KHADIM

August 18, 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: Outcome of Investor Meet

This is with reference to Investor Meet held on Wednesday, August 10, 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. Unaudited Standalone and Consolidated Financial Results of the Company for the quarter ended June 30, 2022.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

Abhijit Dan

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

Encl: As above

"Khadim India Limited
Q1 FY 23 Earnings Conference Call"

August 10, 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 Q1 FY'23 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 '*' and '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Nachiket Kale from Orient Capital. Thank you, and over to you, sir.

Nachiket Kale: Hello. Good evening, everyone. Welcome to this conference call to discuss the results for first quarter of FY 2023. Today on this call, we have from Khadim India Limited, the promoter Mr. Siddhartha Roy Burman, who is the Chairman and Managing Director; Mr. Rittick Roy Burman, Whole-time Director; Ms. Namrata Chotrani, CEO; and Mr. Indrajit Chaudhuri, CFO.

Before we start the call, I'd like to give a small disclaimer that this conference call may contain forward-looking statements, which are based on the beliefs, opinions and expectations of the Company as on date of this call. Actual results may differ materially. A detailed safe harbor statement has also been published in the Company's investor presentation, which has been uploaded on the stock exchange today. I hope everyone had a chance to go through the presentation and the press release.

I would now like to hand over the call to Mr. Siddhartha Roy Burman. Over to you, sir.

Siddhartha Roy Burman: Okay. Thank you. Good evening and Namaskar everybody. We welcome you to this conference call to discuss the first quarter results for the financial year 2022-23.

We closed FY'22 on a firm footing, putting the worst of the pandemic behind us with a strong recovery in sales and profitability. We are happy to report that we are building upon the momentum with the strategic efforts. The impact is visible in our performance this quarter in which we have registered 190% growth in retail sales.

Our continuous focus on product improvement and improved retail experience has led to renewed demand.

We continue to strengthen our retail presence and expanded our store network to 796 stores with an addition of 25 stores. In the distribution business, we are especially focusing on the strengthening of our foothold in the Eastern market.

Coming to our performance for the quarter. Revenue in Q1 FY'23 stood at ₹ 166 crore, growing by 88.2% from ₹ 82 crore in Q1 FY'22. The retail business has delivered an encouraging 190% growth. Overall gross margin stands at 41.3%, an increase of 596 bps year-on-year. Retail gross margin have improved from 50.6% to 54.1%. EBITDA stood at ₹ 17 crore, exhibiting an encouraging recovery from an EBITDA loss of ₹ 36 lakhs in Q1 FY'22. EBITDA margin at 10.3% has improved both year-on-year and quarter-to-quarter. While we had reported a loss of ₹ 10.8 crore in Q1 FY'22, we have now generated a healthy profit of ₹ 3.3 crores.

While we continue to deal with macroeconomic challenges and volatility in raw material prices, we are confident in our ability to deliver strong performance going ahead and deliver value for all stakeholders. Thank you very much.

Moderator: We take the first question from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Can you just tell me what would be the EBITDA before Ind AS, if you were to adjust for the rent?

Indrajit Chaudhuri: If rent is adjusted then it will be around 7%.

Viraj Mehta: Okay. If we essentially look at our gross profit margins this quarter, they were closer to around 41%, which is an improvement even in last quarter, whereas this quarter, we saw a hike in the raw materials. So can you throw some light? I mean what kind of like-to-like pricing did we take? Like how did we manage that? Or is it just all product mix change?

Namrata Chotrani: It's just a function of both, Viraj, it's function of price increases to adjust for the raw material price increase and the GST. And also the premiumization which we are doing in our product mix to ensure that the sub-brands sell more, which drives the ASP increase and the gross margin increase.

Indrajit Chaudhuri: And mainly the gross margin increase is there in the retail segment, where from 50%, it has gone to 54%.

Viraj Mehta: Got it. And in terms of retail segment, like what will be your aspirational gross margin?

Namrata Chotrani: So I think we are looking at growing on a year-on-year basis by approximately 100 basis points.

Viraj Mehta: I understand. But, like is there an upper cap? Like do you think 57, 58 is kind of possible over 3, 4 years?

Namrata Chotrani: Sir, it's definitely possible, but to put a minimum or a maximum does become tough. We are right now at our healthiest and the highest ever gross margin. And if you compare to the industry standard, I think we are pretty much there. In fact, if you compare any apparel or a footwear retail company, our gross margins are pretty comparable. So I think we've reached healthy numbers. The idea from now on is to ensure that we are working on the range architecture to ensure the ASP increase, which will be driven through the premiumization which we are trying to do through our range architecture and also which will drive the gross margin increase.

But we also want to ensure that we are continuing to keep the products affordable. Our positioning is affordable fashion. We don't intend to become premium, so to ensure that we continue to remain affordable, this is a very healthy margin given that position that we're looking at.

Viraj Mehta: No, absolutely. So if I look at our stores, which is around 796, even in last few calls, you've continued to maintain that there will be some store growth and there will be same-store sales growth. Like what will be our throughput per store? Or is there a place where some significant amount of stores are at a significant disadvantage in terms of throughput per store per day vis-a-vis some of our older stores, and are we doing something to kind of change that? If you can talk a little bit about the strategy there because you're right in terms of margins, in terms of gross margin, we are right up there. But in terms of EBITDA, we are not remotely close to some of the larger players just because the throughput probably isn't there.

Namrata Chotrani: So number one, I think in terms of throughput, as you mentioned earlier, yes, there will be our core stores which will be over performing very significantly and that applies to any brand. We will have some stores which will be over performing. And there are some stores which will be performing lower than average purely because we're entering into new markets. We are trying to establish ourselves there and it's taking that amount of time. Having said that, we are constantly trying to figure on a regular basis, analyzing the stores which are performing lower than the average or a healthy EBITDA margin to ensure that we are working on the range architecture and we're working on the cost lever either to increase sales or to reduce cost to ensure that store continues to remain healthy, profitable. So that's an ongoing exercise by the entire team.

And in terms of reaching, we're not close to a lot of brands, yes, but we are also close to a few of them in the affordable fashion segment in terms of profitability. Having said that, I think one would appreciate that in the last 5 to 6 quarters, we have continuously given profitability and managed to turn around despite COVID. And I think at 10.5%, we are doing good numbers. In fact, some of the companies in the industry are at similar levels as well. So I think, yes, there is definitely an endeavor to perform significantly better, and we are definitely looking at doing it. But I think it's the process of time. I think second and third quarter, given that will be significantly better, hopefully, given the festive is around the corner, margins should be better.

Viraj Mehta: Just one request, Namrata and team. If you can provide and you have been very kind enough to share a lot of data in the presentation. But if you can provide one number, which is especially in the retail, what will be the store level profitability, not only gross margins, but just to give a sense if I were to look at the QSR, it's a store level profitability and then there will be corporate overheads, just to give some sense of profitability and ROCE across 2 businesses. If at all it will be possible in the future, it will be very, very helpful.

Moderator: We take the next question from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Sir, just 2 questions. First, how is July and August numbers? I don't need a future looking, but how is the trend, consumer sentiment? And second, if you can throw some light on the inventory side, how the things are shaping up currently right now?

Namrata Chotrani: So, I think the consumer sentiment is definitely improving. We are seeing a slow improvement in the consumer behavior. Yes, inflation is a reality. None of us can shy away from it, but consumer behavior is normalizing compared to the COVID period. We are seeing people purchasing the products across various categories, including work, festive, party, casual, sports shoes. I think so the offtake is good across every category, not only in retail, even distribution. So yes, we are hopeful that this quarter will be good.

Indrajit Chaudhuri: Our stock base was at 98 days in 31st March 2022. So it has gone up slightly higher to 104 days. Second quarter also, the stock level will be high. But once the festive has gone, the stock level days will come down.

Abhishek Jain: Sir, on the sentiment side, in which areas you are in like in the eastern part of our country and where exactly we are getting good feedback and where we still believe there are challenges, if you can throw some light? And second, if you can throw some light on the product mix side, like which are the products like maybe ladies' segment and all, where exactly we are getting good feedback? I'll finish the 2 questions and the third question. I'll take it, will be a follow-up question for the other 2 right now. If you can do these 2 also, that will be helpful.

Namrata Chotrani: So in terms of region, we are seeing an overall improvement in sentiment across the regions we are present. Fifty percent of our business does come from the East. So East definitely has a significant impact to our business. Around 20%-25% comes from the southern part of the country, which is also significant. So we're seeing a normalized improvement across both the markets. We're not seeing significant difference across.

In terms of category, as I said earlier, during the COVID period, there were some categories which were performing decently well and some categories were underperforming significantly, like there was no demand for workwear, there was no demand for school shoes, there was no demand for party wear. So there was more basic demand requirement. Home wear or sport shoes, athleisure was very huge during COVID period, which continues to be significant. But now there is a demand of workwear. School shoes have come back pretty significantly. But if you see on a normalized basis, there'll be spurts of demand because of the pent-up demand which has come owing to limited shopping in the last couple of years. But then on a normalized basis, we are seeing all categories perform the way they were doing pre COVID.

Moderator: We take the next question from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Congratulations for the good set of numbers for the last 3-4 quarters. Ma'am, just to understand, one, on the overall strategy to improve our sales and also the average selling price. So within the strategy for sales growth, how do we look at it? And I would be happy if you can give more quantitative color to the same. You have spoken about the various strategies earlier in terms of premiumization and also product mix changes, but if you could quantify certain things that will be helpful to us to understand the overall sales growth which you are looking for the current year and the next year. So typically, how do you look at the volume growth, the product mix changes, the store addition and moving on the average selling price? That's my question number one.

Namrata Chotrani: So Rahul, thank you for your question. I really appreciate it. So I think in terms of growth, at pre-COVID levels, we were approximately at ₹ 500 as an ASP at our retail level. We have gone up to approximately ₹ 600 in terms of average selling price, which is a good increase in the ASP, which is driven through the entire premiumization that we're looking at, the price increase that we have also taken adjusting for the raw material and the GST. So the improvement has also been reflected in the gross margins as well. So that is definitely something which has been a significant reason for even the recovery for our business.

But having said that, I think on a year-on-year basis, this is not the kind of growth one is looking at. There have been a couple of abnormal years and the reasons also is that the inflation were there, the GST was there. And given that the GST increase was almost from 5% to 12%, which is in the below ₹ 1,000 category wherein almost 80% of our retail product range is there and almost 100% of our distribution product range. So the GST impact was quite significant. But going forward, I think the ASP increase that we will be looking at in the range of around 4% to 5% and the balance coming through the SSG and the new store openings on an annual basis. We're looking at growing approximately 70 to 80 stores on a year-on-year basis across the markets that we are currently present and in new markets through COCO and franchisees, but largely driven through the franchisee model.

Rahul Jain: Sure. So you were looking at the guidance, you had given a guidance of around ₹ 800 crore of revenue for FY '23. Do we stand by that and with an EBITDA target of 12%?

Indrajit Chaudhuri: EBITDA of 12% annually.

Rahul Jain: Yes. In the previous call.

Indrajit Chaudhuri: Yes.

Rahul Jain: And with regards to revenue?

Indrajit Chaudhuri: Gross ₹ 800 crores.

Rahul Jain: Okay. So when you say that gross, typically the reported number.

Indrajit Chaudhuri: No, gross is including the GST.

Namrata Chotrani: So just to give you a perspective, if you look at even in our investor report, just to give an understanding as to the pre and the post impact of GST. If you remove the impact of the GST, the growth for the distribution business was almost 27% and retail was almost 207%. Vis-a-vis the net sales is 19% and 190%.

Rahul Jain: Sure. And ma'am, with regards to the average selling price, I think one of the previous participants tried to understand the throughput for the store and comparing to the other companies, which is where the difference probably the EBITDA margin could be one of the reasons for that. So typically, our average selling price on the retail side also seems to be low, of course, with the kind of products which we are into. But probably it also falls because on the distribution side, our average selling price comes practically very low. So how do we look to correct this or say what do we do so that we can move to around, say, 15%-16% EBITDA margin in the next 2 years or so?

Namrata Chotrani: So it's going to be a function of the fact that the growth will come back, will normalize much more. If you're seeing that in the last quarter, also inflation and

COVID was a reality. But I think we are looking at growing in terms of sales, our retail expansion. The operating leverage coming in will definitely improve the EBITDA margins. That, there is no two ways about it. On the distribution side, as you said, see, distribution is the very different business compared to the retail business. Distribution, the product mix is very different. There is Hawai chappal, PVC chappal PU chappal and 80% of your product mix or the product range is below ₹ 500. So there, the ASP increase is not something which we are significantly looking at as much as we're looking at the volume growth because there the business is grown in terms of volume, we will take more market share. And the operating leverage itself will drive you the profitability improvement. So I'm hoping, over the next couple of years, we'll be looking at the number you're talking about.

Moderator: We take the next question from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Congrats on a good recovery. Namrata, I just wanted to understand, we did very well considering that the inflationary pressure that we had on gross margin. We actually did better than some of the other peers also. So just wanted to understand, what are levers that we dialed upon to protect or improve gross margins?

Namrata Chotrani: The gross margin increase is mainly driven through the ASP increase, which is driven through the entire premiumization and the requisite price increases to make up for the inflationary pressures and the GST increase. So I think this is the entire value engineering that we have done on the product to reduce cost and to ensure that we are able to provide fashion at an affordable price. So the way we talk about it internally is that we look at fashion the way it is working across the country, across the world. We analyze fashion, analyze color, analyze fashion trend, and we try figuring how to Khadimize it. That's the way we talk about it internally.

By Khadimize, basically, we try figuring how to source those products through the local vendors in a manner where we are providing quality and fashionable products at the right price with the right margins. So I think, we are very focused and every product needs to make that kind of gross margin. The entire team personally looks at the product gross margin, and accordingly, we place the product on the shelf. So that is something which has been driving the improvement in gross margin and also which has led to the improvement and the recovery of the business.

Tejash Shah: So ASP increase and better sourcing, those are the two drivers?

Namrata Chotrani: ASP increase and?

Indrajit Chaudhuri: Better sourcing.

Tejash Shah: Better sourcing, Yes. So Namrata, just staying with this point. So this quarter was very difficult for footwear industry, especially for value retailers like us because there was a GST increase also, which we had to pass on along with inflation. And still, we actually did well. Even demand also did not get impacted much. So just wanted to understand, how should we read consumer sentiment? Because the pure price increase and GST increase and the kind of cohort that we are servicing to, I'm assuming that it has to be price sensitive, but what worked for us? And do you think that we would have gained market share in the relevant market?

Namrata Chotrani: See, on the retail side, Tejash, in general, the kind of product mix and the price assortment that we have, and I've said this in many calls and conversations which I've had with the larger investor base, is that on the retail side, I don't think there's any other brand that is able to offer the kind of product mix at the price point that we are offering. It is with utmost modesty that I'm stating that because we've done the recce across most brands. The range that we're offering at the price point that we're offering, there are not many brands who are able to do that. And that's also the DNA of the organization, which has been built up over many, many years.

So because of this, the impact on the retail side has been relatively lesser in terms of the impact of inflation. I'm not saying it's not there, but it's relatively lesser because our strength is our affordability and fashion. On the distribution side, yes, there has been an impact in terms of volume and price point purely because the consumer today, he has to juggle with, for lack of better words, atta, sugar, tea at much higher prices than they were being used to. So then they today have, if they're earning ₹ 100, their income has not increased significantly as much the cost has increased. So today, they have to make a choice of whether they want to go for a branded player or a non-branded player because even if they want to go for branded player, does their pockets allow it. Maybe it's a short-term issue, but it is definitely a concern for most of the brands in the country.

Having said that, I think what we at least trying to do internally is that we're trying to do a lot of work on the product. We're value engineering the product significantly to ensure that you are able to cater to that demand and not lose that demand despite and also maintain that kind of margin. So we are creating a product range to be able to cater to every demand so that we don't lose on market share and volume. And hopefully, we would have gained some.

Tejash Shah: Great. And the last one, you spoke about adding some 70 EBOs, right, retail stores?

Namrata Chotrani: Yes, 70 to 80 stores per year, out of which almost 90% would be franchisees.

Tejash Shah: Okay. And any regional breakup would you like to give, how much will be East, South?

Namrata Chotrani: I'll just give you the number. So approximately 60% would be East, 20%-25% would be South and balance would be North and West.

Tejash Shah: Okay. So why I asked the question, Namrata, when I see your retail penetration in a state like West Bengal, we have 250+ kind of EBO. And obviously, we started a brand from there, so I understand the brand has also much more established. But when we do our channel checks, we have reasonable presence and brand equity now in Southern India, especially Tamil Nadu and Karnataka also. So just wanted to understand, instead of spreading ourselves too wide. And then these 2-3 geographies in South India are chunk of many national established brands also. Would you like to penetrate further in some of these existing markets aggressively and then add new states? You're already present in all the states mostly. But I just wanted to understand, would you have that kind of plan that you want to focus on, let's say, Tamil Nadu, Karnataka for next 1-2 years? And then at least bring it to 100 store kind of stakes each state, and then actually expand or move forward to other states? Just randomly asking this thought process behind your expansion plans.

Namrata Chotrani: So before I answer the question, I mean which are the brands you're referring to in South India, which are very huge.

Tejash Shah: No. I'm saying national brands also, and then this not only footwear category, other categories also, we have seen that South India has a very reasonable chunky contribution because the per capita income and disposable income, both are very good for most of the lifestyle categories. So I'm saying, we have established ourselves as a very strong brand in Southern India. And at least in our channel checks, we figure out what we have, a sample check could be wrong also. But we believe that we have a super brand equity in Tamil Nadu and Karnataka, Tamil Nadu in particular. So just wanted to understand, 63 stores, are we under-indexed to the brand equity that we have in some of the states? And would you like to focus on some of the states where we have already established and then make discount, let's say, out of 80, 60 comes from some of these 2 states, 3 states, and then we actually go forward to add new states where we are thinly represented?

Namrata Chotrani: So Tejash, frankly, we've been in South India for almost 15 to 20 years now. And because of that, I think as you rightly mentioned, the brand equity in Tamil Nadu is very high. In Karnataka also, we are doing well. In fact, amongst the last survey that we had done, we are among the top 3 retail brands in the southern part of the country. So we definitely have a very strong brand equity. In fact, a few years back I had gone to Mangalore, just as an example. And we did not have presence there. I've gone to two malls over there. And both the malls, despite the fact that we did not have presence in Mangalore, knew about the brand, and were very open to and encouraging us to come and open a store there. The point I'm trying to make is that despite the fact that in some markets we are not there, the brand equity is strong enough for us to be able to open either a COCO or a franchisee. And the potential of the market is very strong, and we are looking at capitalizing on the markets, so we've done a full micro market analysis as to where we'll be able to open a COCO, where we been able to open a franchisee, a large format franchisee or small format franchisee depending on the market.

And based on that, we are deploying all our resources in terms financially and human manpower to be able to get those stores. When you're trying to open a franchisee, if you are too concentrated, in our experience at times, it becomes difficult because all your eggs are in one basket. In our experience, we prefer to have a larger umbrella in terms of getting franchisees, but we are also trying to focus in the states where we have good presence. We're not trying to start a new venture, and new state, particularly. But again, having said that, Northern and West part of the country is not something we,ve been looking at expansion right now. We've been laying the seeds for future expansion because if we don't start now, in the next couple of years, we will struggle for penetration and growth.

So we're laying the seeds for expansion. In fact, we have a good presence in Gujarat, Rajasthan. As we speak, Punjab we're opening up. In Ghaziabad, we're opening up. And we're getting a good response also. So I think we are hopeful that it will come out right. But to answer your question very, very particularly, East is definitely our home market. We will continue to penetrate the existing market as well, but laying seeds for future expansion in the new markets.

Indrajit Chaudhuri: Out of the total, 65% of store is opened in the East and South.

Tejash Shah: Got it, sir. No, I was also looking from SKU operating leverage perspective. I believe our East and South will have more SKU operating leverage commonality in terms of servicing same taste fashion sense and all. So, I got my answer. Thanks, and all the best.

Namrata Chotrani: Tejash, East and South are very similar fashion sense. It's relatively more basic, more standard, more cool compared to the other parts of the country. So the expansion which we have started from the East and the South was owing to that reason also, and I think which has helped us and grow, because the mindset is relatively similar. I would not say, same.

Moderator: We take the next question from the line of Jaganathan, an individual investor. Please go ahead.

Jaganathan: I would like to know what are the ASPs currently at? And in terms of retail and distribution?

Namrata Chotrani: So in retail, our ASP is approximately 600. And in distribution, it is approximately 100.

Jaganathan: 100. So we are blending at?

Namrata Chotrani: Sorry?

Jaganathan: So the blended ASP would be?

Namrata Chotrani: It would be incorrect to look at blended ASP because that's two very different businessess, sir.

Jaganathan: But if I have to say this many number of pairs sold multiplied by average ASP, what would that number be?

Namrata Chotrani: See, the retail ASP that I'm giving you is something which we experience at our store at a COCO level. If you're looking at the distribution ASP, it's something which I'm selling to the distributor net of the distribution margin. So again, it's a very different comparison. It will be a wholesale rate versus a retail rate, so it's not the right way to look at it, sir.

Jaganathan: Because there is no concept of a blended ASP. I understand. Okay. So what is the price increase we have taken this quarter on the ASP, on distribution and on retail?

Namrata Chotrani: So it's not this quarter, particularly. I think the way we work is that the product introductions happen across 4 phases. We have the spring-summer which comes in February-March. We have another Eid and marriage season, which comes somewhere in April-May, then you have festive AW which comes in right now, then you have winter, which comes in November-December. So I think the idea is that we will take the requisite inflationary price increases and the range architecture which we developed for this year, this calendar year of adjusting for the 4 seasons, this will adjust for the ASP increase. So I don't think it's a particular quarter price increase.

Jaganathan: Okay. So in the previous con call, you had mentioned that you have taken an ASP increase of approximately 20% to 22% on the distribution side and 14% to 16% on the retail side, in the previous con call. So just trying to understand that the increase in ASP on both distribution and retail has not translated into the increase in the top line. Even if it's not like-to-like, are we like losing market share in terms of number of pairs sold? Because if my overall ASPs go up by 18% and if my sale remains constant as compared to, say, Q2 of FY'21, which is a normalized quarter without breaking for COVID or adjusting for COVID, so would it be fair to say that we are losing some market share?

Namrata Chotrani: In terms of the 25% growth that I have told you, which you have taken is purely because of the inflationary price increases and the GST impact which we had to take the price increases for that reason. So I think that is what I was trying to say in the previous call also, and which then the industry has taken those price increases to adjust for this increase in cost. That was number one. And number two, I didn't get your last question, compared to Q1'21.

Jaganathan: Not Q1, ma'am. Q2 '21. Q1 '21 was a COVID quarter so that's not a fair comparison. I thought Q2 '21. Q3 '21 is Pujo. So I can't compare Q3 '21 because that's a special quarter. That's the best quarter.

Namrata Chotrani: But Q2 '21 also would be an incorrect base to take because number one, it had just come out from a COVID period. And number two, it had adjusted for the Q2, have a maximum billing for pre-festive to your franchisees. So I think it is a very incorrect comparison. And so talking from a distribution angle, if you go back to the COVID period, when you had just come up in the COVID period, the demand for open chappals and Hawai chappals was significantly high purely because the unorganized market and a lot of factories were shut across the country.

And if you see most of the branded players in the distribution business during that year have performed fantastically and showed fantastic growth in Hawai chappals, open chappals for that particular reason. Because a lot of the people had gone back to the villages and a lot of them were staying at home and which has increased the demand for Hawai chappals significantly because supply was restrained. So again, the base in both in case of retail and distribution may be increased in Q2 '21 as well. And Q1 and Q2 work very differently. Because in our case, Q2, there's a lot of the selling which happens to the franchisee pre-festive.

Indrajit Chaudhuri: One data I can share, the last year, Q3 was the best quarter, Pujo quarter. There, in retail, we sold 21 lakh pairs. And this first quarter, we have sold 20.5 lakh pairs.

Jaganathan: Okay. So I mean if the ASPs are similar, then the sales should be higher I thought. Okay. Even if I compare the FY'19, FY'18 or whichever and if there's an ASP increase and that commensurate top line is not increasing, that is what I just wanted to fill in, like how is it possible that ASPs are going up by 20%-25% and the top line is stagnant at 160-170? I don't know. And second thing is the employee cost and other expenses have gone up in this quarter from, I think again, ₹ 14 crore in Q2 FY'21 to ₹ 17 crore employee costs. Is this due to any onetime expense increase, any onetime increase in employee costs or other expenses? Or is it going to be the trend going forward?

Indrajit Chaudhuri: Employee costs last year, this quarter, the employee was given 75% of the salary because during the COVID time, we deducted salary from the employee 25%. And in the May quarter, last year, we have paid 50% of the salary. So that has been normalized in October '21, and this year, there was an increment. So that's why the employee cost has gone up. And other costs have gone up because there is selling costs, the sales has increased, other costs has also increased, and the traveling has also increased. So that's why the thing has normalized. So the cost has also increased and normalized in the like pre-COVID levels.

Jaganathan: Okay. So it's normalized cost. And one last thing on the sneaker thing, which ma'am was mentioning that the sneaker sales are going up and athleisure is doing well. So just a comparison between, say, even 2019 where Khadim brand was a sub-brand, Khadim was at 43% and sub-brands were at 57%. Now Khadim is at 46% and sub-brands are at 54%. So despite the market moving significantly into sneakers, where a lot of new players have come in and existing players like even legacy players have increased their sneaker sales, or even the sneaker studios or as they call it. But in our case, the contribution of Khadim has increased vis-a-vis other brands over the last 4 years. Any particular reason?

Namrata Chotrani: So your question is the sub-brand contribution has reduced, or sorry, what is your question?

Jaganathan: Yes, the brand contribution from others has reduced vis-a-vis Khadim, whereas the segment that's growing the most is the others where the sneaker segment is the fastest-growing segment, as you mentioned, athleisure.

Namrata Chotrani: So if you see, the sub-brand contribution in maybe pre-COVID was approximately 50%. And the Khadim contribution is 50% as well. So that has become approximately 60-40.

Jaganathan: Okay. And just seeing from your presentation, it's mentioned 56-43.

Namrata Chotrani: 56-43. So I think that has moved from approximately 60-40 pre-COVID.

Jaganathan: Okay. From what I see on your presentation, it's become lower in terms of other brand contribution. Okay. So your take is that the sneaker is being captured, the sneaker growth is being captured in our sales.

Namrata Chotrani: Yes. The sport shoe as a sub-brand is the largest sub-brand after the mother brand, Khadim.

Moderator: We will take the next question from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Congratulations on a good set of numbers. I actually wanted to ask a bit about our long-term growth plans. I think ma'am said that we might try achieving 14%-15% EBITDA in coming few years. So could we just have some kind of flavor or in terms of our aim for FY'25, how do we want to see our growth? Because I think we have a lot of operating leverage coming towards us with new increased retail stores and everything. So could you just have some kind of guidance whether by FY'25, we might be able to reach 14%-15% EBITDA and what our revenue numbers could look like? Because we might achieve ₹ 800 crore revenue like our best revenue this year. So could you just give us maybe a layout in terms of what we want to achieve for the next upcoming few years?

Namrata Chotrani: So by FY'25, we are targeting approximately ₹ 1,000 crore revenue and the EBITDA margin in the range of around 14%-15%.

Darshil Jhaveri: Ma'am, ₹ 1,000 crore seems a little bit conservative, if I may ask that? Or because are you being a bit cautious, because ₹ 800 crore in FY'23 is we have a good base or that you would like to maintain ₹ 1,000 crore.

Namrata Chotrani: So I mean if you take approximately a 15% compounded growth rate, it'll come up about ₹ 1,050 crore. So if you can possibly think that as a number. But I mean the idea is to reach to cross the ₹ 1,000 crore mark by FY'25 and achieve 14%-15% EBITDA margin.

Darshil Jhaveri: Yes. So I would just like to know a bit more about our unit economics in terms of our retail expansion. We are targeting 70 to 80 stores every year or so. What would be a payback period? And what kind of incremental revenue do we expect from our new stores or something? Any guidance on that would be like?

Indrajit Chaudhuri: In case of COCO, I mean when you open 1,000 square feet, the CapEx is around ₹ 25 lakh, and the working capital is ₹ 15 lakh. So we expect a return for COCO in the Northern and Western area around 2.5 to 3 years, and in case of Eastern part within a year, Southern 1.5 years. And in case of franchisee, for 700 square feet, the unit economics is that the CapEx is around ₹ 15 lakhs and a stock of 10 lakh, and they get an ROI of around 22% to 23% in a phase of 5 years.

Darshil Jhaveri: Okay. So sorry, sir, in franchise, do we just get a fixed amount of royalty every year? Or how does that work, sir?

Indrajit Chaudhuri: No, franchisee we sell at the MRP less trade discount. And we sell the product to the franchise.

Moderator: We take the last question from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, two questions. So going ahead, how do you look at the proportion of retail sales versus the distribution? So because in last 5 years, our retail sales have actually declined and so the distribution sales have gone up. Margin from distribution sales have almost remained the same. Whereas on the retail side, sales have declined but the gross margins have gone up quite sharply. So going ahead in next 2 years, how do we see this proportion between retail and distribution?

Namrata Chotrani: So on the distribution side, sir, in the last few years, I hope you appreciate that the increase in raw material prices has been almost 60% to 70%. And despite that, we've been able to maintain our prices and maintain our gross margin and try to maintain our sales at a normalized level. Because in this business, you're catering to the SEC B, SEC C, Tier II, Tier III markets at the ground level. So I think that's why you're seeing this trajectory coming, and that applies to almost all the branded players in this country who are dealing in the segment of business.

Going forward, the idea is to ensure that we are getting volume out of the existing distributors, increasing their wallet share through the same existing categories also and adding the new categories of products, which will help us drive the ASP and volume and the overall business growth. And that will also on a larger scale, be driven by the entire unorganized to the organized shift. So I think that has been the case over there. On the retail side, again, owing to the last few years of the COVID impact, the retail business across all the entire industry has seen this kind of impact.

If you, in fact, see our performance quarter-on-quarter versus all the other brands or all the other retail industry, we are pretty much in line with them. So we have worked on the entire range architecture and the product mix to be able to drive the ASP and the gross margin increase, which will hopefully continue and this has also been a little on the higher side, again because of the raw material price increases and the GST increase, which you have seen in the last 1 year itself. Hopefully, in the next couple of years, the ASP increase, as I mentioned, will be approximately 6% to 7%. And the gross margin increase will be approximately 100 basis points.

Rahul Jain: Can we touch back about ₹ 500 crore of revenue from the retail side which came in pre COVID?

Indrajit Chaudhuri: Yes. We are expecting that level of sales this year. And if you see the contribution, the retail this first quarter is around 63% of the total sales and distribution is at 33%. And online is 4%.

Rahul Jain: Okay. And lastly, ma'am, on advertisement and promotional expenses, do we have kept a kind of upper cap as a percentage of sales? The reason I'm asking is, in last 5-6 years, we were juggling the band of about ₹ 17 crore to ₹ 20 crore, only in FY'19, we were at around ₹ 27 crore and FY'20 was a huge jump to about ₹ 49 crore when we had almost 3 brand ambassador in the same year coming. And then again, it has, of course, dropped down. But we need to understand because we were in pandemic times. Obviously, you must have cut down a lot on that advertisement and promotional activities. So going ahead, what kind of budget do we keep for advertisement and promotional activities this year and the next year?

Namrata Chotrani: So thank you for this question. So in terms of sales and promotion expense, will be approximately around 4% to 5%, which will include your sales driven activities to support the sales increase, all your promotional activities and also the entire ATL and BTL. So whatever distribution base schemes or the sales base schemes at the retail level and a distribution level, plus your advertisement, your ATL and BTL would be approximately around 5% to 6%. But having said that, I think coming back to your earlier question was regarding the brand ambassador, we have evaluated. We have tried that entire exercise.

But I think the way the market is moving and way the customer is changing and the digital landscape is changing, we are looking at focusing on more regional influencers and celebrities to drive the kind of change that we are looking at in terms of products, in terms of retail experience. We're looking at doing it more digitally than the offline platform. And we have seen a good success of it in the last couple of years that we have experimented with. You have the ability in the digital media to target certain age bracket, certain genders with the kind of ad film that you're creating on the content that you're creating, which is mainly product focus.

In our case, the way we are looking at it is the product is going to be our hero. And this year, we have launched the campaign itself, It's WOW, It's Khadim, which is mainly a trinity of product, the change of product that we're doing and the retail experience and reiterating the price point of affordability. So I think that's how we are going about this entire thing. We're not looking at doing a national campaign. We're looking at doing it in the markets that we have a presence, and we want to reiterate the brand recall in the mind of the existing consumer and also acquire new consumers by communicating effectively through the digital platform and through influencers who they will resonate with.

Rahul Jain: Sure, that's quite helpful. Just lastly, short term questions, if you can answer. So we are just probably at the time when the festive season starts say in next about 20-25 days going ahead. And you have almost about 4 months of festive season across the country for next 3-4 months. So how is the kind of ground level inquiries or the ground level environment? Or how is that shaping up?

Namrata Chotrani: So on the retail side, I think we are seeing an improvement coming into the numbers. As of now, up to 15th August, discount sales will be on across the entire industry, retail industry. The numbers have been healthy. And in terms of the festive, I think at least what we are hearing the festive will be good. But having said that, the Eastern side, especially Bihar and Bengal, they have been impacted by relatively lesser amount of rain this year. So the agricultural impact of it will have to be seen, but we are hopeful for a good festive season. And I think that's the feedback that we're getting from the ground level market.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Nachiket Kale. Please go ahead.

Nachiket Kale: Thanks, everybody. Thanks for spending your time in this call. I'd also like to thank the management. For any further enquiries please get in touch with Orient Capital. 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.