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Khadim India Limited

Company Secretary & Head- Legal



frontoffice@khadims.com



033-4009 0501



033-4009 0500

www.khadims.com

KHADIM INDIA LIMITED

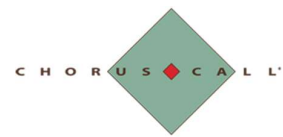
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REGISTERED OFFICE : 7TH FLOOR, TOWER C, DLF IT PARK, 08 MAJOR ARTERIAL ROAD, BLOCK AF, NEW TOWN (RAJARHAT), KOLKATA - 700 156
CITY OFFICE : 7A, LINDSAY STREET, KOLKATA - 700 087



“Khadim India Limited
Q3 and 9M FY '23 Earnings Conference Call”

February 16, 2023



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

MODERATOR: **MR. NACHIKET KALE – ORIENT CAPITAL**



*Khadim India Limited
February 16, 2023*

Moderator: Ladies and gentlemen, good day, and welcome to the Khadim India Limited Q3 and Nine Months FY '23 Earnings Conference Call organized by Orient Capital. As a reminder all

Our endeavor to establish a pan-India presence with an asset-light strategy has taken the retail store tally to 838 as of December 31, with an addition of 73 stores in nine months FY '23. The Company is also capitalizing on the retail network to grow aggressively in footwear distribution and has a network of 682 distributors as on December 31.

Q3 and nine-month financial highlights:

Q3 FY '23 revenue at ₹ 149 crores is down year-on-year by 19%, however the trend is largely positive year-to-date with nine-month FY '23 revenue at ₹ 501 crores, up by 15% year-on-year.

The distribution business in which we carry the most affordable and economic products, has suffered significant headwinds with muted demand in the Tier II and Tier III markets and has registered a year-on-year de-growth of 36% in Q3 FY '23 and 7% in nine months FY '23. However, the retail portfolio is doing well and registered an encouraging 31% year-on-year growth for nine-month FY '23.

Gross margin for Q3 and nine-month FY '23 stands at 41.6% and 41.2%, respectively, with a significant improvement of almost 400 basis point across both periods.

EBITDA for Q3 FY '23 is down by 22% at ₹ 17 crores and nine-month FY '23 EBITDA at ₹ 56 crores registered a growth of 60%. EBITDA margin at 11.2% has been sequentially flat in Q3 and over the period of nine months improved by 320 basis points from 8% EBITDA margin in nine months FY '22.

The PAT for the quarter was ₹ 5 crores and the nine-month FY '23 PAT at ₹ 13 crores shows strong uptrend in the year so far with a 250% growth year-on-year.

So now we can proceed for the question-and-answer.

Moderator:

The first question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta:

Thank you. Sir, my first question is regarding the management change. Now that Ms. Namrata has decided to move on and we'll be taking care of the Company from here on, do we see any -- so there was a clear strategy part that she had guided the investors in terms of both the B2B, as in the franchise business and in the retail business and the mass-market business. Is there any change in strategy, we are looking at as such? Or we'll continue to build on what she had already done over last three - four years?

Siddhartha Roy Burman:

The system will be same and it will go on as it was. There is a head for every function. So there will be no problem and the promoter side Rittick and myself, we were there before also. So there will be no problem.

Indrajit Chaudhuri:

The strategy will remain the same for both the distribution and the retail business. So there will be no change on that side. And there is functional head for every operation. So they will continue and Rittick will overall guide the team and also take active part in the merchandising of the product.

- Viraj Mehta:** We are seeing a very solid de-growth in distribution in this quarter. And even for nine months, we have done very badly compared to last year first quarter was a total wipeout. Can you please explain this?
- Indrajit Chaudhuri:** Mainly, the distribution business, if you see the last year in December, there was a GST increase from January 2022.
- Siddhartha Roy Burman :** 7% to 12%.
- Indrajit Chaudhuri:** From 5% to 12%, so 7% increase. So that had created a mass offtake in the month of December. So that's why in this third quarter, we have seen a degrowth in the distribution business. And another impact is that there is a muted demand in the Tier II - Tier III sector where the distribution business generally operate. And overall there is also inflationary pressure in this mass-market segment. So all these three has created the demand going downward in this distribution business.
- Viraj Mehta:** And sir, after seeing robust gross margin in distribution business Namrata had articulated that we are looking at early 40s kind of gross margin in distribution business and 55 odd percent kind of gross margin in retail business in a couple of years. Do we still stand by it?
- Indrajit Chaudhuri:** In the retail, we stand by it. We are already doing 54% margin in retail. But in the distribution business there is a pressure in the sales price also after the GST increase. Everyone has taken a hit in the sales price. So reaching 40% at present looks difficult, but we'll gradually try to increase the margin. We are now at 35% level. We can improve by 100 basis point in the next year.
- Viraj Mehta:** And sir my last question is on sales. Management were very confident of doing ₹ 750 odd crores this year, looking at what we have done in nine months, I mean, I'm assuming we'll fall short of it. Can you give some targets for next year, what are we looking at? And by when are we looking at ₹ 1,000 crores that -- I mean, we had also mentioned publicly a few times.
- Indrajit Chaudhuri:** Yes, if you see the sales that, which is reported is net of GST and scheme cost as per IND AS 115. If you see the gross turnover of the Company this year, we'll reach ₹ 750 crores. And next year, definitely in retail we'll expect a growth of 10% to 12% and in distribution around 15%.
- Viraj Mehta:** Sorry, can you translate what ₹ 750 crores in gross will mean in net?
- Indrajit Chaudhuri:** ₹ 750 crores gross will mean around GST of around average 12%. ₹ 750 crores in gross will turn out to be around ₹ 670 crores in net.
- Viraj Mehta:** Okay. So we'll still do around ₹ 170 crores - ₹ 180 crores in the last quarter is what you are saying?
- Indrajit Chaudhuri:** Yes, yes.
- Viraj Mehta:** And any target for next year, sir?

- Indrajit Chaudhuri:** Next year we are in the process of making the budget. So we expect a growth of 10% to 12% in retail segment and 15% in distribution.
- Viraj Mehta:** And sir, can you talk a little bit about the competitive intensity, a lot of players in this segment had to take a price cut, significant price cut in the lower level flip flops of ₹ 150. I mean, we have seen price cuts of 10% - 12% in that region. What kind of price cuts would be have taken this quarter?
- Indrajit Chaudhuri:** We have taken a price cut of around 5% to 6% in the distribution segment because there are a lot of competitors who have taken a huge price cut. But we have taken around 5% to 6%. Because our price was lower compared to them.
- Viraj Mehta:** On a blended basis.
- Indrajit Chaudhuri:** On a blended basis.
- Viraj Mehta:** So if we were to compare our product, I mean, roughly like-to-like products with the largest distribution player in the country. Our like-to-like product will be now at a premium or at a discount or is at a same price ? Let's say, the normal grey flip-flops.
- Indrajit Chaudhuri:** We are at ₹ 10 lower than them.
- Viraj Mehta:** So they would be at ₹ 129, you would be at ₹ 119.
- Indrajit Chaudhuri:** Yes.
- Viraj Mehta:** Okay, thank you so much and best of luck.
- Indrajit Chaudhuri:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** Hi. Good afternoon. Sir, my first question is, if we see last 5 years numbers then it appear in the range of ₹ 610 crores to maybe we land up with ₹ 750 crores. In between its gone up and down, and we have big distribution network, we are probably one of the largest in terms of the number of stores. So sir, why are we as a promoter satisfied with this 10% - 12% growth? And this I'm asking because when we open 50-60 new stores, 6%-7% organic growth comes from there, 3%-4% growth comes from ASP, basically volume growth in the existing store is not factored in. Is that the real on-the-ground scenario, what am I missing? Am I missing something here?
- Indrajit Chaudhuri:** The problem that most retailer is facing is the volume growth. And we have seen that in the last few years the footfall has gone down by 30%. So there is an inorganic growth in opening new stores. There is growth in the ASP, but the volume has not grown, so volume there is a degrowth and the volume degrowth is not only in the retail segment, it is this time has also hit in the distribution market. Because of the inflationary pressure that has been in the middle and the lower segment of the market.

- Rittick Roy Burman:** And we are also trying to...
- Dhwanil Desai:** I'm sorry, I'm not able to hear you.
- Indrajit Chaudhuri:** We have seen that there is also muted volume in the distribution segment also.
- Dhwanil Desai:** Okay. 10-12% is what I think is realistic on the retail side in the current scenario.
- Indrajit Chaudhuri:** In the current market scenario and considering India's inflationary situation, we cannot forecast more than that, at present.
- Rittick Roy Burman:** And we are also taking some action, because of the degrowth in volume that you were just mentioning. So over the years, some of the prices of our products had become way too expensive. So we want to keep our ASPs high, we want to keep our ASPs high mainly in our sub-brands like, Pro and British Walkers. But when it comes to our mother brand Khadim, we are reducing some of the prices keeping the margin as it was before in order to reduce the volume degrowth. So that is the plan to grow even more.
- Moderator:** Sir, we seem to have the current participant in the line dropped from the question queue. We will move to the next question from the line of Anish Jain from JB Capital. Please go ahead.
- Anish Jain:** Thanks for the opportunity, sir. So, I have a couple of questions on the financial side. So, the first was that we have seen increase in our finance costs. So just wanted to understand the reason for this and exactly like is there any increase in debt in this quarter or something like that? And the other one was a drop in the other expenses, so maybe your comment on that.
- Indrajit Chaudhuri:** Yes, what has happened this year, we have shifted one of our warehouse from Bantala to Panchla and factory from Kasba to Serampore. Now this finance cost increase is not because of debt, it is because of the IND-AS 116 impact because now the rent is now treated as depreciation and interest. So for that reason since we shifted from our own warehouse to rented one, so that thing has impacted the increase in finance costs. This is number one. And other expense is lower compared to last quarter, because of reducing the cost in the other segment, cost have reduced and there is also a profit that has been adjusted in our sale of the properties.
- Anish Jain:** Okay, thanks.
- Moderator:** The next question is from the line of Ishan, an Individual Investor. Please go ahead.
- Ishan:** Yes, thanks for giving me the opportunity. My first question is, I want to know the number of company-owned stores and the franchise stores? And the total square feet of operation, we are doing in the retail in the company-owned stores?
- Indrajit Chaudhuri:** We have around 220 company-owned stores and around 500 franchisees.
- Ishan:** And total square feet of operations in our company-owned stores?
- Indrajit Chaudhuri:** Total?

- Ishan:** Total square feet of operation.
- Indrajit Chaudhuri:** Generally, the average square feet in company-owned stores is 1,000 square feet. And in the franchisee, it is around 700 square feet.
- Ishan:** Okay. And the EBITDA margin for the retail and distribution business individually?
- Indrajit Chaudhuri:** That we can give you on one-to-one basis, you make a call to our Company secretary we can provide the data there.
- Ishan:** Okay. And what should we expect from you for the next three to five years, what would be your outlook?
- Indrajit Chaudhuri:** Outlook is that in the retail, we tend to grow at a level of 10% to 12% and in distribution around 15%. And we tend to have an EBITDA of around 15% in the next -- in FY '25.
- Ishan:** Yes, thank you.
- Moderator:** The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.
- Viraj Mehta:** Sir, when you mentioned 15% EBITDA, is it adjusted for rent, because rent is now below EBITDA or not adjusted? Like are you saying this 15% EBITDA before paying out the rent or after paying out the rents?
- Indrajit Chaudhuri:** Before paying out, the EBITDA, which is around 11.2% we intend to make it around 15%.
- Viraj Mehta:** Okay. So essentially 4% -- 3% to 4% improvement directly in the PBT margin is what you expect? Because that's the improvement you are expecting.
- Indrajit Chaudhuri:** Yes, by increase in sales volume.
- Viraj Mehta:** Right. But where will that come from because you are saying gross margins in the retail business is 53%, 54%, we can go to 55%. And in the distribution business also improving gross margins seems difficult. So where will that 4% come from?
- Indrajit Chaudhuri:** I'm considering this 4% in the span of two years. Number-one, it will come from the economies of scale of cost, because when the sales volume increases, the costs do not increase in that manner, number-one. And number two, the increase in premiumization of the product and increase in gross margin of 1% to 2% in retail business.
- Viraj Mehta:** Okay. But sir, right now you do not feel that there is reverse premiumization is happening in the industry and people are downgrading rather than premiumization, can you comment anything on that, sir? And how long will this trend last and is it temporary?
- Rittick Roy Burman:** Actually premiumization is happening still. Like right now 60% of our retail sales is coming from our sub-brands, the sales value 60% comes from the sub-brands, which is Pro a sportswear brand, British Walkers is a premium leather brands. And the rest 40% is coming from mother brand Khadim, which constitutes of mainly chappal, flip-flops. So it has to be the margin -- the

Khadim brand products prices have to be made a little competitive. Whereas the British Walker or the Pro the sportswear brands their premiumization will still be at play. And the good news is that our sales value is more from our sub-brands now than the mother brand, which was little different before.

- Viraj Mehta:** Sure sir, thank you so much. I'll get back in the queue.
- Moderator:** The next question is from the line of Dhwani Desai from Turtle Capital. Please go ahead.
- Dhwani Desai:** Sir, my question is, the earlier CEO our sales and marketing side.
- Moderator:** Sir, line for you is breaking up again. Mr. Desai, if you could please move to an area with better network?
- Dhwani Desai:** I will. Yes. Hello?
- Moderator:** Hello, Mr. Desai, if you have moved to a better network area. You may proceed with your question, sir.
- Indrajit Chaudhuri:** Hello?
- Moderator:** Sir, the line for the current participant is not very clear at the moment. As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.
- Indrajit Chaudhuri:** I thank all the participants who has joined the con-call. And also our IR team. Thank you all.
- Rittick Roy Burman:** Thank you all for joining the conference call. And this third quarter was a bit tough quarter as we have mentioned in the opening speech as well. But we are hoping for better, slowish but better recovery in the months to come. So we will continue to perform and reward the investors. Thank you.
- Moderator:** Thank you. On behalf of Khadim India Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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