KHADIM

June 09, 2022

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: Transcript of Investor Meet**

This is with reference to Investor Meet held on Thursday, June 02, 2022.

Pursuant to the provisions of Regulation 30 of the Listing Regulations, we enclose herewith the concall transcript of the said Meeting w.r.t. Audited Standalone and Consolidated Financial Results of the Company for the quarter and financial year ended March 31, 2022.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

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

Encl: As above

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CITY OFFICE : 7A, LINDSAY STREET, KOLKATA - 700 087

# "Khadim India Limited Q4 FY-22 Earnings Conference Call"

**June 2, 2022**

MANAGEMENT: MR. SIDDHARTHA ROY BURMAN- CHAIRMAN & MANAGING DIRECTOR
MR. RITTICK ROY BURMAN – WHOLE TIME DIRECTOR
MS. NAMRATA CHOTRANI – CHIEF EXECUTIVE OFFICER
MR. INDRAJIT CHAUDHURI – CHIEF FINANCIAL OFFICER

MODERATOR: MR. NACHIKET KALE – ORIENT CAPITAL

**Moderator:** Ladies and gentlemen good day and welcome to the Q4 and FY22 Earnings Conference Call of Khadim India Limited organized by Orient Capital. 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 phone. Please note this conference is being recorded. I now hand the conference over to Mr. Nachiket Kale from Orient Capital. Thank you and over to you sir.

**Nachiket Kale:** Yes hi everyone. Good evening. Welcome to the conference call. Today on this call we have the promoter of Khadim India Limited, Mr. Siddhartha Roy Burman – Chairman & Managing Director, Mr. Rittick Roy Burman – Whole time Director, Ms. Namrata Chotrani – CEO, Mr. Indrajit Chaudhuri – CFO.

So, just before we start the call I'll like to give a small disclaimer that this conference call may contain forward looking statement about the Company which are based on the beliefs, opinions and expectations of the Company as on date of this call. Actual results will differ materially. These statements are not guarantees of future performance and involve risk and uncertainties which are difficult to predict.

A detailed safe harbor statement is also added in the Company's Investor Presentation which has been uploaded on the stock exchange and Company's website as well. I hope everybody had a chance to go through the presentation and the press release.

Now I would like to hand over the call to Mr. Siddhartha Roy Burman.

**Siddhartha Roy Burman:** Namaskar everybody. Good evening, everyone. We welcome you to this conference call to discuss the fourth quarter results for the financial year 2021- 2022. Hope everyone continues to be safe.

We started fourth quarter on a strong footing carrying growth momentum from the third quarter, in which we recorded our highest EBITDA margin during past two years. However, the third wave of COVID caused by Omicron variant and ensuing lockdown disrupted the recovery in retail industry again. In January, the footwear industry also witnessed GST rate hike from 5% to 12% footwear priced below Rs. 1,000. Inflationary pressures across the spectrum led to slowdown in demand.

Despite facing headwinds, we are encouraged by our performance which has delivered growth as per our strategic initiatives. We roped in Indian cricketer Shardul Thakur, who plays with Delhi Capital in the IPL as our Brand Ambassador. The association was launched with the campaign "It'sWowItsKhadim". We highlighted the new fashionable range of products, the refreshed in-store experience and reinforce the affordable price point. The trinity will deliver the delightful "It'sWowIt'sKhadim" experience to consumers.

We continue to strengthen our retail presence in tier II and III cities and opened 22 new retail stores during the quarter. The retail store count now stands at 782 stores and distribution network has increased to 627.

Coming to our performance for the quarter, sales for Q4 FY22 stood at Rs. 156 crore and this did not include any institutional business, as compared to Rs. 269 crores in Q4FY21 which includes Rs. 110 crores institutional business. Gross margin at 37.6% has improved by 1530 bps year-on-year. Retail business continued its improving trajectory, with gross margin up from 47.6% in Q4 FY21 to 52.2% in Q4 FY22. EBITDA stood at Rs. 12.8 crores with an EBITDA margin of 8.2%. In Q4 we recorded a PAT of Rs. 2.6 crores and a cash PAT of Rs. 10.3 crores.

We are encouraged by our full year performance in which we have delivered a significant turnaround and recovered to profitability. For the fiscal 2022, revenue was Rs. 591 crore slightly lower than Rs. 626 crores in FY21 which included Rs. 110 crores from institutional business. Retail business has grown by 15% and distribution business has grown by 13% year-on-year. Gross margin improved significantly to 37.2% which is an increase of ~840 basis points from 28.8% in FY21. Retail and distribution gross margins stood at 53.3% and 35.4% respectively. FY22 EBITDA stands at Rs. 47.8 crores, a significantly higher from Rs. 3.3 crore in FY21. We turned profitable buy clocking a PAT of Rs. 6.5 crore as compared to loss of Rs. 33 crores in the previous year.

Our strategic marketing-initiatives, product improvements, price hikes leading to improved margins, brand campaigns have all contributed towards the improving trajectory in the Company's performance. We aim to build upon the growth momentum generated this year that deliver value for all stakeholders. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question-and-answer session. The first 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. So, firstly, wanted to understand these retails franchisee sales has improved quite good after declining for three years, it has grown at 26% but still it is 67% of FY18 franchisee sale. So, do we expect sharper growth over next 2-3 years?

**Namrata Chotrani:** So, we are looking at growing the franchisee business approximately by 12-15% on a year-on-year basis. We are looking at expanding the number of stores by around 60-70 stores and with the hope that the SSG will also be growing by around 6-7%.

**Deepan Shankar:** Okay, so this is post that our installation of the sales software and earlier we were doing some inventory cut down right? So, those things are restoring back right?

**Namrata Chotrani:** Yes, so we have done the inventory through the Theory of Constraints Model where there is regular replenishment of the stock based on the movement of the particular item. So, there's norms set in the stores based on the performance of each item based on which replenishment happens and in case of the new introductions that happens based on certain number of pairs per item is sent to the stores and based on their performance that a replenishment happens. So, I think that model continues with our COO and franchises.

**Deepan Shankar:** Okay and the last two years our COCO stores additions has come down. So, are we seeing store additions increasing and sales per COCO store also is it on the anvil of growing good in the next 2-3 years?

**Namrata Chotrani:** So, that the reduced number of COCO addition has been a conscious decision because the last two years have been tough owing to COVID. So, we were looking at consolidating our P&L and Balance Sheet by focusing largely on improving our existing profitability and asset-light expansion but in this financial year we are looking at expanding the COCO stores by 10-12 stores. Balance will be through franchise.

**Deepan Shankar:** Okay and what is the reason for sharp increase in inventories this year?

**Namrata Chotrani:** So, that is largely been owing to the distribution side. So, actually, last year if you saw that the sales also was relatively low on both retail and distribution side and this year the sales also has improved and which is why we are stocking up because we were expecting a good Chaitra sale and Eid sale which is why the stock is relatively high. On the distribution side actually we have been stocking up because there has been volatility in supply of raw material owing to the geopolitical situation. So, also there has been a lot of fluctuation in prices so we had stocked up a certain amount of raw materials and this is why you're seeing a little higher WIP or stock inventory.

**Deepan Shankar:** Okay so when we do expect that to get normalized?

**Namrata Chotrani:** By Q2 end hopefully because this Q1 again we are stocking up for the festive. We are hoping for a good festive. So, I think that's normal if you see last two years Q1 and Q2 generally the stock was higher for the festive and then it tapers down by Q2 or end of Q3.

**Indrajit Chaudhuri:** And one thing is that in 2021 stock level was down because we were keeping lower stock due to this COVID thing. So, that is also a suboptimal level and that level should be at 150, 152 crores at a normal level.

**Deepan Shankar:** Okay, so lastly from my side this antidumping duty on PU. So, what is the kind of impact we are seeing in our kind of products. So, what is the proportion of PU in terms of our product?

**Indrajit Chaudhuri:** It will impact PU leather. In our retail product, 50% of the product is PU synthetic leather. So, that would impact but it is around $0.46 so that will be around Rs. 2-3 increase in the purchase price. So, the vendor when they are purchasing the raw material will include in their PP.

**Deepan Shankar:** Okay, so we are not seeing much impact over there?

**Indrajit Chaudhuri:** There would be slight price rise by them but because it has just recently come in. So, the next time when we are making the price negotiation, that will be taken care of.

**Deepan Shankar:** Okay so full year what kind of price increase we have taken during FY22?

**Namrata Chotrani:** So, on the distribution side we've taken approximately 20-22%. ASP increase that has happened and on the retail side we have seen approximately 16-17% increase in ASP which will be driven both by premiumization and price increases. So I think it will be partially price increase and partially premiumization.

**Deepan Shankar:** Okay. Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

**Gaurav Jogani:** Thank you for the opportunity. My first question is with regards to the demand conditions. While we understand that the demand was impacted in the Q4 due to the Omicron impact in January because of which both the retail and distribution sales were impacted but how it's trending now in the Q1?

**Namrata Chotrani:** Q1 has been relatively positive. Footfalls are coming back but it's not still back to pre-COVID levels but we are still seeing an improvement in sentiment at the store level. We are also seeing the buying behavior of the consumer going back to normal. So, you have a lot of casual shoes, outdoor shoes, sports shoes, formal shoes. For women they are buying a lot of work wear, they are buying party wear. So, I think the buying behavior is going back to normal because we are also seeing the same representative purchase happening across the various merchandise categories. So, it has been pretty comforting with the numbers and we are excited for the balance of the year.

**Gaurav Jogani:** Sure, so just one clarification here when you said that you it's not back to the pre-COVID levels. So, you were referring to the footfalls or you were referring to your sales for your Company?

**Namrata Chotrani:** Footfalls.

**Gaurav Jogani:** Okay and my next question is with regards to the price hike or you may say the increase in RM prices. How do you see this impacting the demand especially on distribution side because given the sharp price increases over the last 1-1.5 years. So, any impact that you see on that front of the business?

**Namrata Chotrani:** So, yes there is definitely an impact on volume owing to the fact that there have been price increase. So, there's not only price increase there's also GST which has impacted our business especially in the distribution side where 80-85% of the SKUs are below Rs.1000. So, yes there has been an impact and the inflationary impact is visible across the various industries including FMCG but what we are trying to do is a lot of value engineering on the products to be able to ensure that the product is still affordable in the hands of the consumer because in today's day and age the way the raw material price has increased in the last one and half to two years almost in a 60-70% price rise in raw material prices but that's not the way the customer's income has increased at the ground level. So, one has to be accepting of the fact that there's that much additional cost the lower end consumer will pay additionally for a basic pair of Hawaii chappals or a basic pair of PVC chappals or a PU chappal. They will pay a premium of Rs. 10, 15, 20 but if it comes at Rs. 40, 50 difference it does become a challenge in their pocket because they're not buying only for the particular person or themselves. They are buying for the entire family so we are doing a lot of value engineering. We are working on the latest product trends to ensure that the product continues to remain affordable in the hands of consumer and the impact on volume is minimized.

**Gaurav Jogani:** Sure, and just one last question from my end is in terms of the margins. FY22 has really seen a good smart expansion or I would say the recovery of the margins both on the retail and the distribution front. So, if you can help us out if this is sustainable going ahead and what kind of margins respectively in each of the business can we expect?

**Namrata Chotrani:** So, in our view the margins are sustainable across both the businesses. We are looking at a gross margin growth across both the businesses by around 100-150 basis points year-on-year.

**Gaurav Jogani:** From the FY22 levels right?

**Namrata Chotrani:** Yes.

**Gaurav Jogani:** And if you can just clarify while the EBITDA margins that have been reported are on a post IndAS basis but if we adjust for the rent what kind of EBITDA margins would we have done both for the Q4 FY22 and for the full year FY22?

**Indrajit Chaudhuri:** See in Q3 the EBITDA was 11.5% and the whole year EBITDA is 8.24%.

**Gaurav Jogani:** No, so I am asking about the reported number if we adjust the rental charges because it's a post IndAS. So, if we adjust for the rental payments how much would be the EBITDA margin?

**Indrajit Chaudhuri:** So, in Q3 it would around 7.5% and in Q4 it would be around 5%.

**Gaurav Jogani:** Okay Sir. Thanks for this.

**Moderator:** Thank you. The next question is from the line of Varun Ghia from Dimensional Securities. Please go ahead.

**Varun Ghia:** Hello, Good evening Sir. Sir I have two questions. Firstly what is the breakup of COCO and FOCO revenues for Q4?

**Indrajit Chaudhuri:** COCO is 50 crores and the EBO is 40 crores.

**Varun Ghia:** And could you provide the volume number of pairs sold for Q4 and full year?

**Indrajit Chaudhuri:** Just a minute.

**Namrata Chotrani:** Q4 is around 8 million and for the entire year..

**Varun Ghia:** 8 million and this is retail?

**Namrata Chotrani:** Retail and distribution together and for the total year would be around 35 million.

**Varun Ghia:** So, how much would be the distribution volume?

**Indrajit Chaudhuri:** Distribution is 28 million and the retail is 7 million.

**Varun Ghia:** Okay and the number of stores which are going to be increased that would be in which geographies like we have been focusing more on different geographies but overall, still a majority of the stores are in the eastern front, so.

**Namrata Chotrani:** So, I think with the new openings we will increase the penetration in the East India. By East we are referring to Bihar, Bengal, Orissa, North East, Jharkhand. So, that focus will continue. We're also looking at growing significantly in the northern and western side of the country through our company owned outlets and franchisees.

**Varun Ghia:** Franchisee outlet addition would be how many in next year?

**Namrata Chotrani:** Around 60-70.

**Moderator:** Thank you. The next question is from the line of Darshan Jhaveri from Crown Capital. Please go ahead.

**Darshan Jhaveri:** Yes, so firstly congratulations on the set of numbers in a challenging environment. I just wanted to ask is it possible next year can we go back to our aim of 800 crores revenue and maybe EBIDTA of 15%?

**Namrata Chotrani:** Yes I think 800 crores revenue is something which we definitely we should be able to achieve and in terms of 15% EBIDTA, I think we've been able to do 12% in Q3 FY22 and I think that's something which we're looking at doing for the entire year as the larger target for FY23. Yes if we're able to get the operating levels better we can definitely try doing better and pre-COVID footfall get back to normal. The numbers can be better but we are targeting around 12% EBITDA.

**Darshan Jhaveri:** Okay thank you so much and I also want to know did our volume decrease this year because if we had a price hike of more than 20% then that indicates a decrease in volumes could you just quantify like how much volumes have increased or decreased?

**Namrata Chotrani:** So, I think there had been an impact on volumes predominantly because Q1 FY22 again there was lockdown, Q3 again there was omicron and plus you had a price hike impact. So, I think there's a larger perspective owing to the volume impact.

**Indrajit Chaudhuri:** In retail there was no volume impact.

**Namrata Chotrani:** In terms of retail volume, we are almost equal in terms of previous year volume. Distribution also there has been very minimal degrowth in terms of volume but otherwise I believe we have done pretty well despite the two lockdowns during the year.

**Darshan Jhaveri:** Okay and just one last question if I can squeeze in what kind of price hike do we see in next year and how much of volume growth will be if possible to quantify because you're increasing significant stores?

**Namrata Chotrani:** Yes so we are looking at approximately 5-6% growth in terms of volumes. As in terms of price hike, I think it won't be a price hike particularly and mainly an ASP increase which will be a function of price hike and premiumization which will be driven by the sub-brands and we're looking at approximately a growth of ASP of approximately 7-8%.

**Moderator:** The next question is from the line of Abhishek Kothari, an individual investor. Please go ahead.

**Abhishek Kothari:** My question is based on working capital cycle. I noticed that it has stretched again and despite no institutional sales. So, can you just elaborate on this?

**Indrajit Chaudhuri:** As we have mentioned already that the inventory has increased for that reason. One reason is that due to this raw material price increase, so we have forced to keep some extra raw material and also in the distribution business due to the GST impact there was a volume impact so there is also increase in stock and as you know the first two quarters of the last two years the sales was less but here we anticipated there would be an EID sale and Chaitra sale. So, some stocks has been kept so for that reason stock has only increased, debtors remained at the same level.

**Abhishek Kothari:** Okay so if I understand it correctly then by inventory increase that is same. So, it is because of to mitigate any more price hike.

**Indrajit Chaudhuri:** Yes and another thing is that in FY21 the stock level was at the optimal because the first quarter of last two years, sales was very less, the stock reduced significantly. In a normal level our stock remains at 150-155 crore but this year it has gone to 167 crore but after the second quarter it will again come down to 155 level.

**Abhishek Kothari:** Okay and going forward can you elaborate like how do you plan to manage the inventory level?

**Indrajit Chaudhuri:** In case of distribution we keep an inventory level at a 45-60 days and retail at around 90 days.

**Abhishek Kothari:** Okay and will this be the normal level of working capital base going forward?

**Indrajit Chaudhuri:** Yes, because if the sales comes back to 800 crore level so we will having a stock of 150-155 crores.

**Moderator:** Thank you. The next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

**Aditya Sen:** Most of my questions have been answered just one more what is the revenue per store that we get from the franchise stores?

**Namrata Chotrani:** Approximately 60-70 lakhs.

**Aditya Sen:** Okay and from the Company Owned Company Operated stores?

**Namrata Chotrani:** Around 1.5 crores.

**Moderator:** The next question is from the line of Anand, an individual investor. Please go ahead.

**Anand:** Congratulations, on a good fair of numbers. I just had a simple question on your branding strategy. Just wanted to know have we incurred any higher ads spends due to the collaboration with Shardul Thakur or are we still at the same level?

**Namrata Chotrani:** So, thank you Anand for your good words. So, I think, we have definitely incurred a certain fixed cost to be able to bring him onboard, do the production of content and media with him but what we are doing is that we are effectively using this content on digital media, targeting the audience which maybe more relevant to us and in the areas where we have a larger presence. So, maybe you and I may not be able to see it because we are targeting a certain audience with a certain demographic which maybe relevant to us which will help increase the footfall in our stores. So, we are using the celebrity face in a way which will be more effective for us in terms of sales and in terms of ROI.

**Anand:** All right thank you so much. Another question was on your future of the branding strategy. Do we look at any sort of Bollywood face which would help us in penetrating into other areas since we are planning to go into other regions or do you think that's not feasible?

**Namrata Chotrani:** As of now in near term I don't think that's the plan. I think we're looking at focusing on regional celebrities and regional faces to be able to garner interest and footfalls in the markets that which we are present in and where we have strength around. I think because along with the Bollywood celebrity comes a huge amount of fixed cost and that's not something which we're looking to absorb right now.

**Anand:** Please keep up with the good work and continue doing so. Thank you.

**Moderator:** Thank you. The next question is from the line of Darshan Jhaveri from Crown Capital. Please go ahead.

**Darshan Jhaveri:** Again, I just wanted to ask are we planning for any institutional sales this year? If yes then any margin or revenue guidance for that?

**Namrata Chotrani:** As of now we don't have any plans to do any institutional business this year because we are reducing the choppiness in the business also and it also reduces the impact on the working capital.

**Darshan Jhaveri:** Okay. Thank you and just a clarification question from my end. Total how many stores are you expecting to add on this year, 60-70 franchise and 10-12 COCO stores, right?

**Namrata Chotrani:** That's correct.

**Moderator:** Thank you. Ladies and gentlemen we take that as the last question for today. I would like now to hand the conference over to the management for their closing comments. Over to you sir.

**Namrata Chotrani:** Thank you all for your good words and your motivating wishes. Really appreciate your interest in the organization and look forward to your continued support and relationship in the short term, medium-term and long-term. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Khadim India Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

Disclaimer: The Company has tried its best to prepare the exact word-to-word transcript of the proceedings of the Earnings' call. However, this may not be the exact replication of the same.