

December 18, 2021

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 Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

Sub: Outcome of Investor Meet

This is with reference to our intimation dated November 16, 2021 and November 17, 2021 with respect to Investor Meet held on Wednesday, November 17, 2021.

Pursuant to the provisions of Regulation 30 of the Listing Regulations, 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, 2021.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above



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KHADIM INDIA LIMITED

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“Khadim India Limited
Q2 FY2022 Earnings Conference Call”

November 17, 2021



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

ANALYST: MR. NACHIKET KALE – DICKENSON WORLD

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Khadim India Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nachiket Kale from Dickenson World. Thank you, and over to you, Mr. Nachiket!

Nachiket Kale: Hi. Good evening, everybody. Thanks for connecting to the results call of Khadim India Limited. I welcome you all to this call. We have already uploaded our results, press release and results presentation on the exchanges. Hope you had a chance to go through it. We look forward to have a fruitful discussion with the management. I would now like to handover the call to the promoter of the Company, Mr. Siddhartha Roy Burman, who is also the Chairman & Managing Director. Over to you Mr. Burman.

Siddhartha R Burman: Namaskar everybody. Good evening, everyone. We welcome you to this conference call to discuss the second quarter results for the financial year 2021-2022. Hope everyone continues to be safe and had a great festive period.

This quarter has been a story of resilience and we are proud to have bounced back to profitability after the second wave. Our strategic efforts on improving product portfolio, focus on profitability, managing supply chain, controlling costs and efficiently improving our working capital position helped to achieve a turnaround.

In the post COVID era, our affordable fashion positioning has resonated well with our existing and new customer base. We achieved healthy revenue growth across both businesses - retail and distribution. We have now recorded significant improvements in margins, for the last four consecutive quarters. We continue to strengthen our retail presence in tier II and III cities by opening 25 new franchise stores during the second quarter despite partial lockdown, taking the overall tally to 555 franchise stores. The retail network now stands at 762 stores and distribution footprint has increased to 606.

Coming to our performance for the quarter, comparing year-on-year to Q2 FY2021, revenue grew by 36% to 161.6 Crores. The Company has achieved highest ever gross margin in retail at 52% and generated positive EBITDA of 13.7 Crores with an 8% EBITDA margin and reached pre-COVID level versus an EBITDA loss in Q1 FY2022.

PAT stands at ₹ 6.5 Crores with PAT margin of 4% compared to a loss of ₹ 22.4 Crores in Q2 FY2021. Working capital efficiency has improved. Cash flow position has strengthened the balance sheet. The economy is on track to reach normalcy

as majority of the population is being vaccinated gradually, unlocking has increased and the COVID related restrictions have eased. After being confined indoor in the lockdowns, we now see a tremendous desire among the people to venture out again and this is driving high demand especially for footwear. We are already witnessing improving traction at our stores and are very optimistic of scaling operations further. We thank you all for your continued support and look forward to continuing interaction with you. We can now proceed with the question and answer session. Thanks.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Monika Arora from Sharegiant Wealth Advisors. Please go ahead.

Monika Arora: Thank you for giving me this opportunity. On the back of, let me see the revival of the economy and improved consumer sentiment, we see that a lot of brands are offering various deals and discounts to attract more footfalls in their stores. So, have you also offered some kind of deals to your franchisee?

Namrata Chotrani: Thanks for your question, Monica. I think throughout the year, we have run a very silent discount in our stores just to ensure that we are liquidating most of our stock, which we had manufactured last year and last to last year. But there are no active promotion of the discounts as we generally do in EOSS (End of Season Sale). We have our regular EOSS twice a year – which will be in December and March, which we will promote very aggressively. During the festive season, we did have a very good scheme, which is called Milega Much More- wherein on a minimum buy of ₹ 1000, ₹ 2000, ₹ 3000, we offered a credit note which could be redeemed immediately. We saw a very good response of 75% to 80% redemption. So, I think, recovery has been good and people are responding to good schemes.

Monika Arora: If you can also update on franchisees & setting up of new stores?

Namrata Chotrani: You are asking in terms of expansion this year?

Monika Arora: Yes.

Namrata Chotrani: So, we have opened 25 new stores in this last quarter and we are looking at opening a total of around 80 stores this year.

Monika Arora: That is great. We see that a lot of corporates are open now. So, do you also see some institutional sales in Q2? What is the status of the cash flows from the big orders filled during Q4 FY21.

Indrajit Chaudhuri: This quarter, there are no institutional sales. In terms of the big order from the fourth quarter, 70% of the payments have been received and we will get 30% balance payments in this third quarter.

- Monika Arora:** That is great. Thank you so much.
- Moderator:** Thank you. We will move to the next question which is from the line of Varun from VJB Financial Services Private Limited. Please go ahead.
- Varun:** Good afternoon. Congratulations for the turnaround. The COCO stores seem to produce much more revenue whereas the franchise stores are producing much lower revenue. Why is that?
- Namrata Chotrani:** The COCO store sales are recorded at MRP and the franchise stores sales are recorded at net sales which are post the retail margin that we give to the franchisees. That is why the sales seems lower. COCO stores are generally much larger and in metros and tier I's. We believe that the franchisees are more in the Tier II and Tier III Cities hence the average sales are generally lower than the COCO stores.
- Varun:** So, from an accounting perspective the discounts in COCO stores are recorded as expenditures? The revenue is not recorded as the sale price but the MRP price?
- Indrajit Chaudhuri:** No, if the product is sold at MRP, it is recorded at MRP price. If it is sold at a discount in COCO, it is recorded at a discounted price. Namrata was saying that in COCO sales recording is in MRP whereas in case of EBO we give a trade discount of around 30% to 35%. So the Company records the primary sales of 65%. So that is why the COCO numbers are higher compared to the franchisees.
- Varun:** Out of the 800 stores, how many stores have achieved a breakeven already and how many stores are cross subsidized, can you give some data on it?
- Namrata Chotrani:** Last year we had already shut down 13 COCOs which were at a negative run rate. Out of 207 COCO, only 10 stores are not in breakeven terms, otherwise all the COCO stores are breakeven.
- Varun:** Thank you.
- Moderator:** Thank you. The next question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.
- Deepan Shankar:** Good evening everyone and thanks a lot for the opportunity. Congratulations for the good set of numbers. Last year in H2 we have done sales of 340 Crores plus, only in terms of retail and distribution. So, are we looking to grow considerably over the last year for this year H2?
- Namrata Chotrani:** Thank you Mr. Shankar for your question and your good words. Appreciate it. Yes, I think, we will be looking at growing in H2. The recovery has been extremely healthy and very comforting on the retail side for sure. On the distribution side

also the recovery has been good. So, we are also looking at growing on both the fronts in the businesses.

Indrajit Chaudhuri: Last year in H2 there was an institutional sale of around 90 Crores.

Deepan Shankar: Yes, I am not counting on that. Including that it was 440 Crores. I am counting only the 340 Crores for retail business?

Indrajit Chaudhuri: That is correct.

Deepan Shankar: Are we confident enough to get back to our pre-COVID quarterly run rate of 200 Crores from next year onwards?

Namrata Chotrani: That is the hope for sure. We are all hoping that we do not see a fourth and fifth wave and any further lockdowns or health issues in the country. Definitely, we are looking forward to achieving pre-COVID numbers.

Deepan Shankar: During COVID time, our fashion-wear contribution had gone down tremendously in retail. So, are we seeing that coming back strongly in ensuing quarters?

Namrata Chotrani: Yes, sure. We are already seeing it at normal level in Q2. In fact, during the festive season, we have seen normalized buying in all the categories, and we have also seen the trend currently. So we are hoping that the fashion buying continues.

Deepan Shankar: We have seen substantial improvements in the gross margins. So, are we expecting that to sustain over coming quarters? Are we seeing that raw material pricing trend is able to pass on?

Namrata Chotrani: See, on the retail side, we are hoping to be able to pass on the increased raw material prices and still make an incremental margin. The pricing is relatively on the higher side compared to distribution. So, there we should be able to absorb and pass on and grow. But on the distribution side, it is a bit choppy and the raw material pricing is very sensitive to the pricing of the product because you are dealing over there in Hawaii chappal, PVC chappals, PU chappals, low priced sports shoes where the price is a very, very sensitive aspects of the product. So, we are hoping that the raw material pricing stabilizes, there can be some sanity and stability to the pricing as well. Till the raw material pricing stabilizes there will be some chopping in the gross margin. We are hoping to pass it on as much as possible. We also have to be careful with the MRP because we are dealing with the mass audience. So, there will be that much price increases that one should take, to be able to pass on to the customer, but we are trying to do our best.

Deepan Shankar: The run rate for fixed cost, employee cost and other expenses, has fallen from 66 Crores to 46 Crores. Are we seeing that run rate can continue or we are expecting some amount of fixed expenses to shoot up in the coming quarters?

Indrajit Chaudhuri: In case of employee expenses for the last 18 months, there was a 20% cut. In October we have already restored the salaries. So, the run rate which you have seen in the last quarter will increase. In other expenses, there are lot of fixed expenses which were reduced. But there are some increments and other expenses we need to incur, so there also you will see a rise, but not at the pre-COVID levels.

Deepan Shankar: What about the advertisement expenses, has it already reached pre-COVID levels or what is the runrate currently?

Indrajit Chaudhuri: Pre-COVID, advertisement expense was around 4% of sales. Now it is around 1%. But obviously, in FY 2023 it will increase to 2 to 2.5%.

Deepan Shankar: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang Equities. Please go ahead.

Girish Pai: Thanks for the opportunity. I think you said that H2 FY2022 is going to be better than H2 of FY2021. If you exclude the institutional sales number will the profitability be better in terms of EBITDA margins, would that be better than H2 of FY2021 if we exclude the institutional numbers?

Namrata Chotrani: We believe that revenue would be better and so is the margin excluding institutional sales.

Girish Pai: These EBITDA margins are pre-Ind-AS 116 or post Ind-AS 116?

Indrajit Chaudhuri: Post Ind-AS 116.

Girish Pai: How much is the price increase that you have taken, because the gross margins remain fairly strong on your portfolio?

Namrata Chotrani: We have got two businesses, the retail side and the distribution side. On the retail side, we have increased our ASP quite significantly since FY2021. Since FY2020 we have increased our ASP by 9% and in FY2021 we have increased our ASP by 25%, which is an aberration purely because last financial year the consumer behavior was a bit different and more biased towards low priced basic products or basic products. So comparing it to FY2020 would be more realistic. We had a 9% ASP growth out of which around 6% to 7% would be price increases and balance would be premiumization. That is on the retail side. On the

distribution side, in this financial year we have taken approximately 15% increase in prices owing to the raw material price increase.

Girish Pai: You mentioned in one of the earlier questions, that you would want to go back to 200 Crores revenue run rate on a quarterly basis. What incremental steps are required from your side to achieve that number? Or it is just the demand coming back naturally because of increasing post-COVID footfalls?

Namrata Chotrani: I would answer this question in two parts. On the retail side, we will have to ensure that our existing base of store grows at a healthy pace of SSG, which is around 5% to 6% and we intend to grow the retail business overall around 10% to 12% with the balance coming from store expansion. On the distribution side, it is going to be purely an increase in the market share with the existing base of distributors and also building the base of new distributors.

Girish Pai: I thought I heard you holding two End of Season Sale. One was end of December and the other was end of March. You think you can offset the discount that is going to come through because of that?

Namrata Chotrani: That is all planned and accounted for. I think there will be an incremental growth of the overall gross margin. The discounting would be adjusted from the increased margins. So, the net margin will always be higher than the previous year.

Girish Pai: Thank you.

Moderator: Thank you. The next question is from the line of Bharat from VJB Financial Services Private Limited. Please go ahead.

Bharat: Good afternoon. Congratulations on a good set of numbers. I had three questions; the first on the total number of pairs sold in retail and distribution. The second question on order from the UP government, when is the execution of that order likely or has it already been executed? What portion has been executed and is there any other institutional orders from government? The revenue per store as compared to our competitors like Bata's 3 Crores per store and I am assuming we are at 1 Crores per store. Correct me if I am wrong. Is it possible that we will be bridging the gap or what is the way forward on that one?

Indrajit Chaudhuri: I am taking your second question first, regarding the institutional sales. Institutional sales have been executed in March itself in the fourth quarter and 70% payment has been received. There is no institutional orders now pending on our side. In terms of pairs sold in quarter, in distribution it is around 67 lac pairs and in retail it is 22 lac pairs. If you compare our COCO store, average revenue is around 1.25 crores per store. Yes, compared to Bata it is less because the ASP of Bata is higher compared to us. The product mix also matters, 75% of our

products are below ₹ 1000 as compared to Bata who are selling 50% of the product over ₹ 1000.

Namrata Chotrani: I would like to add over here, this is revenue per store you are comparing. If you compare revenue per square feet and gross margins per square feet, we are as good as them and in some cases even better.

Bharat: Fantastic. Is it possible, like you have already answered the question in part when the other gentleman asked the question with regard to you adjusting gross margin. The net margin would still be efficient because you increase the price and give a discount to maintain the net margins. What is the elasticity of demand even if you increase price, let us say 3% to 5% on retail. If I am buying Pro or Lazard, what is the propensity for you to increase prices in these segments where you can increase prices by 5% without affecting the margins? Bata's ASP is much higher, say if I am buying a Power shoe, I am buying a like-to-like Pro shoe ₹ 700 vis-à-vis a Bata at ₹ 1600. So, is it possible for us to go from ₹ 700 to ₹ 800 without impacting the demand and what is the cushion that we have?

Namrata Chotrani: Just to give you a history, over the last two years we have taken regular price increases on all our existing range and new range. I have not seen any impact on demand owing to the price increases. You know, our base is generally low and secondly the product range at the prices we are selling at, we do not see too many brands do that. So we are very confident of our product offering and I do not think 3% to 5% increase in prices are going to impact the volume pressures incidentally.

Bharat: So, we can increase. We have headroom there to increase prices and hold up margins if need be?

Namrata Chotrani: Yes, definitely. There are no two thoughts about that.

Bharat: With regard to last time, in the concall you have spoken about omnification of the channels where if I do not find a shoe in our store I can get it through another store. I buy from Khadim personally so if I buy, say for example, I want a shoe and it is not available, even though it is a COCO store, the manager does not know if the stock is available in the next shop. There is no integrated staff management even within the city. So, would you do an omnification? How does it work?

Namrata Chotrani: The store manager does not need to know if it is available in the next store or in the third store. He will just place the order and it will reach from the nearest possible store wherever available.

Indrajit Chaudhuri : Because it is integrated backwards in the retail end, we do not have that kind of bandwidth that will enable the store manager to see everywhere. It is through

ANS Commerce that we integrate backend so that if the order comes in the retail outlet that will be picked up from the next store or from other states also.

Bharat: That I agree. If I have to place an order, say, suppose I am in Chennai, and I am buying from Thiruvannamiyur and I am going to Adayar and your store is along the way. If I want that particular product for myself and my family, and that particular colour is not available there. Would it not be right if you have an ERP which tells you which store has, so that it can be given to the customer if the need arise. Most customers who do not find the product in the store go away. So for example, I went to buy Bonito, it was not available, they said it may be available in T. Nagar, which is 5 km away. If it is definitely available there, I will go and buy. Is it possible to do this, because in most apparel retail, like if I go to Louise Phillips, I know if it is not in this store, it is in the next store. So, just asking, it is more out of curiosity.

Namrata Chotrani: You have shown that you are a very loyal customer of us and thank you for sharing the pain that you are going through. This is something which is in our mind, to be able to implement in our stores. In due course we will ensure that the customers have a better and seamless experience. Right now we do not have it, but we will definitely try developing it. It is a valid view and we will definitely try working on it.

Bharat: Yes, because three times I have gone without buying. Since I am a shareholder and I buy a lot from Khadim. I try my best and I thought of buying it online, but for whatever reasons, I thought I will buy it from a store. But I have not got it and nobody has told me that I can place an order and I will get it. I am just saying, because you said that I can request for the product and get it?

Namrata Chotrani: Which store did you go to?

Bharat: I have gone to five stores in the city.

Namrata Chotrani: Were they all COCO stores?

Bharat: They are all COCO. I do not go to a franchise. I am a Khadim customer so I go to COCO.

Namrata Chotrani: I will take it up definitely and we will see what the best we can do. I will ask my team member to connect with you for the design that you like and we will ensure that we get it delivered to you.

Bharat: Actually whole family needs one.

Namrata Chotrani: We will definitely ensure we are making our sale to you. We will not lose you as a customer for sure.

- Bharat:** Thank you. Much appreciated.
- Moderator:** Thank you. The next question is from the line of Ankit Shah an individual investor. Please go ahead.
- Ankit Shah:** When I look at the balance sheet, in other advances there is 115 Crores, is this relating to GST credit which shows as advance to government authorities?
- Indrajit Chaudhuri:** Yes, it is the GST credit that has accumulated over the years.
- Ankit Shah:** This is because of the difference between what you charge to the customer and what you pay to the suppliers on the raw material?
- Indrajit Chaudhuri:** Here there are two concepts; one is that our output tax is lower than the input tax on raw materials. The input tax is at 18% whereas the output tax for products with MRP less than ₹ 1000 is 5%. There is an accumulation, for which the government gives refund. But for the service accumulation of the GST of 18%, the Supreme Court has given a clear verdict that there would be no refund for that. So that accumulation can be set-off with the next output tax. But since our output tax is less than the input tax, this accumulation carries on and on. So, I think if in the GST committee meeting this inverted credit structure would be revamped, only then that credit that has accumulated will be utilized.
- Ankit Shah:** What is the proportion of that refundable versus the one which you are saying the Supreme Court has rejected?
- Indrajit Chaudhuri:** The raw material portion is around 7 Crores to 8 Crores, balance is the service tax input that is carried over for the years.
- Ankit Shah:** So, unless this inverted duty structure is changed by the government, this will continue to be a challenge and it will keep getting accumulated?
- Indrajit Chaudhuri:** That accumulation will be there.
- Ankit Shah:** Understood. The other one was to understand that because you mentioned that we sold around 22 lakhs pairs in the last six months, what will be the unique number of clients? And the average bill size?
- Indrajit Chaudhuri:** 22 lakhs is for this quarter and half-year it is around 31 lakhs.
- Namrata Chotrani:** The average bill size would be in the range of around ₹ 750.
- Ankit Shah:** Got it. Thank you.

Moderator: Thank you. Ladies and gentlemen as this was the last question for today I would now like to hand the conference over to management of Khadim India Limited for closing comments.

Namrata Chotrani: Thank you for all your questions and your interest in Khadims. We are all working very hard to ensure that we are able to do good business and we look forward to keeping in touch with all of you and answering your question to the best of our ability. Thank you.

Moderator: Thank you. On behalf of Khadim India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.