

Delay in price hike impacted margins

Khadim's results came below our estimate at all levels. The revenue growth in retail business was at 1.6% - below the company's target of 10-14% primarily due to – (1) 7% decline in footfalls (2) deceleration in SSSG and (3) no price hikes during the quarter. The distribution business posted mere 3% sales growth due to low brand visibility. The company did not gain any institutional contract during the quarter, also resulted in overall decline in sales. Going ahead, the company plans to regain its lost momentum with (1) increase in penetration (2) higher distribution reach (3) Incremental spends on brand building and (4) New launches. In addition, margins would improve slowly with softening crude oil prices and high price new launches in the ensuing quarters. In addition, increase in SSSG to 5-7% and acceleration in distribution business to +20% is likely to increase operating leverage for the company. In the 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. Valuing Khadim at 23x FY21E EPS (50% discount to BATA) to arrive at a TP of ₹ 692. Maintain Buy.

Results Below Estimates

Revenue declined 13.8% YoY to ₹ 1,765mn. Gross margin expanded 360bps to 41.4% mainly due to absence of low margin institutional sales. Decline in RM costs was completely offset by 220/410bps increase in employee costs/other expenses respectively. Consequently, EBITDA margin fell by 280bps to 7.0%. EBITDA decreased 38.4% YoY to ₹ 123mn- came below our estimates. APAT fell 55.3% YoY to ₹ 40mn.

Khadim impacted as Bata regaining lost momentum – Survey highlight

Retail business delivered mere 2% growth with flat SSSG. 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 witnessed steep competition during the festive season. We also believe that the discount offers are most important for Khadim which help increase footfalls. Consequently, in Q4, with end of festive season, Khadim would report improvement compared to Q3.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	1,765	2,046	(13.8)	2,264	(22.1)
Total Expense	1,642	1,847	(11.1)	2,077	(20.9)
EBITDA	123	200	(38.4)	187	(34.5)
Depreciation	48	39	22.9	47	2.4
EBIT	75	161	(53.3)	141	(46.8)
Other Income	18	10	79.4	21	(14.1)
Interest	31	33	(7.7)	29	6.1
EBT	62	137	(53.3)	132	(53.4)
Tax	23	49	(53.3)	47	(51.8)
RPAT	39	89	(56.1)	85	(54.2)
APAT	40	89	(55.3)	86	(53.8)
			(bps)		(bps)
Gross Margin (%)	41.4	37.8	357	38.0	337
EBITDA Margin (%)	7.0	9.7	(279)	8.3	(132)
NPM (%)	2.2	4.3	(213)	3.8	(155)
Tax Rate (%)	36.8	35.4	142	35.6	122
EBIT Margin (%)	4.2	7.8	(360)	6.2	(197)

CMP	₹ 378
Target / Upside	₹ 692 / 83%
BSE Sensex	36,395
NSE Nifty	10,889

Scrip Details

Equity / FV	₹ 180mn / ₹ 10
Market Cap	₹ 7bn
	US\$ 95mn
52-week High/Low	₹ 863/₹ 371
Avg. Volume (no)	9,012
NSE Symbol	KHADIM
Bloomberg Code	KHDM IN

Shareholding Pattern Dec'18(%)

Promoters	59.7
MF/Banks/FIs	28.5
FII's	5.5
Public / Others	6.3

Valuation (x)

	FY19E	FY20E	FY21E
P/E	20.6	14.2	12.6
EV/EBITDA	9.9	7.2	6.2
ROE (%)	11.6	14.9	14.6
RoACE (%)	12.1	14.9	14.9

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	8,238	9,540	10,712
EBITDA	692	932	1,042
PAT	330	479	540
EPS (₹)	18.3	26.7	30.1

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Exhibit 1: Change in estimate

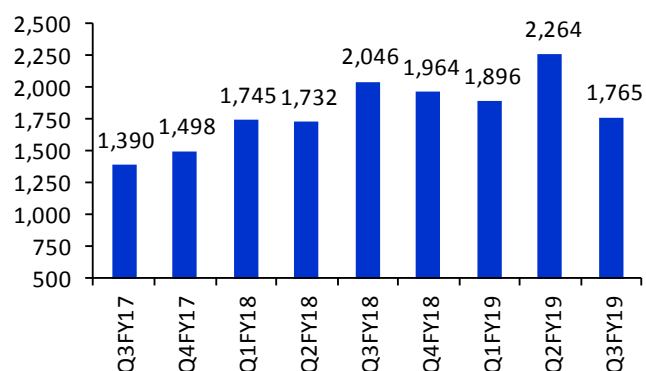
₹ Mn	FY19E			FY20E		
	New	Previous	Change (%)	New	Previous	Change (%)
Revenue	8,238	8,651	(4.8)	9,540	10,019	(4.8)
EBITDA	692	767	(9.7)	932	1,021	(8.8)
EBITDA Margin (%)	8.4	8.9	(50)	9.8	10.2	(40)
PAT	330	382	(13.8)	479	543	(11.7)
EPS	18.3	21.3	(13.8)	26.7	30.2	(11.7)

Source: DART, Company

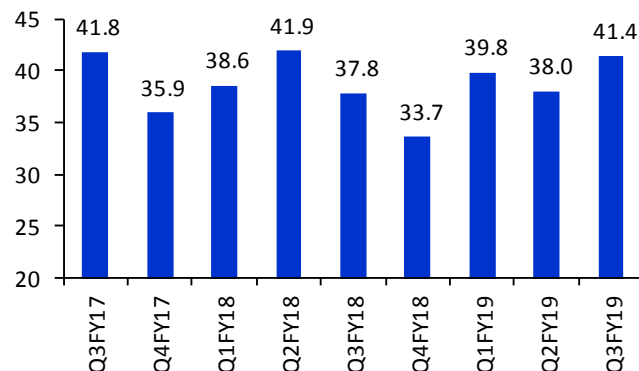
We have revised our FY19E revenue, EBITDA and APAT estimates to factor in Q3 performance. However, we believe that Q4 performance would be significantly better compared to Q3 as the company has witnessed improved growth in distribution channel and institutional business in the first part of Q4. We have revised our FY20E revenue and EPS estimates downwards to factor in increased competition and poor business environment compared to earlier. We have introduced FY21E EPS at ₹ 30.1.

Concall Highlights

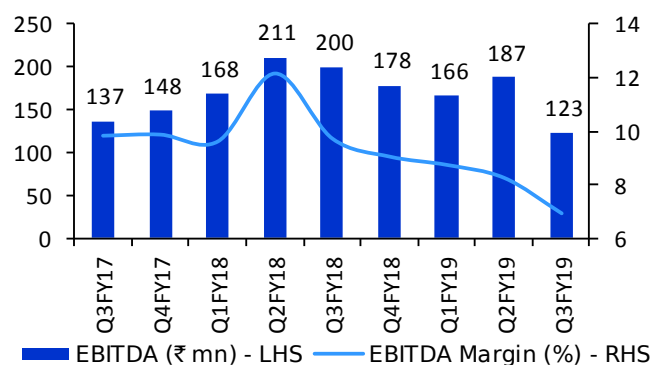
- Khadim added 9 new retail stores and 19 distributors in the quarter to take total count to 794 retail stores and 528 distributors.
- No institutional sales in Q3FY19 vs ₹ 330mn in Q3FY18. Company is eyeing ₹ 300mn institutional sales in Q4.
- Gross margin improvement was mainly due to absence of institutional sales during Q3.
- Company will be taking steps to increase media spend in FY20. In Q4FY19, company initiated localized store-based marketing activities, which are generating improvement in footfalls.
- Khadim did not take a price hike in Q3FY19 due to competitive pressure and do not foresee a price hike in Q4FY19 as well. Margins are expected to improve due to operational leverage, softening of crude oil and USD rate.
- Company expects 60 net store additions by FY19E (current ~45). Of this, 20-22 would be COCO stores (3 -4 in East Region). Remaining 40 new stores would be franchise stores (20-25% in East).
- SSG growth was 8.29% in **COCO** stores for Q3FY19. For 9MFY19, SSG was 0.73% in COCO.
- SSG growth in **Franchise** was 6% for Q3FY19 and flat on 9M basis.
- Conversion has increased from 40% to 42%, up 200bps.
- COCO sales grew 14% while EBO de-grew 18%, overall retail sales grew 1.6%.
- Khadim expects ~20% growth in Distribution business for FY19E with 20%+ growth in Q4. EBITDA margin in distribution business would improve to ~6-6.5% for Q4.

Exhibit 2: Revenue Trend (₹ mn)


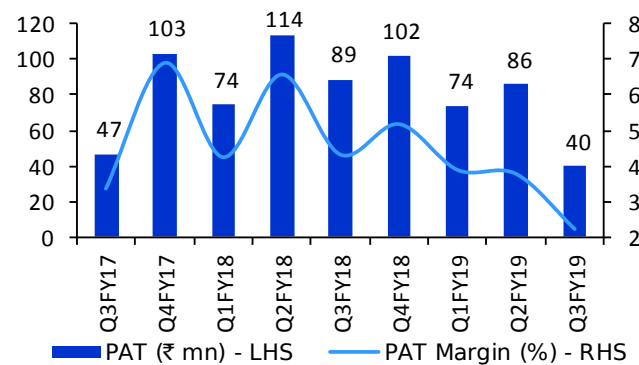
Source: DART, Company

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)	FY18A	FY19E	FY20E	FY21E
Revenue	7,487	8,238	9,540	10,712
Total Expense	6,730	7,546	8,608	9,670
COGS	4,653	5,019	5,708	6,415
Employees Cost	652	749	846	953
Other expenses	1,425	1,779	2,055	2,302
EBIDTA	757	692	932	1,042
Depreciation	156	174	194	216
EBIT	601	519	738	826
Interest	124	102	110	119
Other Income	93	71	83	93
Exc. / E.O. items	(3)	0	0	0
EBT	567	488	710	800
Tax	191	158	230	260
RPAT	376	330	479	540
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	379	330	479	540

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	180	180	180	180
Minority Interest	0	0	0	0
Reserves & Surplus	2,505	2,817	3,270	3,781
Net Worth	2,685	2,996	3,450	3,961
Total Debt	684	684	684	684
Net Deferred Tax Liability	47	47	47	47
Total Capital Employed	3,416	3,727	4,181	4,692

Applications of Funds

Net Block	1,258	1,351	1,450	1,552
CWIP	14	14	14	14
Investments	0	0	0	0
Current Assets, Loans & Advances	3,687	4,033	4,635	5,267
Inventories	1,267	1,300	1,479	1,662
Receivables	1,267	1,054	1,220	1,370
Cash and Bank Balances	156	606	774	991
Loans and Advances	494	569	659	740
Other Current Assets	503	503	503	503
Less: Current Liabilities & Provisions	1,544	1,671	1,918	2,141
Payables	1,295	1,183	1,345	1,512
Other Current Liabilities	249	488	573	630
Net Current Assets	2,143	2,362	2,717	3,126
Total Assets	3,416	3,727	4,181	4,692

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	37.9	39.1	40.2	40.1
EBIDTA Margin	10.1	8.4	9.8	9.7
EBIT Margin	8.0	6.3	7.7	7.7
Tax rate	33.6	32.5	32.5	32.5
Net Profit Margin	5.0	4.0	5.0	5.0
(B) As Percentage of Net Sales (%)				
COGS	62.1	60.9	59.8	59.9
Employee	8.7	9.1	8.9	8.9
Other	19.0	21.6	21.5	21.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.2	0.2	0.2
Interest Coverage	4.9	5.1	6.7	7.0
Inventory days	62	58	57	57
Debtors days	62	47	47	47
Average Cost of Debt	13.9	14.9	16.1	17.3
Payable days	63	52	51	52
Working Capital days	104	105	104	107
FA T/O	6.0	6.1	6.6	6.9
(D) Measures of Investment				
AEPS (₹)	21.1	18.3	26.7	30.1
CEPS (₹)	29.8	28.0	37.5	42.1
DPS (₹)	0.0	1.0	1.5	1.6
Dividend Payout (%)	0.0	5.4	5.4	5.4
BVPS (₹)	149.4	166.7	192.0	220.4
RoANW (%)	16.6	11.6	14.9	14.6
RoACE (%)	15.8	12.1	14.9	14.9
RoAIC (%)	19.7	16.3	22.6	23.2
(E) Valuation Ratios				
CMP (₹)	378	378	378	378
P/E	17.9	20.6	14.2	12.6
Mcap (₹ Mn)	6,787	6,787	6,787	6,787
MCap/ Sales	0.9	0.8	0.7	0.6
EV	7,315	6,865	6,698	6,480
EV/Sales	1.0	0.8	0.7	0.6
EV/EBITDA	9.7	9.9	7.2	6.2
P/BV	2.5	2.3	2.0	1.7
Dividend Yield (%)	0.0	0.3	0.4	0.4
(F) Growth Rate (%)				
Revenue	22.6	10.0	15.8	12.3
EBITDA	17.3	(8.5)	34.6	11.9
EBIT	22.9	(13.6)	42.2	12.0
PBT	39.8	(13.9)	45.5	12.7
APAT	23.7	(13.0)	45.5	12.7
EPS	23.7	(13.0)	45.5	12.7

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	146	735	486	566
CFI	(85)	(267)	(293)	(319)
CFF	(21)	(18)	(26)	(29)
FCFF	(60)	468	194	247
Opening Cash	115	156	606	774
Closing Cash	156	606	774	991

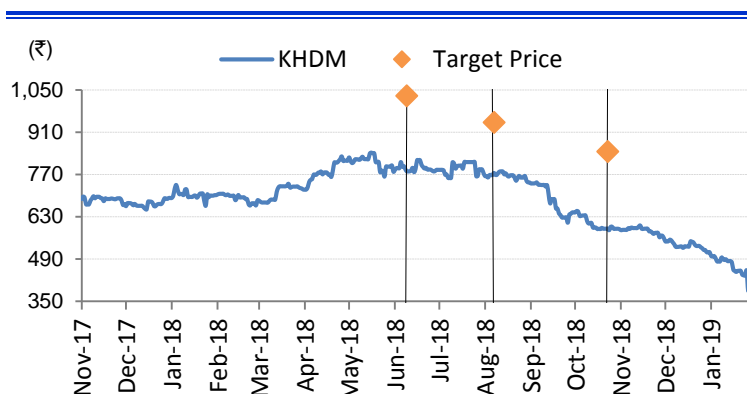
E – Estimates

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
Nov-18	Buy	846	590

*Price as on recommendation date

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