margin decline.
- Despite RM inflation in Q2, company did not take price hike due to competitive pressure. However, the competitors have already taken price hike in early November, Khadim will follow suit.
- Footfalls in H1 declined 25-30% YoY in COCO as well as EBO's.
- Advertising spends in Q2FY19 stood at ₹ 99mn compared to ₹ 55mn in Q1FY19.
- Company is witnessing strong growth in West (12-13%) but sluggish growth in East and South.
- COCO grew merely 5% while Franchise grew 10% during the quarter mainly due to shift of festive season.
- Expected price hikes, softening of crude oil prices and currency appreciation is likely to expand margins sequentially.
- Inventory stood at ₹ 1,975mn in September'18. Company plans to bring this down to ~₹ 1300mn by March'19.
- GM before discount for COCO was 56%, after discount it is 52.5%. Institutional Gross margin stands at 10-15%.
- Company targets top-line growth of 15-16% in FY19E and EBITDA margin of ~10%

Exhibit 2: Revenue Trend (₹ mn)


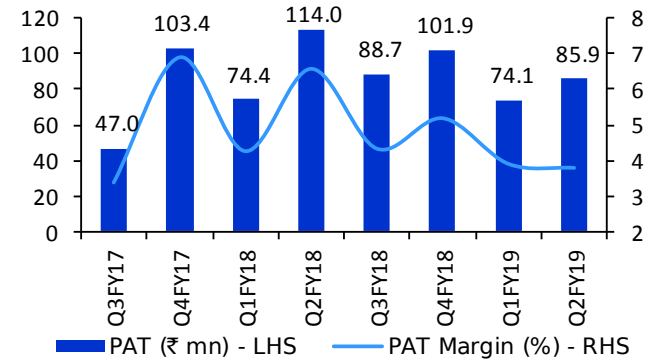
Source: DART, Company

Exhibit 3: Gross Margin Trend (%)


Source: DART, Company

Exhibit 4: EBITDA Trend


Source: DART, Company

Exhibit 5: PAT Trend


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	6,106	7,487	8,651	10,019
Total Expense	5,461	6,730	7,884	8,998
COGS	3,715	4,653	5,438	6,192
Employees Cost	552	652	777	879
Other expenses	1,194	1,425	1,669	1,928
EBIDTA	645	757	767	1,021
Depreciation	157	156	173	194
EBIT	489	601	593	828
Interest	135	124	102	110
Other Income	51	93	75	87
Exc. / E.O. items	0	(3)	0	0
EBT	405	567	566	804
Tax	99	191	184	261
RPAT	306	376	382	543
APAT	306	379	382	543

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	173	180	180	180
Reserves & Surplus	1,666	2,505	2,869	3,387
Net Worth	1,839	2,685	3,049	3,567
Total Debt	1,091	684	684	684
Net Deferred Tax Liability	20	47	47	47
Total Capital Employed	2,951	3,416	3,780	4,298

Applications of Funds

Net Block	1,206	1,258	1,349	1,445
CWIP	32	14	14	14
Investments	0	0	0	0
Current Assets, Loans & Advances	2,940	3,687	4,166	4,848
Inventories	1,145	1,267	1,409	1,605
Receivables	772	1,267	1,107	1,282
Cash and Bank Balances	115	156	550	767
Loans and Advances	540	494	598	692
Other Current Assets	368	503	503	503
Less: Current Liabilities & Provisions	1,227	1,544	1,749	2,010
Payables	898	1,295	1,282	1,459
Other Current Liabilities	329	249	468	550
Net Current Assets	1,713	2,143	2,417	2,839
Total Assets	2,951	3,416	3,780	4,298

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	39.2	37.9	37.1	38.2
EBIDTA Margin	10.6	10.1	8.9	10.2
EBIT Margin	8.0	8.0	6.9	8.3
Tax rate	24.4	33.6	32.5	32.5
Net Profit Margin	5.0	5.0	4.4	5.4
(B) As Percentage of Net Sales (%)				
COGS	60.8	62.1	62.9	61.8
Employee	9.0	8.7	9.0	8.8
Other	19.6	19.0	19.3	19.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.3	0.2	0.2
Interest Coverage	3.6	4.9	5.8	7.5
Inventory days	68	62	59	58
Debtors days	46	62	47	47
Average Cost of Debt	12.0	13.9	14.9	16.1
Payable days	54	63	54	53
Working Capital days	102	104	102	103
FA T/O	5.1	6.0	6.4	6.9
(D) Measures of Investment				
AEPS (₹)	17.1	21.1	21.3	30.2
CEPS (₹)	25.8	29.8	30.9	41.0
DPS (₹)	0.0	0.0	1.0	1.4
Dividend Payout (%)	0.0	0.0	4.7	4.7
BVPS (₹)	102.3	149.4	169.7	198.5
RoANW (%)	18.1	16.6	13.3	16.4
RoACE (%)	13.0	12.5	11.1	13.8
RoAIC (%)	18.1	19.7	18.3	24.5
(E) Valuation Ratios				
CMP (₹)	590	590	590	590
P/E	34.6	28.0	27.8	19.5
Mcap (₹ Mn)	10,609	10,609	10,609	10,609
MCap/ Sales	5.8	4.0	3.5	3.0
EV	11,586	11,137	10,744	10,527
EV/Sales	1.9	1.5	1.2	1.1
EV/EBITDA	18.0	14.7	14.0	10.3
P/BV	5.8	4.0	3.5	3.0
Dividend Yield (%)	0.0	0.0	0.2	0.2
(F) Growth Rate (%)				
Revenue	14.2	22.6	15.5	15.8
EBITDA	23.3	17.3	1.3	33.2
EBIT	35.6	22.9	(1.2)	39.5
PBT	54.3	39.8	(0.1)	42.0
APAT	21.4	23.7	0.9	42.0
EPS	21.4	23.7	0.9	42.0

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	309	146	676	532
CFI	(165)	(85)	(264)	(290)
CFF	(224)	(21)	(18)	(26)
FCFF	132	(60)	412	242
Opening Cash	194	115	156	550
Closing Cash	115	156	550	767

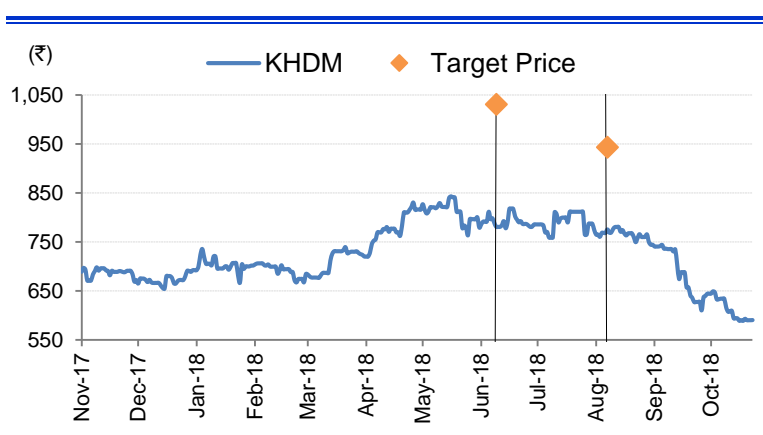
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Jun-18	Buy	1,031	780
Aug-18	Buy	943	775

*Price as on Recommendation Date

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