Khadim's®

December 10, 2020

The Manager
The Department of Corporate Services
BSE Limited
P. J. Towers,
Dalal Street, Mumbai - 400 001
Scrip Code - 540775

The Manager
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051
Symbol - KHADIM

Dear Sir / Madam,

Ref: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

Sub: Outcome of Investor Meet

This is with reference to our intimation dated November 13, 2020 and November 16, 2020 with respect to Investor Meet held on Tuesday, November 17, 2020.

Pursuant to the provisions of Regulation 30 of the Listing Regulations, we enclose herewith the concall transcript of the said Meeting w.r.t Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended September 30, 2020.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

ABHIJIT DAN
Digitally signed by ABHIJIT DAN
Date: 2020.12.10 17:55:35 +05'30'

Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above

"Khadim India Limited Conference Call to Discuss the Q2 & H1 FY2021 Results"

November 17, 2020

ANALYST:	**MR. ANKIT MERCHANT – RESEARCH ANALYST – RELIANCE SECURITIES**
MANAGEMENT:	**MR. SIDDHARTHA ROY BURMAN –** **- CHAIRMAN & MANAGING DIRECTOR – KHADIM INDIA LIMITED** **MS. NAMRATA CHOTRANI** **– CHIEF EXECUTIVE OFFICER - KHADIM INDIA LIMITED** **MR. GAURAV GOENKA** **– ASSISTANT GENERAL MANAGER (ACCOUNTS & COMMERCIALS) - KHADIM INDIA LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Corporate Speaker Access Conference Call with the Management of Khadim India Limited to discuss their Q2 FY2021 Results hosted by Reliance Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Merchant - Research Analyst from Reliance Securities. Thank you and over to you Sir!

Ankit Merchant: Thank you Lizaan. Hello and good evening everyone, welcome to Q2 FY2021 Earnings Conference Call of Khadim India Limited. We have with us the management of Khadim which is represented by Mr. Siddhartha Roy Burman - Chairman & Managing Director, Ms Namrata Chotrani - CEO and Mr. Gaurav Goenka – AGM (Accounts & Commercials). I will hand over the call to Mr Siddhartha Roy Burman. Over to you Sir!

Siddhartha Roy Burman: Namaskar and Happy Diwali to all of you. Good afternoon everyone. We welcome you to this conference call to discuss the Company's performance for second quarter for the financial year 2021.

We realize most of you have connected to this call from your home and hope all are keeping safe. The COVID-19 pandemic has had an unforeseen impact on people, communities, businesses and the world at large. We take a moment to study the heroic effort of healthcare workers, frontline staffs and researchers working around the clock.

Over the last quarter, we saw the lockdown slowly being lifted across the country, which showed an improvement in performance in last quarter. The customer buying was generally inclined towards open sandals and low-price essential products for home wear. Our initiative to take our product to customers, "On the Go" "Hotspot" and "Khadim's Near Me" has earned a dual benefit of generating sales as well spreading brand awareness. Since Durga Pooja is the annual mega festival in the east we had special social media campaigns and exclusive videos with the underlying message of "Ebar Pujo Just Khadim's" to increase engagement with our customers, on which we eventually enjoyed millions of views.

As we mentioned on the last concall, we saw a good growth in the distribution business. As part of our strategic initiative in this business, we now have five sub-brands in the distribution segment to focus on different merchandise categories. The demand for open footwear has been steadily increasing in the recent months. Our new revamped line of products with trendy design has been welcomed by both the seller and customer alike.

Coming to our financial performance, we recorded revenue of ₹ 121.7 Crores in Q2 FY 2021 down by 45% year-to-year due to the limited scale of operations. However on Q-to-Q basis, growth was 101.6% over the sales of ₹ 60.4 Crores in Q1 FY 2021.

While the retail business suffered due to lockdown on some stores across states, the revenue from distribution segment registered a 13% growth year-to-year and also saw improved gross margins, which for the quarter stood at 39.4% in retail and 29.6% in distribution.

We move forward to steadily increase scale of operations as more stores open up and inch towards normalcy. We are united and optimistic to face the challenges while benefiting from the opportunities. Our team spirit and Indian culture binds us are to understand the business environment and emerge stronger. We are excited for the next phase and we will continue to strengthen our brand.

With that let's start with question-and-answer. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Dipan Shankar from Trustline PMS. Please go ahead.

Dipan Shankar: Good evening. Thank you for the opportunity. We have seen three times Q-o-Q sales growth in retail division, what is the main reason for drop in gross margin by 500 basis points to 39.4%?

Namrata Chotrani: Mr. Shankar to answer questions, on the retail side there has been a couple of things that happened. The sale of low priced products, which is Hawai Chappals, Beach Sandals, Floaters, was high and it also impacted the gross margin. In Bengal and the North East the sale is very huge in March and April. So when the lockdown was announced we were anticipating to target those sales which would have helped us liquidate our flow of normal inventory. On the stock which we have not been able to liquidate, we have ensured that there is silent discount in stores. This helps because customers are looking at very low priced products and they have the option of buying discounted items. Hence that has impacted the gross margin. Since the volumes were low and we are not able to entice the customers to come to the stores and buy more, to increase the average billing value, we are also offering schemes. For example sometime in August we had come up with the scheme where on a purchase of ₹ 1000 we gave a ladies footwear free or a lady sports shoe free and on a purchase of ₹ 1500 you get a men sports shoe free etc. So that also impacted gross margins. Generally we have either a discount or a scheme running, but not both together. But in some of the months just to encourage people to buy more and still entice higher average billing value, we had given the scheme and a discount together which has impacted the gross margin and in the next few months the impact will reduce.

Dipan Shankar: Can you please highlight the drop in ASP for the current quarter as compared to last year? If you cooled out the discounts offered will it be helpful to normalize the sales trend?

Namrata Chotrani: I think the ASPs have fallen by around 10% to 12% in the second quarter and in terms of discount generally we have discount as a percent of sales of approximately 18%-20%.

Dipan Shankar: In terms of retail outlook, we have two scenarios - one the topline going up quarter-on-quarter and also along with the gross margin improvement so when are we expecting the last year sales to be achieved?

Namrata Chotrani: The festive sales have been encouraging. In the retail outlook we had seen a month on month degrowth. The recovery is almost at 70%, degrowth being around 30%. The degrowth is reducing and we are hopeful in our endeavor to achieve last year numbers for the second half. In terms of the full year sales it may not be possible to recover the entire losses in this year but we are hopeful that we will do that in the next year.

Dipan Shankar: We are expecting the improved footfalls to continue even after festival season?

Namrata Chotrani: That is the hope. All our fingers are crossed. We are also trying to come up with innovative schemes or interesting mechanism to garner footfalls. But it also depends on how the COVID comes around, if there is second wave, it will reduce the momentum, but we are hoping for the best.

Dipan Shankar: Finally, other expenses increased sharply even Q-on-Q so is there increased ad expenditure or any other reason?

Namrata Chotrani: That is because in the first quarter there was reduction in admin costs including rent, fixed costs, factory infrastructure cost, electricity, fuel etc. In Q2 there was an increase and that does not include advertising as there has been a strict constraint in the advertising cost.

Dipan Shankar: So ad cost remaining same to the level of Q1 itself?

Namrata Chotrani: Yes, pretty much.

Dipan Shankar: Thanks a lot. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Merchant from Reliance Securities. Please go ahead.

Ankit Merchant: Thank you for the opportunity. The first question is related to the festive sales. Can you give us any color on how the festive sales worked for us during the last 15 to 20 days coming in from Durga Puja to let us say Diwali?

Namrata Chotrani: I mentioned earlier, there has been a good recovery since Q2, we have been able to reach a recovery of 70%. We are looking at an improved footfall, improved average billing value to an extent and improved ASP compared to Q2 that definitely has gotten cheer for us internally the numbers are healthy. We have still not reached last year’s numbers but we are hopeful that gradually once people develop herd immunity and increased confidence, they will be coming out and buy much more. That is the endeavor and that is the hope for the next couple of months.

Ankit Merchant: My second question is related to the fixed cost reduction. Can you help us understand the measures which have been taken, the rent renegotiation etc? How long can this growth be seen?

Namrata Chotrani: On the fixed cost, there has been a reduction of approximately 18% in the personnel cost, 32% in power and fuel, around 15% on rent, 21% on repairs and maintenance. We have been doing several significant reductions in variable cost owing to reduction in sales. So I think there has been significant measures taken in the cost reduction. We have been able to negotiate rent reductions for around 160-170 stores out of total 200 odd stores on rent. The rent negotiation is also a function of performance and their relationship with the landlords. I think as and when we get some clarity or get some comfort around the fact that the revenue or the sales have stabilized, that is when the negotiations will stop.

Ankit Merchant: Just another book keeping question, at what topline would we be breaking even on the EBITDA front?

Namrata Chotrani: Around ₹450Crores - ₹475 Crores.

Ankit Merchant: That is on the yearly topline front right?

Namrata Chotrani: Yes.

Ankit Merchant: So till now we have done close to ₹ 182 Crores so can we expect in the second half to turn EBITDA break even?

Namrata Chotrani: Yes, that is the endeavor yes.

Ankit Merchant: So then we need a target of very aggressive growth from here on at the second half so you see there are enough levers for us to grow in the market?

Namrata Chotrani: Yes, compared to last year we are looking at achieving similar numbers at least for the second half of this year, so I think ₹ 600 Crores - ₹ 650 Crores is PBT breakeven and EBITDA breakeven will be around ₹ 450 Crores - ₹ 475 Crores. I think we would be able to reach that, hopefully we will be able to reach that number by the end of the year in terms of the revenue.

Ankit Merchant: Yes, I will come back in the queue for more questions. Thank you.

Moderator: Thank you. The next question is from the line of Harsh Yogesh Shah from B&K Securities. Please go ahead.

Harsh Yogesh Shah: My question is on distribution business, we have seen a growth of 13 % can you explain how we have been able to achieve in growth?

Namrata Chotrani: Can you repeat your question I did not hear you?

Harsh Yogesh Shah: Last quarter we had mentioned that there has been some north based players, who has not been able to open up on time, is that the only reason why we have been able to clock such good growth in distribution business?

Namrata Chotrani: It is a function of two things. Yes, we did get a first mover advantage against some of the branded players and a lot of the midsized, smaller players who were not able to open shop as fast. Hence we were able to sell much more in terms of production. Second point that is that the demand for low priced product has increased quite drastically because a lot of people in the rural, and even in the urban areas are staying much more at home or being in the locality. This has led to increased demand for Hawai chappals or low priced products which is why we saw that kind of growth.

Harsh Yogesh Shah: Do we see the growth to improve from this level?

Namrata Chotrani: We are hoping for the growth to continue and even in Q3 at least seems to be going in that direction. Our endeavor will be to ensure that we recover whatever loss took place in April and continue the growth for the year.

Harsh Yogesh Shah: Thank you.

Moderator: Thank you. The next question is from the line of Aditya Bapat from Equentis PMS. Please go ahead.

Aditya Bapat: My question is a bit long-term in nature. Now that you are seeing lot of traction in online sales due to the pandemic, do you see a change in the format of the store or the area of the store going ahead? How willing are your franchise going for the omni-channel?

Namrata Chotrani: In terms of store economics, we believe that generally we have been in the range of 1000 square feet overall in the 70:30 ratio in terms of selling area. That generally has worked well for us in terms of store economics, breakeven and ROI. In terms of the franchises a little bit lower to ensure that they are able to get the ROI and payback at the earliest as well. I do not see that really changing or impacting the way e-commerce and omni-channel is shaping up. The idea of having the stores this size helped us to ensure a good revenue per square feet and also gross margin per square feet. The larger the area, you tend to receive a higher number of SKUs and inventory and not necessarily generate the kind of gross margin per square feet that one would like. With regards to omni channel, in most of our stores the customer walks into the store and if they do not find a footwear of their choice of color or size, the product is delivered to them by servicing of the orders from our own website. The way it works is that suppose today an order is placed, the order goes to one store if the product is not there, then the order hops on to the nearest possible store where the product is available. Also, in terms of servicing online orders through the stores, we don't need to stock the stores like a mini-warehouse. The stores have stock based on the norm set based on its sales. When an online order is generated, it goes to the nearest store, if it is not available, it hops on to the next available store and if it is not there in any store, it is serviced from the warehouse. I hope I was able to answer your question there and can you repeat your second question if you do not mind.

Aditya Bapat: Those were my questions. Thanks a lot, I will join back in the queue.

Moderator: Thank you. The next question is from the line of Jainesh Chheda from Dimensional Fund Advisors. Please go ahead.

Jainesh Chheda: Good evening Madam. Couple of questions. What will be working capital days and the breakup in terms of your retail working capital cycle and distribution working capital cycle? What has been the trend in the e-commerce sales and how has it performed Y-o-Y and Q-o-Q basis?

Namrata Chotrani: Thanks for your question Jainesh. An answer in terms of days may not be appropriate, the numbers will be very skewed because of the lower base in Q1 and Q2. The working capital has improved from last September and also from March. Our inventory as on September was almost at ₹ 160 crores vis-à-vis ₹ 200 Crores last year. The debtors are almost ₹ 100 Crores versus ₹ 190 crores last year and creditor situation also has improved. In terms of working capital we are in a much better position. Regarding e-commerce, last year we were approximately at less than 1% in terms of net sales in H1. This year we have reached approximately 2.5% to 3%. So we have seen improvement in e-commerce sales and we are also working very hard in the omni-channel sales along with all the market places and our own platforms so hopefully we should see an improvement.

Jainesh Chheda: In e-com what are the margin that you make, net to the Company after all the commissions and transportation charges and all?

Namrata Chotrani: I will give you that number offline, yes.

Jainesh Chheda: Alright. Thank you that is all from my side.

Moderator: Thank you. The next question is from the line of Devendra Pandey from DP Advisory Services. Please go ahead.

Devendra Pandey: Sir a couple of questions. My first question is on your overall working capital days and inventory days. How should we look at those numbers for the second half and for FY2022?

Namrata Chotrani: In terms of second half, the endeavor for us is to continue at the same level. I do not think we are looking at increasing the working capital, with regards to the debtors the teams are working to ensure that we are recovering the past debts aggressively and we are also trying to ensure that we maintain the same levels in terms of inventory. We are also working on the backend and in terms of liquidating old stock on a very aggressive basis. For the next year I think on the retail side we are looking at approximately 75 to 80 days in terms of the net working capital cycle and around two months in terms of distribution.

Devendra Pandey: My other question is, the gross margins in the distribution business has increased on a Y-o-Y basis but EBITDA margins have reduced so can you throw some light on that?

Namrata Chotrani: The gross margins has improved mainly due to the price increase which has been taken. The way corporate cost is allocated is generally based on the quantum of gross margin contribution from each of the businesses. Given that the contribution in terms of absolute gross margin in distribution segment has increased this year, that is where the corporate cost allocation has increased which gives a skewed picture. Hence the EBITDA margin is lower. Over the next couple of quarters this anamoly will stabilize.

Devendra Pandey: My last question is on your average realization per piece. Are you expecting that to improve or remain at the similar level for FY2022? If we are expecting average realization to increase then what kind of strategy have we undertaken to ensure that?

Namrata Chotrani: I will answer this question in two parts. One is on the retail and the other on the distribution. On the retail side, I think we have worked on improving the entire product range to ensure that we have an improvisation in product mix towards sub-brands, which helps us increase the ASP and we have also taken price increases taken in this year. As I mentioned earlier, the ASPs have been negatively impacted because of people preferring to buy lower price footwear. This year, with the silent discounting offers the customers have the option of buying more discounted footwear, and we have also been giving retail scheme. This impact is slowly wearing off and in the third quarter we should see a positive impact on the ASP and operating margins compared to the last couple of quarters. I am quite confident that in the foreseeable future that is maybe the fourth quarter or the first quarter next year, you will see an increase in ASP on the retail side. On the distribution side, now we are working very hard trying to increase the number of sale of the non-Hawai PVC and EVA products, and focus more on sports, canvas, sports sandal and PU products. This will help us increase ASP and we are also simultaneously taking some price increase is to ensure that we are able to recover some of the cost increases. So the ASP is expected to hopefully improve in the next couple of quarters.

Devendra Pandey: Thanks and that was really helpful and I will join the queue if I have any further questions.

Moderator: Thank you. The next question is from the line of Ankit Merchant from Reliance Securities. Please go ahead.

Ankit Merchant: My question is related to the debt level. Can you share some highlights on the debt front and how do we see our debt going ahead?

Namrata Chotrani: In terms of our limits, the utilization is relatively on the lower side. We do not intend to increase our debt level. Our endeavor is to reduce the debt through internal cash flows and improve working capital cycle.

Ankit Merchant: Suppose over the next two to three years if we have to touch a topline of close to ₹ 1000 Crores or ₹ 1200 Crores so what is capex requirement going ahead? How many store expansion can we see if suppose the growth come back to the normalcy?

Namrata Chotrani: I think I can answer this question offline.

Ankit Merchant: Yes, okay.

Moderator: Thank you. The next question is from the line of Dipan Shankar from Trustline PMS. Please go ahead.

Dipan Shankar: Thanks a lot for the opportunity again. How has the performance of franchise been during last two quarters and are we seeing an improvement over the next two quarters?

Namrata Chotrani: Majority of the franchises are actually located in the tier II and tier III markets. The performance of the stores in those markets is better than the stores in the metros purely because of the COVID impact and also the lockdown was relatively lesser on the insides. Hence, the secondary sales performance in many cases for our franchises was better than COOs because most many of our COOs are located in the metros and mini metros in tier I.

Dipan Shankar: So are we expecting some primary sales increase over next two quarters during second half if our secondary is doing well in franchise?

Namrata Chotrani: We are seeing a decent trend as of now.

Dipan Shankar: Also any trend on this fixed expenses so full year are we expecting some 20% decline in over past year.

Namrata Chotrani: Around 20% is possible on overall basis.

Dipan Shankar: Thank you and all the best.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr Ankit Merchant for his closing comments.

Ankit Merchant: On behalf of Reliance Securities, we would like to thank the management for taking out time and sparing us on the prospect of the Company and to wish the management all the best for the coming second half of FY2021 and thank you so much for joining in.

Namrata Chotrani: Thank you all for joining the investor call and really appreciate your interest and your patience and look forward to being in constant touch with all of you. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Reliance Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.