

No signs of recovery

Khadim's results were below our estimate in Q4FY19. The revenue grew 5.2% - below the management expectation, due to (1) 4% decline in retail business (2) a deceleration in SSSG, and (3) absence of price hikes in the quarter. COCO stores SSG stood at +2.5% while franchise business exhibited -5% de-growth in Q4FY19 due to decline in footfalls. We have reduced our EPS estimates from ₹26.7 and ₹30.1 for FY20E and FY21E, to ₹14.6 and ₹17.2, respectively. We believe the company will take more time to recover from the deceleration in volume growth. Consequently, we have downgraded the stock to Sell, with a TP of ₹ 343 (20x FY21E).

Revenue from Retail business declined 4% YoY in Q4FY19, which was a disappointing performance. Going ahead, the company plans to regain lost momentum with: (1) an increase in penetration, (2) a better distribution reach, and (3) incremental spends on brand building. The company plans to increase A&P spends to ₹450mn (versus ₹120mn in FY18), which will further deteriorate margins. The continuous pressure on working capital, high debt, and rise in receivables, due to ongoing institutional contracts, make the stock the least attractive among peers.

Results below estimates

Revenue rose 5.2% YoY to ₹ 2,067mn in Q4FY19, below our estimate of ₹ 2.2bn. Gross margin fell 70bps to 33.0%, due to a rise in RM prices, currency fluctuations, and insufficient price pass on. The higher RM costs, coupled with a 400bps increase in other expense, contracted EBITDA margin by 460bps to 4.5%. The EBITDA declined 47.9% YoY to ₹ 93mn. The APAT fell 88.2% YoY to ₹ 12mn, significantly below our estimate of ₹ 110mn.

Khadim impacted as Bata reports strong momentum – Survey highlight

The retail (COCO) business grew mere 2.5%. 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 Khadim continues to witness strong competition from peers, and the discount offers are more important for it than peers in helping increase footfalls. The company's plans to reduce discounts is most likely to pressurize volumes in the future.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	2,067	1,964	5.2	1,765	17.1
Total Expense	1,974	1,785	10.5	1,642	20.2
EBITDA	93	178	(47.9)	123	(24.3)
Depreciation	46	40	16.8	48	(3.3)
EBIT	47	139	(66.4)	75	(37.8)
Other Income	9	21	(57.9)	18	(52.3)
Interest	34	19	81.3	31	9.4
EBT	18	141	(66.4)	62	(70.8)
Tax	10	39	(75.3)	23	(57.8)
RPAT	12	102	(88.2)	40	(69.7)
APAT	12	102	(88.2)	40	(69.7)
			(bps)		(bps)
Gross Margin (%)	33.0	33.7	(67)	41.4	(839)
EBITDA Margin (%)	4.5	9.1	(458)	7.0	(246)
NPM (%)	0.4	5.2	(480)	2.2	(180)
Tax Rate (%)	53.3	27.5	2577	36.8	1643
EBIT Margin (%)	2.3	7.1	(480)	4.2	(199)

CMP	₹ 353
Target / Downside	₹ 343 / 3%
BSE Sensex	39,185
NSE Nifty	11,738

Scrip Details

Equity / FV	₹ 180mn / ₹ 10
Market Cap	₹ 6bn
	US\$ 91mn
52-week High/Low	₹ 863/₹ 331
Avg. Volume (no)	24,059
NSE Symbol	KHADIM
Bloomberg Code	KHDM IN

Shareholding Pattern Mar'19(%)

Promoters	59.7
MF/Banks/FIs	30.7
FII	2.8
Public / Others	6.9

Valuation (x)

	FY19A	FY20E	FY21E
P/E	29.9	24.1	20.6
EV/EBITDA	12.9	10.0	8.9
ROE (%)	7.6	8.8	9.5
RoACE (%)	8.8	10.2	10.9

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	7,992	9,094	10,292
EBITDA	569	702	800
PAT	212	263	308
EPS (₹)	11.8	14.6	17.2

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Exhibit 1: Change in estimate

₹ Mn	FY20E			FY21E		
	New	Previous	Change (%)	New	Previous	Change (%)
Revenue	9,094	9,540	(4.7)	10,292	10,712	(3.9)
EBITDA	702	932	(24.7)	800	1,042	(23.2)
EBITDA Margin (%)	7.7	9.8	(200)	7.8	9.7	(200)
PAT	263	479	(45.1)	308	540	(42.9)
EPS	14.6	26.7	(45.1)	17.2	30.1	(42.9)

Source: DART, Company

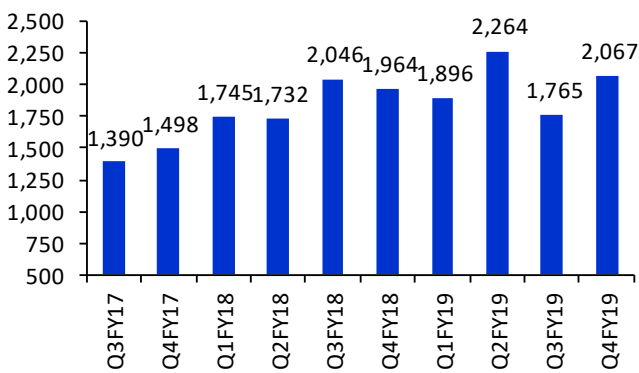
We have revised our FY20E and FY21E revenue estimates to factor in subdued performance and increased competition. In addition, we have assumed lower margins for the company as the A&P spends are expected to increase post celebrity endorsement. We believe that the decline in discounts would have negative impact on volume performance going ahead.

Concall Highlights

- Khadim added net 25 Franchise stores (to 595) and 21 COCO stores (to 204) during FY19 to bring the total to 799 retail stores. Five new COCO stores were added during Q4FY19.
- As per the management, inventory days in FY19 increased from 60 in FY18 to 69 days in FY19, as sales were muted in Sep-Oct'18. The company took initiatives to bring down inventory levels to 69 days, from 76 days (Sep'18) and expects to further lower it to 65 days.
- The SSG growth in COCO was +2.5% in Q4FY19. The EBO (Franchise) showed de-growth of 5% in Q4.
- During FY19, retail volume declined ~5% to 11.8mn, while distribution business volume grew 20% to 26.4mn.
- The increase in debt was due to a rise in working capital. The company expects debt ~ ₹ 0.9-1bn going ahead.
- ASP spends increased from ₹ 120mn in FY18 to ₹ 450mn in FY19, as the company has roped in celebrities to increase brand visibility. Consequently, discounts, which was more of marketing activity, will be reduced from ₹ 600mn to ₹ 300mn.
- The distribution business gross margin fell 6-7%, however retail gross margin improved 75bps in FY19. Distribution margins are expected to improve in FY20, with stable raw material prices and currency fluctuations.
- The sequential drop in gross margin in distribution business was due to transition to IND-AS. On like to like basis, distribution gross margin was 32.1% in Q4FY19, vs 33% in Q3FY19.
- The COCO sales stood at ₹ 790mn in Q4FY19 vs ₹ 710mn in Q4FY18 (+11%). Franchise sales stood at ₹ 420mn in Q4FY19 vs ₹ 550mn in Q4FY18 (-23%).
- Footfalls in May'19 were impacted in the East (largest market for Khadim) due to cyclone in Orissa, elections, political disturbance in West Bengal.
- First fifteen days of April is discount season in East during which footfalls improved in April'19 in Franchise business.
- 60-65% of Franchise business comes from top 150 EBO's.

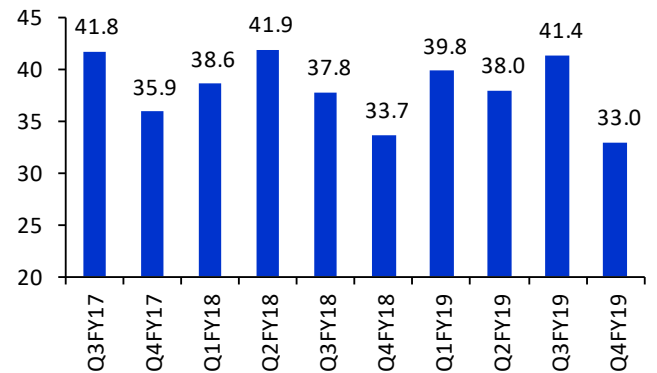
- Women's and Kids segment contributes 33% and 13% to topline respectively. Retail business ASP increased from ₹ 442 in FY18 to ₹ 461 in FY19.
- Average price increase in the retail business is 3.5-4% every year. The company did not take pricing action in the distribution business in FY19.
- The management targets 20-22% topline growth from the distribution business and a 13-14% overall topline growth (retail + distribution) for FY20E.
- The institutional sales in Q4FY19 was ` 300mn, with gross profit margin of 17-18%.

Exhibit 2: Revenue Trend (₹ mn)



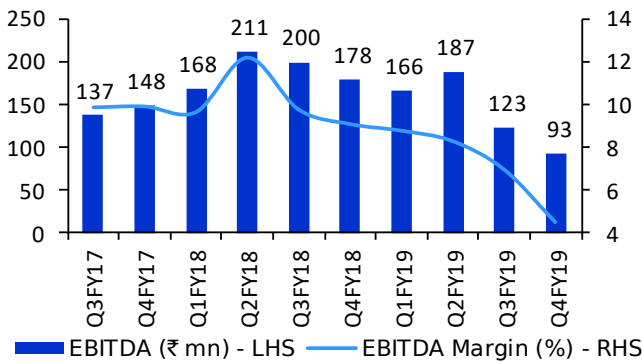
Source: DART, Company

Exhibit 3: Gross Margin Trend (%)



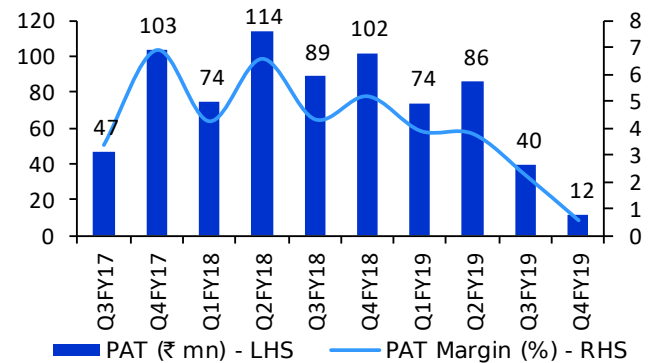
Source: DART, Company

Exhibit 4: EBITDA Trend



Source: DART, Company

Exhibit 5: PAT Trend



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	7,487	7,992	9,094	10,292
Total Expense	6,730	7,422	8,392	9,492
COGS	4,653	4,965	5,549	6,268
Employees Cost	652	721	776	853
Other expenses	1,425	1,737	2,068	2,371
EBIDTA	757	569	702	800
Depreciation	156	184	205	229
EBIT	601	385	497	571
Interest	124	116	156	169
Other Income	93	63	72	82
Exc. / E.O. items	(3)	0	0	0
EBT	567	332	413	484
Tax	191	120	150	175
RPAT	376	212	263	308
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	379	212	263	308

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	180	180	180	180
Minority Interest	0	0	0	0
Reserves & Surplus	2,505	2,697	2,938	3,220
Net Worth	2,685	2,877	3,117	3,400
Total Debt	684	1,090	1,090	1,090
Net Deferred Tax Liability	47	40	40	40
Total Capital Employed	3,416	4,007	4,248	4,530

Applications of Funds

Net Block	1,258	1,316	1,402	1,491
CWIP	14	17	17	17
Investments	0	0	0	0
Current Assets, Loans & Advances	3,687	4,143	4,657	5,076
Inventories	1,267	1,550	1,574	1,778
Receivables	1,267	1,341	1,484	1,679
Cash and Bank Balances	156	86	390	331
Loans and Advances	494	552	595	674
Other Current Assets	503	614	614	614
Less: Current Liabilities & Provisions	1,544	1,469	1,829	2,054
Payables	1,295	1,319	1,461	1,651
Other Current Liabilities	249	150	368	403
sub total				
Net Current Assets	2,143	2,674	2,828	3,022
Total Assets	3,416	4,007	4,248	4,530

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	37.9	37.9	39.0	39.1
EBIDTA Margin	10.1	7.1	7.7	7.8
EBIT Margin	8.0	4.8	5.5	5.6
Tax rate	33.6	36.2	36.2	36.2
Net Profit Margin	5.0	2.6	2.9	3.0
(B) As Percentage of Net Sales (%)				
COGS	62.1	62.1	61.0	60.9
Employee	8.7	9.0	8.5	8.3
Other	19.0	21.7	22.7	23.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.4	0.3	0.3
Interest Coverage	4.9	3.3	3.2	3.4
Inventory days	62	71	63	63
Debtors days	62	61	60	60
Average Cost of Debt	13.9	13.1	14.3	15.5
Payable days	63	60	59	59
Working Capital days	104	122	114	107
FA T/O	6.0	6.1	6.5	6.9
(D) Measures of Investment				
AEPS (₹)	21.1	11.8	14.6	17.2
CEPS (₹)	29.8	22.0	26.1	29.9
DPS (₹)	0.0	1.0	1.2	1.5
Dividend Payout (%)	0.0	8.5	8.5	8.5
BVPS (₹)	149.4	160.1	173.5	189.2
RoANW (%)	16.6	7.6	8.8	9.5
RoACE (%)	15.8	8.8	10.2	10.9
RoAIC (%)	19.7	10.7	12.8	14.2
(E) Valuation Ratios				
CMP (₹)	353	353	353	353
P/E	16.7	29.9	24.1	20.6
Mcap (₹ Mn)	6,340	6,340	6,340	6,340
MCap/ Sales	0.8	0.8	0.7	0.6
EV	6,868	7,344	7,040	7,099
EV/Sales	0.9	0.9	0.8	0.7
EV/EBITDA	9.1	12.9	10.0	8.9
P/BV	2.4	2.2	2.0	1.9
Dividend Yield (%)	0.0	0.3	0.4	0.4
(F) Growth Rate (%)				
Revenue	22.6	6.7	13.8	13.2
EBITDA	17.3	(24.8)	23.2	14.0
EBIT	22.9	(35.9)	29.0	15.0
PBT	39.8	(41.4)	24.3	17.2
APAT	23.7	(44.1)	24.3	17.2
EPS	23.7	(44.1)	24.3	17.2
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	146	(213)	617	285
CFI	(85)	(245)	(291)	(317)
CFF	(21)	388	(22)	(26)
FCFF	(60)	(458)	326	(33)
Opening Cash	115	156	86	390
Closing Cash	156	86	390	331

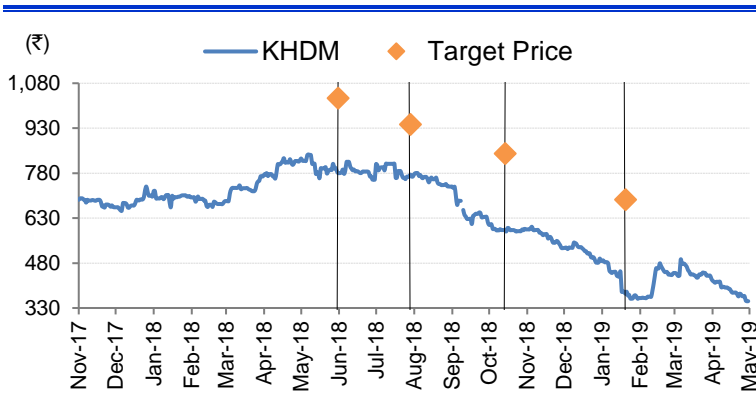
E – Estimates

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
Feb-19	Buy	692	378

*Price as on recommendation date

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