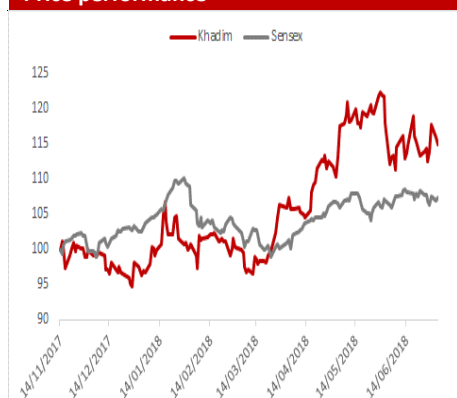


**BUY**

Current Price	784
Target Price	1000
Upside/Downside	27%
52 Week Range	645/862

**Key Share Data**

Market Cap (Rs.bn)	14
Market Cap (US\$ Mn)	204
No of o/s shares (Mn)	17.96
Face Value	1
Monthly Avg.vol (BSE+NSE) Nos'000	27
BSE Code	540775
NSE Code	KHADIM
Bloomberg	KHDM:IN

**Price performance**

% Shareholding	Mar-18	Dec-17
Promoters	59.70	59.70
Institutions	28.29	22.44
Others	12.01	17.86
<b>Total</b>	<b>100</b>	<b>100</b>

**Khadim's Ltd Background:** An Indian footwear brand, which is expanding across India through Retail (~68% of Revenue) and distribution (~25% of Revenue) model. The company is the second largest footwear retailer in India in terms of number of exclusive retail stores (753 stores in FY18) operating under the 'Khadim's' brand, with the largest presence in East India with 497 stores, in addition to being one of the top three players in South India.

**Rs 630 Bn opportunity growing at ~16% CAGR:** Indian footwear Industry is at Rs.630 Bn (as of FY17) of which organized players contributes ~25% at Rs. 160Bn; with topline of Rs 7.5bn in FY18 Khadim's is ~5% of the organized market. Going forward the industry is expected to grow at 16% CAGR over FY16-FY20.

**Retail business (68% of Revenues) expected to grow at 13-14% CAGR:** 54% of retail business comes from COCO (company owned, and company operated) model and 46% from Franchise model.

Between FY14 to FY18 Retail business has grown at a CAGR of 9.3% to Rs 5107mn supported by 4.5% CAGR in volume at 12.4mn pairs in FY18 and 12% CAGR in number of stores. Khadim's retail business has 1400 SKU's (under 9 sub brands and mother-brand).

Going Forward Retail business is expected to grow at 13-14% CAGR supported by 70-75 store additions annually and ~6-7% SSG growth.

**Distribution Business which is another (25% of Revenues) to grow at ~28-30%, this will also improve margins since capacity utilization will rise:** Distribution business is at Rs. 1860 Mn growing at CAGR of 37% over FY14. With 300 SKU's company was able to sell 22mn pairs in FY18 which has grown 42% CAGR over FY14 (0.54mn pairs). Going forward as well this business is expected to grow at 28-30% on a lower base.

**Other Business is at 7%:** Other business mainly consist of Institutional sales and E-commerce, where the company will be restricting to 10% of total sales for institutional sales.

**Margin Expansion:** In-case of Retail business focus would be on premiumization, between FY14 to FY18 ASP has grown at 5% CAGR and going forward as well the trend would continue. FY18 had discount period of 6 months which is expected to reduce to 4 months in FY19. In case of distribution business rise in utilization would aid margins going forward.

**CAPEX:** Company would incur a CAPEX of Rs.280-300mn, as follows:

- Rs. 100-120mn will be for factory CAPEX
- Rs. 60mn. for new outlets
- Rs. 100-120 Mn for Refurbishment, general corporate and warehouse expenses.

**Valuation and Outlook:**

Khadim's ROE and ROCE in FY18 stood at 14% and 20%. Debt at Rs 680 Mn and D: E at 0.25. Going forward on an overall basis the company is expected to grow at a CAGR of 17-18% topline, EBIDTA margins (10.1% in FY18) would improve by 50bps on account of premiumization in Retail business and better utilization in Distribution business which would aid bottom-line to grow at 25% CAGR.

30X FY19e EPS of Rs. 26, 23X FY20e EPS of Rs. 33.

**Key Financials**

Year	Net Sales	Growth	EBIDTA	OPM%	PAT	Growth	EPS	PE(x)	RoE	RoCE
FY17	6,212.5	16.2%	657.7	10.59	307.6	22.0%	17.8	44.4	17%	18%
FY18	7,487.1	20.5%	756.8	10.11	379.0	23.2%	21.1	37.4	14%	20%
FY19E	8,759.7	17.0%	928.2	10.60	475.6	25.5%	26.5	29.8	15%	22%
FY20E	10,281.7	17.4%	1,138.1	11.07	603.5	26.9%	33.6	23.5	16%	23%

**Comparative Analysis**

Rs.Mns	CMP	FY18Sales	CAGR FY15-18	OPM	ROE	ROCE	EPS FY19e	EPS FY20e	P/E FY19e	P/E FY20e
Khadims	784	7,487	17%	10%	14%	20%	26.47	33.59	30	23
Bata	830	26,342	7%	13%	15%	20%	20.3	23.10	41	36
Relaxo	703	19,644	10%	15%	21%	28%	16.1	19.20	44	37



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