Khadim's®

November 27, 2019

The Manager
The Department of Corporate Services
BSE Limited
P. J. Towers,
Dalal Street, Mumbai - 400 001
Scrip Code - 540775

The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051
Symbol - KHADIM

Dear Sir / Madam,

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')

Sub: Outcome of Investor Meet

This is with reference to our intimation dated November 08, 2019 and November 11, 2019 with respect to Investor Meet held on Monday, November 11, 2019.

Pursuant to the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith the concall transcript of the said Meeting w.r.t Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended September 30, 2019.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

A.P. Dan

Abhijit Dan
Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above

“Khadim India Limited Q2 FY-20 Earnings Conference Call”

November 11, 2019

MANAGEMENT:	**MR SIDDHARTHA ROY BURMAN – CHAIRMAN & MANAGING DIRECTOR, KHADIM INDIA LIMITED**
	MS NAMRATA CHOTRANI – CHIEF EXECUTIVE OFFICER, KHADIM INDIA LIMITED
	MR INDRAJIT CHAUDHURI – CHIEF FINANCIAL OFFICER, KHADIM INDIA LIMITED
MODERATOR:	**MR MEHUL DESAI – RESEARCH, IDFC SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Khadim India Limited Q2 FY20 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Mehul Desai from IDFC Securities. Thank you and over to you, sir.

Mehul Desai: Thank you. Hi, good evening everyone. On behalf of IDFC Securities, I would like to welcome you all on Q2 FY20 earnings call of Khadim India. From the management side, we have Mr Siddhartha Roy Burman - Chairman & Managing Director. Ms Namrata Chotrani the CEO, Indrajit Chaudhuri – CFO. I will hand over the call to Mr Siddhartha Roy for his opening comments, followed by Ms Namrata for her comments on the results and then we can take over for the Q&A session. Over to you sir.

Siddhartha Roy Burman: Good evening to everyone. On behalf of the Board of Directors and the management of the company, we extend a warm welcome to all of you to the conference call of Khadim India Limited to discuss the Financial Result for the Second Quarter and Half-Year Ended September 2019.

Since last year we have witnessed widespread slowdown in the country, which was more pronounced in tier II and tier III cities, significantly affecting the consumer sentiment & demand. Recently, as we know, global agencies downgraded India's outlook and the growth forecast has been revised downwards for this fiscal. This overall weakness in the economy affected discretionary spending. During the second quarter, our key catchment areas in Bihar, Assam & some parts of West Bengal were ravaged with extremely high rainfall and flooding.

To counter these challenges, we have taken a slew of measures. Good decisions need to be taken in bad times. Let me take you through some of the strategic steps we have taken recently.

Earlier this year, in order to strengthen our brand appeal, we roped in Kangana Ranaut, Farhan Akhtar & Dinesh Karthik to endorse our products.

As outlined earlier, we have increased our marketing budget and to neutralise its impact on margins, we are rationalising the discounts. This will go a long way in increasing our brand's visibility in the market, making our products appeal to consumers and strengthen our positioning as a pan-India brand.

On the store expansion front, we have calibrated our expansion strategy and added 28 new retail stores and 32 distributors over the last six months. As our brand outreach continues to grow, our total count as on September 30, 2019, stands at 827 retail outlets & 576 distributors.

In order to accelerate sales performance through holistic merchandise management, we have recently implemented the TOC programme. Under TOC, we are customising store assortment, utilising inventory in an optimal manner to maximise sell-through & aligning stock targets with actual demand. Since we have a vast and wide-spread network of franchisee stores, these initiatives will help in driving their performance. As of today, the system has been activated for 220 COCO & 130 EBO stores.

Finally, I am happy to welcome Ms Namrata Chotrani as our new CEO. Till very recently, Ms Chotrani was associated with our company as a board member. She has helped the company mould into a better corporate structure & streamlined operation & strategy when she worked actively through Fairwinds Asset Management who had invested in our company.

In Q2, our sales were flat and the pressure on margins continued due to a change in sales mix which saw a higher chunk of institutional orders.

We also added 9 COO stores this quarter which lead to the higher cost incurred in the setup. So, now let me briefly discuss our financial performance during the second quarter of the 2020 year to year terms. Q2 financial 2020 revenue was seeing at Rs.222.8 crore compared to 226.4 crores. Gross margin has remained flat at 38%. EBITDA went down from Rs.18.7 crore to 15.4 crore unit of margin was 6.9%. On the bottom line, we reported a PBT of Rs. 0.09 crore versus Rs.13.60 crore. Our new CEO Namrata Chotrani would like to use this platform to address you all & to introduce herself. Thank you.

Namrata Chotrani: Hello everyone and good afternoon. Thank you for joining the call today. I may know some of you through my earlier avatar at Fairwinds, but I would like to take the opportunity to introduce myself to a larger audience.

I am from Bombay and I've done my primary, secondary and undergraduate education from the local board and University. Post-graduation, I worked with KPMG four years in the M&A Tax practise, where I was involved with domestic business restructuring and international investments, in-bound and out-bound structure from the tax and regulatory perspectives. Then I went to pursue my MBA from INSEAD. After that, I joined Reliance Private Equity which later got rebranded as Fairwinds Private Equity. I was part of the investment team where my roles ranged across the entire investment value chain including sourcing, evaluation, negotiations etc. across a variety of B2C sectors in touring, consumer, retail, healthcare, education.

My association with Khadim started in 2013. I was part of the team which infused investment of 90 crores into the company. Post which I have been extremely involved in the operations in the business including all aspects of sales, supply chain, marketing, HR and finance. I used to spend almost 10 to 15 days a month working with the Khadim team in Kolkata. The company saw new heights in terms of revenue and profitability. The company then went for an IPO in November 2017 through which Fairwinds PE successfully exited the company. Post exit, owing to my involvement with the business and the relationship with the management, I continued to be on board in my personal capacity.

Following my successful association with Khadim, I have now joined the company to work with the team from the inside from 1st November 2019. I believe my familiarity with the business and people is an advantage which will give me a jump start. I believe Khadim's forte is in its business offering, fashion for the entire family for all occasions at an affordable price. Our positioning is our strength and we are very conscious about sticking to it. In today's globalized economy, there is increasing access and exposure to the best of domestic and international brands who are providing varied experiences. The only way by which we can stay on top of our game and stay relevant is to be obsessed with customer satisfaction; which includes appropriate merchandise range, motivated and trained sales employees and superior VM experience.

This must be completed seamlessly at the back end with effective operational and supply support. My endeavour in the next few months will be to evaluate our performance both on the front desk and back ends, and deep-diving into all the possible qualitative and quantitative data. We will identify the core aspects to work on and come up with an ideal solution. We have also started to implement some changes across our outlets, franchisees and vendors to improve our availability and supply. We will also be using existing supply mechanism to increase the sales velocity at our stores on a regular basis rather than being only festive focused. I genuinely believe in the brand and the growth potential it has in a value-focused country like India. In the next few months, I will do everything in my capacity to translate this into brand value.

I thank all the investors who have believed in the potential of this brand and continue to show interest in the company. I request your continued support; I would definitely like to meet you and make our relationship stronger than ever. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Kunal Sukhwani from Creseta Investments. Please go ahead.

Vijay Sarda: Hi sir, I am Vijay Sarda from Creseta Investment. Sir, my questions are on the expected growth and the margin. If I look at the industry as a whole, most of the players are growing by good volume and their margins are improving. I want to understand where are we going wrong and what measures we are taking to rectify the same. My other query is on balance sheet items. Our receivables, inventory and borrowing have increased and still, sales are not growing. What steps are we taking to address these issues?

Indrajit Chowdhury: Our Coco sales growth for this quarter is 11.75%whereas our franchisees saw a de-growth of around 13%. In franchising, we are taking steps to implement TOC. Distribution business has been difficult this year. We have grown by 7% in the first quarter, but in the second quarter, the growth is muted. We are facing challenges in our product portfolio and we are trying to make up for it in the third and fourth quarter. We expect growth will be in 10 to 12% range. Ours is a cyclical business. In September our debtor days increase but comes down by March. Debtor days were 74 days last year and now it is 76 days. And days of inventory were around 84 days last year and 82 days in September 2019. The debtor days rise because in this period the primary billing to the franchises is more. This year our institutional business has grown from 40 crores to 73 crores. So this is another reason why the debtors have increased, but when the cycle turns in March, both debtors and stock days come down to 60 days level.

Vijay Sarda: In the distribution business, there is a problem in terms of the product mix. Our competitors have expanded their margin quite well. So, can we expect margin expansion?

Indrajit Chowdhury: If you see our margin has also improved in the distribution business, from 24.3% it has gone to 24.7%. Last year we faced the challenge in the form of raw material and crude prices, and dollar exchange rate. Now that has eased out, so the margin has improved. But the growth that we have seen in the last three years has not been seen recently. There are several reasons, one of them being tightening of the trade norms. We are also trying to reduce the debtor days. Hence the primary sales are lower compared to the level seen in the last few years. We are also trying to create a new product portfolio so that our volume and the value in the distribution business increases.

Vijay Sarda: This quarter what is the SSG?

Indrajit Chowdhury: SSG growth is around 7% in this quarter.

Moderator: Thank you. We take the next question from the line of Kartik Metha from IDFC Mutual Fund. Please go ahead.

Kartik Metha: My question is for the new CEO, which are the top three key areas you would like to highlight and focus upon in the next three years? Which are the top five targets you want to achieve in the next two to three years?

Namrata Chotrani: I hope you can appreciate that it has been only a week since I have joined. Hence it is difficult for me to lay out the detailed strategy**.** As I said earlier, in the next few weeks I will be deep-diving into as much data as possible, both qualitatively and quantitatively. Then we will come up with a strategy on the front end and the backend.

Predominantly, our focus will be on improving the merchandise categories, elevating the VM and the retail experience, creating a motivated sales staff, improvising on the secondary sales at the franchisee level and developing a marketing strategy for the next couple of years. The distribution business is also evolving & becoming a fashion-oriented business. The need for new product development is ever-increasing across all the merchandise categories, which includes Hawai, PU, Sports Shoes, Phylon and formal shoes. The team at Khadim is gearing towards that. In the next few months, we will talk on a regular basis and we will be in touch. I think we come up with a more decisive strategy and we will keep you posted.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Ma'am I just wanted to know the status of TOC and the number of stores which have gone live under implementation?

Indrajit Chowdhury: In Q2 FY20, we have implemented in 10 stores. And in the third quarter, we will be implementing across another 55 stores and by the year-end 130 EBO will be in the TOC model.

Pritesh Chheda: Okay. So, we would see the TOC-related disturbances for the next nine months, right?

Indrajit Chowdhury: We are only covering our top EBOs which contribute 60 to 65% of the sales

Pritesh Chheda: Not the COCOs right?

Indrajit Chowdhury: All the COCOs will be covered in TOC.

Indrajit Chowdhury: Last year we did 340 crores sales through COCOs which will entirely be covered in TOC. Franchisee stores did 220 crores sales, out of that

60% contribution comes from top 150 stores which will be covered in TOC.

Pritesh Chheda: So about 470 crores worth of businesses in TOC?

Indrajit Chowdhury: Yes.

Moderator: Thank you. Our next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: What do you exactly mean by shifting the outlets on TOC? The billing cycle is going to be linked to your core server?

Indrajit Chowdhury: TOC is a theory where the stock depends on the set of norms decided by the company.

Pranav Tendulkar: But that stock must be communicated right. The stock you want to replace by the pull model must be communicated to your central server immediately, right?

Indrajit Chowdhury: Yes.

Pranav Tendulkar: So, are you going to have the billing system on your core software?

Indrajit Chowdhury: Yes, it will be linked to our core software. It will run on Symphony server and it is implemented by Goldratt. It is set up in such a way that when a norm is set, the vendor also knows which article is selling more and which article is selling less. So, depending on that we will plan the manufacturing process.

Pranav Tendulkar: So what are the defining parameters that will improve in the company's financials?

Indrajit Chowdhury: The stock inventory ratio will improve. In COCOs under the pilot project, the sales have also improved. So, we'll see that stock turnover ratio will come down and the secondary sale will also improve in COCO.

Pranav Tendulkar: Right and will you also take more margin from the franchise outlets because they will face fewer inventory losses?

Indrajit Chowdhury: No, margin structure will remain the same.

Pranav Tendulkar: Keeping that apart, if you are tracking retail sales in your own outlets, that growth is around 7 to 8%?

Indrajit Chowdhury: Yes.

Pranav Tendulkar: If you just calculate the retail end of point sales, how much volume growth that will be in your own stores Y-o-Y?

Indrajit Chowdhury: This half-year there is no volume growth. The growth of around 6.5% is mainly because of ASP growth.

Moderator: Thank you. We will take the next question from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: My question relates to discounting days. You also had a challenge on footfalls in the last year and the conversion from those footfalls. If you can relate all of these into your current operating situation, how have the discounting days changed?

Indrajit Chowdhury: In current half-year, the discounting days were around 30 days compared to 45 days in the previous corresponding period. Discounting is higher in the second half of the year. This year the discounting would be lesser compared to last year. The marketing activities like campaigns in cinema halls and ads in some TV shows were started in mid-August and we have seen a 3% increase in footfall in Bengal. We will be reducing the discounting period and focus more on schemes to the customers.

Ayaz Motiwala: One fact that you alluded to, to an earlier question you said the same-store sales growth is about 7% in COCOs stores.

Indrajit Chowdhury: Yes.

Ayaz Motiwala: Now, the festive season this year has shifted so would it be fair to compare the first nine months versus nine months to get a complete picture?

Indrajit Chowdhury: Yes, but we have seen 30 days of Pooja to Pooja SSG at around 4% this year.

Ayaz Motiwala: Despite low revenue growth, we have had some store openings and incurred costs related to that. What level of threshold is considered for a tradeoff between expanding and opening new stores and ensuring profitability?

Indrajit Chowdhury: Profitability is low this quarter majorly because of the advertising campaign. The personnel cost and other costs remain the same. But in this quarter, 7.5 crores extra advertisement cost was incurred compared to last year. If it were not for this expense, the profit would have been around 7 to 8 crores. There is also an impact of opening new stores in West and North where the store doesn't give profit from the first day. But we try to negate that negative impact from the stores in the eastern part of the country so that overall there is no hit on the P&L.

Ayaz Motiwala: This advertising is captured under other expenses?

Indrajit Chowdhury: Yes.

Ayaz Motiwala: It is up only by 2.7% sir. 50 crores versus 48.5 crores so that is only one and a half crore change?

Indrajit Chowdhury: Because of IndAS the range cost has come down from other expenses to depreciation and interest. So around 7 to 7.5 crore of range cost is added. So the other expenses would have gone to 56 compared to 48 last year in this quarter.

Ayaz Motiwala: Sir just following up on a question asked earlier about the balance sheet and about the seasonality of the business. So, there was some commercial paper from which you raised borrowing. Half-yearly borrowing has gone up from 109 crores to 133 crores. The entire change of inventories and receivables of about 100 odd crores seems to be funded by a change in trade payable. So, what will be the debt level and asset base by the end of FY20?

Indrajit Chowdhury: If you compare with September 2018, our stock days was around 84 days. In March it was around 65 days. Debtors also reduced from 74 days to 59 days. So, in March 2020 we will be closing our debtor days around 58 to 60 days and stock days around 60 to 62 days. The borrowing from commercial papers was done only for arbitrating of interest, the borrowing that has gone up will come down to 110 crore level on March 20.

Ayaz Motiwala: Right so you will release cash on one side and then the CPE will also come down?

Indrajit Chowdhury: Yes.

Moderator: Thank you. We'll take our next question from the line of Mehul Desai from IDFC Securities. Please go ahead.

Mehul Desai: Sir if you could tell me how many stores did you had in terms of COCO and franchise in this quarter and what is the corresponding target for the second half?

Indrajit Chowdhury: We have opened 9 COCO this quarter and total for H1 is 16 and we have opened around 11 franchises this quarter and total for H1 is 28. We will not open any more COCOs, if an opportunity presents itself in the Eastern part of the country only then will open COCO store. Otherwise, we are not planning to open any more COCO in North and West for the rest of the financial year. We will open franchisee stores across the country, and try to add 45 to 50 franchisee this year.

Mehul Desai: Sir you gave guidance on distribution growth of around 12% to 13%. Any guidance that you would like to give for the retail segment for the second half?

Indrajit Chowdhury: COCO growth will be around 6 to 7% and franchisee growth will be muted.

Mehul Desai: In the other expenses as you said there was an ad spend of around 7.5 crores for this quarter, right?

Indrajit Chowdhury: Yes.

Mehul Desai: How much do we expect to incur in the second half?

Indrajit Chowdhury: Some ad expenses will be incurred for Diwali ad. TVC and cinema ad will continue in Eastern part of Bengal. So, around 26 crores of advertisements have been expensed in the first half. We had a budget of around 45 crores but will not be spending that much and limiting our ad spend to 37 crores

Moderator: Thank you. As there are no further questions from the participants, I would like to hand over to Mr Mehul Desai for closing comments. Over to you sir.

Mehul Desai: On behalf of IDFC Securities, I would like to thank the management of Khadim India, as well as all the participants for taking part in the Q2 FY20 conference call. Now, I'll hand over to the management for any kind of closing comments if they want to make. Over to you sir.

Indrajit Chowdhury: Thank you very much.

Namrata Chotrani: Thanks for your time, everyone. We will be in touch over the next few quarters for further interaction.

Moderator: Thank you. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.