

August 24, 2018

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,

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

Sub: Outcome of Investor Meet

This is with reference to our intimation dated August 16, 2018 and August 17, 2018 with respect to Investor Meet held on Friday, i.e., August 17, 2018.

Pursuant to the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith the concall transcript of the said Meeting w.r.t Financial Results for the quarter ended June 30, 2018.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For Khadim India Limited



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

KHADIM INDIA LIMITED

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“Khadim India Limited Q1 FY-19 Earnings Conference
Call”

August 17, 2018



**MANAGEMENT: MS. ISHANI RAY – CHIEF EXECUTIVE OFFICER,
KHADIM INDIA LIMITED**

**MR. INDRAJIT CHAUDHURI – CHIEF FINANCIAL
OFFICER, KHADIM INDIA LIMITED**

**MODERATORS: MR. HARIT KAPOOR – RESEARCH, IDFC SECURITIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Khadim India Limited Q1 FY19 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participants' 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 that this conference is being recorded.

I now hand the conference over to Mr. Harit Kapoor from IDFC Securities. Thank you and over to you, sir.

Harit Kapoor: Good evening everybody. On behalf of IDFC we would like to welcome the Khadim management on the call. With us from the management is Ishani Ray – CEO and Indrajit Chaudhuri – CFO.

I will now handover to Ishani for the opening remarks following which we will open it for Q&A. Over to you, Ishani.

Ishani Ray: Thank you, Harit. Good evening everyone. On behalf of the board of directors and management of the company we extend a very warm welcome to all of you to the conference call of Khadim India Limited to discuss the financial results for the first quarter of the financial year 2018-19.

We take this opportunity to once again sincerely thank all of you for your support and we shall remain committed to long term business growth and shareholder's wealth creation. In line with our expansion plans, we have added 18 new retail stores and 30 new distributors in this quarter.

Our total count currently stands at 766 retail outlets and 485 distributors. During the first quarter, in addition to our existing sponsorship deal with Kolkata Knight Riders, we also sponsored Chennai Super Kings in IPL this year. This was strategically done as we have a decade old presence in Tamil Nadu where there is a robust demand for our products and increasing franchisee enquiries.

CSK players launched our exclusive flipflops and we promoted the tie up by hoardings, radio and social media. In Q1 six new retail stores were added specifically in Tamil Nadu. In July the GST Council revised taxes for footwear priced from Rs. 500 up to Rs. 1,000 from 18% to 5%. Going forward this will work to our advantage as our entire distribution product portfolio lies below the mentioned price range.

Let me briefly discuss our financial performance during the quarter FY18-19. Q1 FY19 net revenues increased by 8.7% from Rs. 1,745 million to Rs. 1,896 million. Year-on-Year retail business revenue is stable while distribution business grew by 24%. CoCo contribution to overall revenue remains stable at 54% during the quarter. As we continue to drive premiumization through our sub brands the ratio of sub brands is overtaken that of the mother brand with an ASP of Rs. 464 in Q1 FY19. Q1 FY19 gross profit increased by 12.1% from Rs. 673 million to Rs. 765 million. Gross margin stands at 39.8% have risen by 120 basis points. Q1 FY19 EBITDA is

relatively flat at Rs. 168 million from Rs. 166 million. EBITDA margin declined by 9.6% to 8.8%.

Other expenses increased primarily due to higher rent expense on account of new stores, office space and periodic increase at existing stores, higher advertising and sales promotion expenses. Q1 FY19 PAT has remain stable from Rs. 74.4 million to Rs. 74.1 million while cash PAT, depreciation plus PAT has grown by 4% from Rs. 112.8 million to Rs. 117.4 million.

With this I would now like to open the call for question-and-answer session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Pragya Vishwakarma from Edelweiss Securities. Please go ahead.

Pragya Vishwakarma: Can you please give your comments on the retail sales being sluggish Year-on-Year? After seeing good two quarters of growth we see that this quarter your growth has flattened. The distribution business also we saw last two quarters had growth upwards of 45% and now it is just 24%. So, why are we seeing this slowdown in both the segments?

Indrajit Chaudhuri: There are two parts in the retail. One is the CoCo and other is the franchisees part. The CoCo business has grown by around 6% whereas the franchisee business has not grown. It has declined from the last quarter. In the franchisee business, last year the base was high since it was a pre-GST quarter so there was high billing from the company to the dealer, hence the base has grown up.

Last year the Pooja was in the month of September and the billing of the company started from June whereas in this year the Pooja is in the month of late October. So, billing has started in the month of July. For that reason, the franchise business dipped & overall retail has not grown for that respect. In case of distribution, distribution overall the growth has been 35% last two years.

Ishani Ray: Actually, distribution business also has a seasonality if we compare the growth of distribution business if you look at the distribution business growth in FY18 first quarter against the previous quarter of FY17 there also the first quarter has shown a growth of around anywhere between 25% to 28%. In distribution business the spurt in growth typically comes in the third quarter.

First quarter is relatively flattish. In fact, for the entire footwear business the first quarter is not a very representative quarter. And since there is seasonality also in the business which is linked to the festive season, much of the growth also depends on exactly at which point of the year the festivity is ushering in.

Pragya Vishwakarma: Okay and on the retail side can you please quantify what was the same store growth for you and what was the ASP increase?

- Indrajit Chaudhuri:** ASP last year was at 442. The first quarter ASP is 464. And the same stores growth was around 2.5%.
- Pragya Vishwakarma:** Okay because I think earlier we were giving guidance of 7% SSSG growth?
- Ishani Ray:** We are still giving that guidance that the same store sales growth would be anywhere between 6% to 7% of which about 2.5% would come from volume and the rest for value. But that guidance is reflective at the end of this financial year. We have to have the new season launch for the festive season.
- Pragya Vishwakarma:** And on the margin front as I see that in the presentation you have already mentioned that currently you are in the investment phase in terms of building brands and ad spends. So, when do you see it normalizing in next two to three years when this exercise is probably more towards the end. What is the margin guidance you can give?
- Ishani Ray:** Margin guidance last year I think on a gross margin level we did something around 36%.
- Indrajit Chaudhuri:** Retail front we did 46.2%; and in distribution around 38%.
- Ishani Ray:** So, on an overall basis and on a like to like segment wise basis also we said that you are on your we can grow by a 0.5% sort of a margin. So, and that would be reflected in our EBITDA margin also as we have said. We still continue to give the same guidance because logic being either you spend on advertising and when you are spending on advertising typically your brand visibility will increase, footfall will increase. So, your requirement to give offerings by way of discounts will come down. So, that cost would be compensated by advertisement cost. So, the guidance of 4%, 5% increase on a Year-on-Year basis for the next two, three years still continue.
- Ishani Ray:** Okay and just a follow up on the retail growth. So, last year I think we had a situation of flood in East and that is the reason first half was not so good for the company. So, now considering that and considering that it was probably one of the low base for retail business. I still would want to know why are we flat in terms of retail growth?
- Indrajit Chaudhuri:** I think the flood situation and the monsoon situation still prevails. In East if you really look into it there have been regions which have been flooded this year. Assam for that matter was very badly hit we have a very strong base in Assam. Parts of West Bengal were also badly hit. Similarly, South India is now badly hit where we have Kerala being flooded, parts of Tamil Nadu is flooded, Karnataka has been washed out.
- Moderator:** Thank you. The next question is from the line of Pradeep Roy from Stewart & Mackertich. Please go ahead. Pradeep Roy has left the queue. We take the next question from the line of Nidhi Babaria from Dalal & Broacha. Please go ahead.
- Nidhi Babaria:** I wanted to ask presently what percentage of product range lies between Rs. 500 to Rs. 1,000?
- Indrajit Chaudhuri:** 25% of our products come between the range of Rs. 500 to Rs. 1,000.

- Nidhi Babaria:** And any specific reason why was the employee cost so high in this quarter?
- Ishani Ray:** Employee cost was high for two reasons. One, this is the quarter when we actually give the yearly increment. So, that reflection comes in & there is a growth. And on top of that we opened new retail outlets for which we have to bring in more people. There was a capacity build up at the factory and also if you initiate more machines you need to have more machine operators. So, that was the reason.
- Indrajit Chaudhuri:** And part of it in the last quarter there was no ESOP cost involved while in this quarter ESOP is also involved.
- Ishani Ray:** We have introduced ESOP so the ESOP impact was also seen in the employee cost.
- Nidhi Babaria:** And what was the SSG growth in Q1 FY18 last quarter?
- Indrajit Chaudhuri:** It was around 4%, 4.5%.
- Nidhi Babaria:** Okay so Year-on-Year this year we grew at 2.5%?
- Ishani Ray:** 2.6%.
- Nidhi Babaria:** Anything specific on why this degrowth?
- Ishani Ray:** See one feedback is that there was some degrowth in footfall. So, we are working on it also to spurt on certain advertisements. Last year in the entire first quarter, all the three months had some offering discount sales or some B2C offerings. This year as an experiment in the month of May we withdrew the discount.
- Indrajit Chaudhuri:** For two-and-a-half months there was no discount.
- Ishani Ray:** We wanted to see that without discount what is the margin that we can generate and that is why you find that the growth in the gross margin.
- Moderator:** Thank you. The next question is from the line of Vismaya Agarwal from Axis Capital. Please go ahead.
- Vismaya Agarwal:** I just had one question on the topline so given the kind of performance that our retail segment has done. Do you still maintain the 14%, 15% growth guidance for the financial year and if so how has been the performance in July and half of August now? So, is that reflective of things getting better?
- Indrajit Chaudhuri:** July-August we have gone back and given the discount and we have seen growth of around 10% to 12% in July and August . So, by the end of this Pooja Festival I think by October we think that we will be able to have a growth of around 11% to 12% in our retail business.

- Ishani Ray** But today I cannot comment on a growth of about 14%, 15% but definitely we will grow at a double digit it will be around 12%, 12.5% is foreseeable.
- Vismaya Agarwal:** what will be the proportion of discounting that we had in the Q1 sale?
- Indrajit Chaudhuri:** Only around 25 days was in discount. 15 days from April 1 to 15 April and from 21 to 30 June. There were also some activities like giving tickets of KKR matches. Proportionate of the sales would be around 13- 14% which in the last year was around 21%.
- Vismaya Agarwal:** And sir, in terms of the EBITDA margin for our distribution business has gone down significantly below 7% now. And that is the lowest has been over the past 7-8 quarters.
- Ishani Ray** Yes, distribution business is one of the reason for the dip in the EBITDA margin also. Because if you see the distribution EBITDA margin that fall in gross margin is directly reflected in the fall in the EBITDA margin itself. We all know that crude price had run and hit the rope and with that dollar was also very expensive.
- So, the impact of all those definitely results in distribution gross margin. Further distribution is a very price sensitive segment and in this quarter we have found one of the very large distribution company drastically reduced their prices on the basic range of products and this segment being a price sensitive segment you have to toe the line of competition. So, that is another reason why distribution margin took a hit.
- Vismaya Agarwal:** And any guidance that you could give on this margin like how comfortable we will be in taking any price hikes probably in the next say 9, 10 months the remainder of the year and sort of negate or offset some of this crude price?
- Indrajit Chaudhuri:** Since the rainfall is good we are able to sell some high product PVC margins.
- Ishani Ray** Discounting & the reduction in price that happened that happened was in the hawai segment. So, we are seeing a good traction of sale in the PVC range of products where we can recover part of the margin.
- Indrajit Chaudhuri:** And also, there was a reduction of GST from Rs. 500 to Rs. 1,000.
- Ishani Ray** So, there is a requirement to pass out this GST to your consumers but even after passing up, the new range of products we are likely to recover some of the margins.
- Indrajit Chaudhuri:** And we were not having any range in that price range in distribution because the GST was 18%. But with the GST coming down to 5% we were able to give some range in the price segment of Rs. 599 and Rs. 749 both in sports shoes and in our general shoes also.
- Ishani Ray** And these sort of products generally offer a better margin than traditional hawai and the PVC range of products.

- Moderator:** Thank you. The next question is from the line of Jignesh Makwana from Asian Market Securities. Please go ahead.
- Jignesh Makwana:** What was the volume growth for distribution business?
- Indrajit Chaudhuri:** Around 57% is volume growth.
- Jignesh Makwana:** So, 3% kind of weighted average price reduction we took, right?
- Indrajit Chaudhuri:** Yes.
- Jignesh Makwana:** And how is the response to sports footwear in our distribution business? I think we have launched three, four months back?
- Indrajit Chaudhuri:** since this 18% to 5% GST discount has come in previously we have launched on Rs. 499 now we are launching on Rs. 699 and Rs. 749 also. So, that feedback we can give you after the end of the second quarter.
- Jignesh Makwana:** Okay and ma'am, you just mentioned in your opening remarks that we have appointed some 30 new distributors in our distribution segment. So, in which geography or in which region we have appointed the new distributors?
- Ishani Ray:** East.
- Jignesh Makwana:** East India only?
- Ishani Ray:** Yes.
- Indrajit Chaudhuri:** So, when can we expect new distributors in the newer geographies like West or South?
- Ishani Ray:** We are opening but definitely we still have a long way to go in the East as I have told before that we are the fifth player in the East. So, we still have lots of scope in the East. So, it makes sense if you grow in a phased manner and just not grow randomly. It helps you in servicing your distributors also.
- Jignesh Makwana:** But still are we witnessing improvement in the per distributor throughput?
- Ishani Ray:** Yes, because even today if you look at the share of our revenue in distribution, it is heavily skewed in East and since as Indrajit said the entire growth came from increase in volumes. So, definitely throughput for distributor is improving.
- Jignesh Makwana:** And what is the ASP in the distribution business for Q1?
- Indrajit Chaudhuri:** Rs 84 and the sales per distributor in the previous quarter was 1.28 now it is 1.30. So, it has improved slightly.

- Jignesh Makwana:** And lastly, are we still maintaining the overall sales growth guidance of 18% to 20%?
- Ishani Ray:** Yes, on similar lines.
- Moderator:** Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss Securities. Please go ahead.
- Pragya Vishwakarma:** You just mentioned that the overall guidance for our topline still remains the same 18% to 20%. But as we have revised our retail sales guidance from 14% to 12%, so is this confidence coming from the distribution segment that will lead to the overall growth of 18% to 20%?
- Ishani Ray:** True, more or less on those lines.
- Pragya Vishwakarma:** So, I understand that you indicated the festive season is starting a bit late this year and that is the reason in coming quarters we should see good numbers. But if you have to just give segment wise, in distribution what kind of growth rate do you see in next two to three quarters?
- Indrajit Chaudhuri:** This quarter we are seeing 25% so the overall growth will be around 28%.
- Ishani Ray:** The next two quarters should give you around anywhere between 30%, 32% growth to ensure that the average growth is more than 28%.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Just wanted to know the breakup in case of the rise in other expenses? There were three line items mentioned one was on account of new stores, second was office space and third was periodic increase. So, if you could further give the details on the same because the observation is that there is a significant rise in the other expenses side on a Quarter-on-Quarter basis?
- Indrajit Chaudhuri:** Other expenses side significant rise was mainly because there were advertising expenses of around Rs. 5.5 crores whereas in the preceding quarter there was no advertisement because the advertisement mainly happens in the first three quarters. So, mainly the growth in expenses for that reason and other incremental rent cost, opening up of new stores and also some administrative overhead costs.
- Kunal Bhatia:** So, Rs. 5.5 crores vis-à-vis last year would be how much?
- Indrajit Chaudhuri:** if you compare with last quarter 35.48 with 41.41. There were new addition of CSK expenses that came in this year which was the CSK payment of around Rs. 75 lakhs and there was a meet for distributors and dealers in South India. So, total expense would be around Rs. 1.5 crores and with the incremental new shops and some additional rental increment so the expenses increased for Quarter-to-Quarter in that manner.

- Kunal Bhatia:** So, pure advertisement sorry I missed out the number of Rs. 5.5 crores versus last year same quarter?
- Indrajit Chaudhuri:** It would be around Rs. 3 crores.
- Kunal Bhatia:** And in terms of how was the rental Year-on-Year increase?
- Indrajit Chaudhuri:** Rental the four new shops that has come in that increase has come. New CoCo shops and normal incremental of 15% for the last three means lease rental which has not increased for the last three years that came in. And there was a new office space taken that cost came in.
- Kunal Bhatia:** So, the rent for the new office space?
- Indrajit Chaudhuri:** Yes.
- Kunal Bhatia:** And sir, how much was it in absolute terms?
- Ishani Ray:** So, Rs. 3 lakhs came in for the new office space in this quarter.
- Kunal Bhatia:** And sir, if you could share your actual volume numbers in terms of distribution and retail?
- Indrajit Chaudhuri:** The distribution volume is 7,139,000 pairs and retail is 2,963,910 pairs.
- Kunal Bhatia:** And sir, finally in terms of you the throughput which you mentioned was 1.28 per distributor, is it?
- Indrajit Chaudhuri:** Yes, last year was 1.28.
- Ishani Ray:** This year it is 1.30.
- Moderator:** Thank you. The next question is from the line of Sangeeta Tripathi from Edelweiss Securities. Please go ahead.
- Sangeeta Tripathi:** On the advertisement budget I need to understand what is the entire budget for the year FY19?
- Indrajit Chaudhuri:** It is around Rs. 12.5 crores for the entire year, pure advertisement.
- Sangeeta Tripathi:** And just to reiterate your guidance what you have given, you still expect around 18% to 20% topline growth with a 50 basis point of gross margin which will percolate down to EBITDA margin. That understanding is clear?
- Indrajit Chaudhuri:** Yes.
- Sangeeta Tripathi:** So, despite the rentals increasing despite new shops which we are adding we expect a 50 basis point improvement in the EBITDA margin?

- Indrajit Chaudhuri:** Yes.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Just one question on margins. Where does our guidance stand on margin after the first quarter?
- Ishani Ray:** We still continue to give the same guidance on the margin. The overall for the year the margin that we have projected was 0.5% improve on last year. So, that guidance continues to hold it.
- Tejas Shah:** Okay but in between when we spoke after year fourth quarter's number and now a favorable event has happened which is the GST the relaxation has acting as 5% has gone extended to Rs. 1,000 now?
- Ishani Ray:** Yes, but the requirement for GST is to pass on the GST benefit to the consumer. So, let us see where we stand. I will be in a position to give you a clearer picture post the second quarter. As of now I hold on to my previous guidance.
- Tejas Shah:** And just a follow up on that. What can go wrong in terms of because this time everything is bunching upon in the third quarter like Durga Pooja to Diwali and every year on all festive levers. So, what can go wrong in your assessment which might make you revise year growth guidance in the second half?
- Ishani Ray:** Two things. One is if you look at the distribution side we really do not where this spurt in the dollar price and the crude would end. That is one, and festivity is also much depended on the rainfall, if the monsoon is lingering for too long. So, if your monsoon has a dampening effect with what is happening across the country then it might have an impact. But we have to wait and watch.
- Moderator:** Thank you. The next question is from the line of Jignesh Makwana from Asian Market Securities. Please go ahead.
- Jignesh Makwana:** Just a follow up. What was the retail sales growth in base quarter both for CoCo and franchise stores?
- Indrajit Chaudhuri:** The retail CoCo growth was around 6% but the franchise front there was no growth.
- Jignesh Makwana:** No, what was the growth in Q1 FY18 versus Q1 FY17?
- Indrajit Chaudhuri:** In retail the growth was 11%.
- Jignesh Makwana:** And was in the franchise stores specifically?
- Indrajit Chaudhuri:** Franchise would have been around 9% to 10%.
- Jignesh Makwana:** That means in the base quarter CoCo stores performed relatively better?

- Indrajit Chaudhuri:** Yes, CoCo and both franchise also performed better.
- Jignesh Makwana:** Despite that we have witnessed some decline in the franchise stores, correct?
- Indrajit Chaudhuri:** Yes.
- Moderator:** Thank you. The next question is from the line of Pradeep Roy from Stuart & Mackertich. Please go ahead.
- Pradeep Roy:** I have two questions. One is that the if crude goes up and the rupee depreciates further, how that will impact your distribution margin because distribution margin already impacted by 200 bps to 300 bps points. If this crude and rupee issue continues, then how will you maintain your margin? Is there any particular strategy?
- Ishani Ray:** See if the price continues to rise after a point of time we have to revive the pricing of our products. There is a limit up to which you can sacrifice your margin. If beyond a point it becomes unsustainable then you have to revise the price of the product and pass it down to the consumers. One benefit is that since all the products in the distribution is below the GST range then you will have a benefit so to some extent you can recoup from that benefit.
- Definitely has to pass on the impact of price rise to the consumers and saying so I think all the players, the competition would also have to toe the line because there would not be much choice. Everyone has a rate capacity we are sustained price rise for over the last at least two quarters. And I think it continues to grow this way. We need to pass it on.
- Pradeep Roy:** So, ma'am, just one concern. What is the threshold of this margin? If it is right now 6.9% means how much you can afford before you can go for a price hike?
- Ishani Ray:** No, we are already contemplating on introducing newer products with a differential price. So, it is not that you wait for a period and then you go for a price hike. We are already in the process and we can change the product mix also.
- Indrajit Chaudhuri:** And we are coming out with new products in the range of Rs. 500 to Rs. 1,000.
- Ishani Ray:** So, you introduce new products in the higher MRP range. We took a 3% hit in the margin. It was the combination of your price rise as well as sudden reduction in MRP by the competition where we had to also toe the line. But we have started working on the strategy and going forward I think it would be sustainable & we do not foresee any further slide in the margin. But some points which are beyond our control if price continues to rise, if competition continues to behave abnormally then one does not have a choice.
- Pradeep Roy:** And then the new product that you are introducing in this distribution segment, is this is a slightly higher margin product?
- Indrajit Chaudhuri:** Yes.

- Pradeep Roy:** So, what is the margin expectation on this product that is priced in Rs. 500 to Rs. 700 category?
- Indrajit Chaudhuri:** Material margin of around 42% to 45%.
- Pradeep Roy:** Yes, and EBITDA will be how much?
- Ishani Ray:** Keep it to the existing level of around 9.5% to 10% and recover the fall in EBITDA.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Most of my questions have been answered. Just wanted to know the gross margins and the EBITDA margins in case of the distribution would be one of the lowest over the last 8 to 12 quarters?
- Indrajit Chaudhuri:** The EBITDA margin is the lowest.
- Kunal Bhatia:** This is one of the lowest over the last many years or we had gone below this as well?
- Indrajit Chaudhuri:** No, in 2015 we have gone below this.
- Kunal Bhatia:** Okay so after 2015 this would be the lowest EBITDA margins?
- Indrajit Chaudhuri:** Yes.
- Kunal Bhatia:** And how was the average selling price in case of distribution compared to last year same quarter?
- Indrajit Chaudhuri:** Last year it was 87 and this year it is 84.
- Moderator:** Thank you. The next question is from the line of Pragya Vishwakarma from Edelweiss Securities. Please go ahead.
- Pragya Vishwakarma:** So, as you mentioned that we are number 6 in terms of distribution in East as well. So, I assume that on the margin front obviously we must be the lowest amongst the top 5, 6 players over there. So, in how many years from now do you see that we will be in a position that we can take that margin benefit?
- Ishani Ray:** See frankly speaking I cannot comment that we are also lowest in respect of the top 5 players because of the top 5 players there are many players who are not as a listed entity. So, we do not have their margin breakup. We have some sense of their topline.
- Pragya Vishwakarma:** And not on relative terms but in the absolute terms if you can say like when do you see that we will have the scope of squeezing some distribution margin and taking that profitability on our side like from now how many years do you think that we can achieve that point?

Ishani Ray: I have already given the guidance that we can improve by 0.5 basis points on Year-on-Year basis. So, I can give you a guidance for three years. Beyond that it is very difficult to foresee in this scenario.

Pragya Vishwakarma: But do we have that scope that as of now as we take on more new distributors probably the throughput is less and on the margin side we will be giving them more but as they mature that this ratio would improve?

Indrajit Chaudhuri: See our product portfolio and if you compare with the product portfolio with Relaxo who is having a margin of around 54%. So, their portfolio they have sport shoe having Rs. 1,800, Rs. 1,900 and all other types of footwear that are mainly we sell in our retail products. So, we cannot match with the margin in distribution business that of Relaxo. Definitely we can go up from 35% we are already in 38%, we may go up to 40%, 42%.

But the inherent gross margin of Relaxo of 54% we cannot achieve with our portfolio. If we do our retail business we cannot give that retail product in our distribution portfolio. However, we can improve our EBITDA margin by improving the gross margins and by operating leverage. So, these are the two levers where we can increase our EBITDA margin.

Ishani Ray: And when you are talking about squeezing some margin out of distributors typically all the players in the distribution business more or less offer the same margin to the distributors. Otherwise what will happen the distributor always have this choice of shifting to other brand.

Pragya Vishwakarma: Yes, so you were mentioning that more or less everyone is on the same line?

Ishani Ray: Yes, so distribution actually the margin that one passes on to the distributor is more or less most of the players are in same tune otherwise the distributor always have the choice of shifting from one player to the other because they are not exclusive to anyone. So, whatever additional margin that you need to generate in your profit and loss that can either come through improving your operating leverage or through value engineering of your product.

Pragya Vishwakarma: And what was the CAPEX done in first quarter?

Indrajit Chaudhuri: The CAPEX that we have done in the first quarter is around Rs. 3.3 crores.

Pragya Vishwakarma: Okay and for the full year what is your guidance?

Indrajit Chaudhuri: Full year we have a CAPEX plan of around Rs. 25 crores to Rs. 28 crores.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Harit Kapoor from IDFC Securities for closing comments.

Harit Kapoor: I would like to thank all the participants on the call as well as the management for taking out time for the call. I would like to handover to the management now for closing remarks.

Ishani Ray: Thank you for taking interest in the company performance and attending the Earnings Call. We will definitely come back post the second quarter results. Thank you.

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