



“Khadim India Limited
Q4 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Khadim India Limited Q4 FY2021 Earnings Conference Call hosted by Nirmal Bang Institutional Equities Private Limited. 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 the 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. Girish Pai from Nirmal Bang Equities. Thank you, and over to you, Sir!

Girish Pai: Good afternoon. On behalf of Nirmal Bang Institutional Equities, I welcome you all to the interaction with the management of Khadim Limited to discuss the 4Q FY2021 results. We have with us from the management: Mr. Siddhartha Roy Burman, Chairman & Managing Director; Ms. Namrata Chotrani, CEO; Mr. Indrajit Chaudhuri, CFO. Without further ado, I will hand over the floor to the Khadim management to make their opening comments after which we will open the floor for Q&A. Over to you Mr. Burman!

Siddhartha R Burman: Namaskar. Good evening, everyone. We welcome you to this conference call to discuss the Q4 FY2021 results. Hope everyone continues to be safe, and I would like to start off appreciating the relentless effort of our COVID warriors. After a positive festive season in Q3, normalcy had started to set in people’s lives. This was reflected in the consumer behavior and recovery numbers.

We grew with a healthy pace in retail and distribution. With regards to both retail and distribution, the focus in Q4 has been to consolidate the outstanding inventory holdings. This has helped us have a lean balance sheet. We have also seen a substantial improvement in gross margin in both retail and distribution business. All the metrics are showing a turnaround in the positive direction. Over the years, our company has stood the test of time and emerged stronger for the challenges we have

faced. FY2021 was the toughest challenge faced not just by Khadim's, but by the industry and world at large.

Coming to our performance for Q4 FY2021 on a year-to-year basis, the revenue was up 70.6% at Rs.269.90 Crores. The revenue also received a boost from an institutional order from the Educational Department of Uttar Pradesh Government worth Rs.128 Crores to supply school bags. Gross margin in retail and distribution business improved to 47.6% and 38.5% respectively.

EBITDA and PAT turned positive at Rs.14 Crores and Rs.11.5 Crores respectively, compared to losses in Q4 2020. Even though there was a setback due to the second wave leading to another round of lockdown and store closure in April and May, our team is motivated to put their best foot forward and drive the company to scale new heights. We are working on the vaccination effort for our staff. We will continue to focus on sustainable value creation for our resilient business.

Despite the recent lockdown, we are optimistic that the demand for the affordable fashion will only increase. We are looking forward to putting the worst of the pandemic behind us and delight our customers with exciting products. We have come up with a very young and vibrant range of spring / summer festive and autumn / winter collection. We are looking forward to seeing the response from our customers.

We thank you for your continuing support and remain confident on emerging stronger as our strategic plan remains intact. We can now proceed with the question-and-answer. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Deepan Sankara Narayanan from Trustline Portfolio Management Service. Please go ahead.

Deepan S Narayanan: Thanks a lot for the opportunity and good afternoon everyone. Firstly, I wanted to understand during Q4, have we seen the trend of the customer moving to higher price points and also of higher-order value?

Namrata Chotrani: Mr. Narayanan, thanks for your questions. We have seen an improvement in the customer behavior. Last year, as we had mentioned in the previous calls, the focus was more on the lower priced items, it was more specific to Athleisure wear and home wear. But in Q3, given the festive season, followed by the normalcy kicking in, people start going back to work and started enjoying life normally which was reflective in the way the consumers were purchasing and which is why we saw an improvement in the average billing value and the ASP.

Deepan S Narayanan: Okay. What is the ASP and volume growth in the retail and distribution business?

Namrata Chotrani: In the retail business, we have seen approximately a 3% increase in ASP and in distribution, we have seen approximately 1%. In distribution, the focus for the entire year has been more on open footwear, compared to the previous year, and that trend continued till the end of the year. So, despite taking 3-4 price increases in the last financial year, the change in sales mix towards open and low price footwear, has had a subdued impact on the overall ASP.

Deepan S Narayanan: Okay. And specifically, if we see, distribution gross margins have increased from 33% to 37% over the past two-three years but growth in revenues has been dropping. So even particularly for the Q4 quarter, we have seen some of the industry players growing well in distribution. What is the main reason for degrowth in distribution in Q4?

Namrata Chotrani: As I have mentioned earlier, that there has been a substantial increase in the ASP in the open footwear, in the entire year, there has been increase of approximately 5% in the open footwear segment, which is mainly Hawaii and your PVC and EVA. So, while in Q4, there has been subdued growth it is purely because the focus in Q4 was to consolidate our

outstanding and to make our balance sheet much stronger. It also helped to build our business in a healthier manner and that is something which we had mentioned in the earlier calls as well.

Indrajit Chaudhuri: If you see in the distribution, in first quarter there was a lockdown for 1.5 months but in the second quarter and the distribution business has grown by 16%, third quarter 35% and fourth quarter 7%. So, in the three quarters after the first quarter, the distribution business has grown, whereas we were able to achieve 2% higher sales, selling 10.5 months, compared to 12 months in FY2020.

Deepan S Narayanan: That is good. Finally, the growth in sub brand contribution has been falling over past three years. It was 48% in FY2018, it has fallen to 40% in FY2021. So, are we seeing improvements in sub brands in future? And what strategies we are adapting to improve that?

Namrata Chotrani: I am not sure from where you are getting this data, because in FY2021, the sub brand contribution as a percent of sales was almost 60% and that will continue once normalcy kicks in.

Indrajit Chaudhuri: In FY2021, the retail sale has come down from Rs.490 Crores in FY2020 to Rs.306 Crores. We have seen after the lockdown, there was a demand for Hawaii Chappals and PVC sandal, which are Khadim products. So that is why this year there might be that the share of sub brands have come down, but in the normal year, again the sub-brand contribution will be in the range of 58% to 60%.

Deepan S Narayanan: Thanks a lot and all the best.

Moderator: Thank you very much. The next question is from the line of Monica Arora from Sharegiant's Wealth Advisors. Please go ahead.

Monica Arora: Thank you for giving me this opportunity. One of the components which is rent is a major part of our expenses. So especially after the second wave of COVID, earlier we had negotiated for the rents, but are we negotiating again? Or is it back to normal? I wanted to know the status

Indrajit Chaudhuri: Last year, if you see the balance sheet and profit and loss account, we have saved around Rs.7.5 Crores of rent, which is shown in other income. Again this year, after the second wave we have started the negotiation with the landlords and are trying to get the same amount of benefit that we got during the first wave but since the lockdown period in the second wave is comparatively lower than the first wave, so negotiation from the landlord would be a difficult task, but we are trying to get as much benefit as we could.

Monica Arora: Okay. Sir, my other question is we see that these small players, the small private label players or other small players, they are also present in the online brands. So, what is the specific competitive intensity from these players? And how is the competitive intensity otherwise in the sector?

Namrata Chotrani: May I know which smaller brand you are referring to Madam?

Monika Arora: Smaller brands like the common brands, which are present all over in the online segments, like there is a brand known as Pink & Blue. It is a Big Bazaar's own brand. They also sell their online products to this brand through their own platform. There are various small brands, which are present on Flipkart, Azure.com, Reliance. So, these small brands I am talking about.

Namrata Chotrani: I think there are a lot of brands, even in the online and offline field, but there will always be competition and it's a healthy thing to happen. But having said that, creating a brand even in today's time is a very expensive cash burn and that requires a good amount of investment. In the kind of brand recall we have in the country, it has come over many years of sustaining in the market and also giving the products and offerings that we do. So, yes, the potential given that e-commerce in online is definitely picking up, we are also trying our best to ensure that we are available in all the marketplaces. Having said that, also affordable fashion is what is here to stay. A lot of premium brands are doing well, but in the current scenario and even last year, the demand for affordable

fashion has only increased. So, I think from our perspective, it is a good thing for the current demand that is coming in.

Monika Arora: Moreover, we would get an edge over these local brands, because we market our brands in a better way plus our customers are repeat customers too. Could we see that way?

Namrata Chotrani: Yes, definitely. I did say a lot of brands coming and lot of smaller brand, unbranded brands or even smaller unorganized players. But potential and the brand recall of a brand like Khadim is always going to have a better footfall or eyeball, compared to any other brand. There is also trust involved, because of the longevity of the brand.

Monika Arora: Sure, sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital Partners. Please go ahead.

Deepak Poddar: Okay. Sir just wanted to understand if any kind of outlook that you can share for FY2022, that would be helpful.

Namrata Chotrani: Sorry, can you be little louder than this?

Deepak Poddar: Yes. Sir any kind of outlook that you can share for FY2022, that would be quite helpful.

Namrata Chotrani: So frankly, our FY2022 was something we were looking at trying to ensure that the vaccinations will begin and we will possibly be able to get the same level as FY2020 adjusting for the last 15 days as well. But given the wave that has started in March, April and continued in May, and people talking about the third wave, I think to commit to any number or give in any perspective on how this market is going to turn is your guess versus mine. But having said that, I think is the ideal scenario. We would like to grow in the retail business by around 10% to 12% and distribution approximately 15%. But there is a lot of uncertainty and

ambiguity in this time. And I think hopefully in the next few months it will be a little clearer for us to give you a more clear answer as well.

Deepak Poddar: Understood, understood. That is it from me. Thank you.

Moderator: Thank you very much. The next question is from the line of Jignesh Makwana from Asian Markets Securities. Please go ahead.

Jignesh Makwana: Yes. Thank you for the opportunity. I had just one clarification, based on your data, what you have given on a gross profit for the retail and distribution business. If I do the simple math, my gross profit should be somewhere around Rs.73 Crores, but the actual gross profit comes to Rs.60 Crores. Are we making losses on the distribution business?

Indrajit Chaudhuri: No, there are no losses from the distribution business. There are some other elements, if you see the accounts, there are some other costs that are in the gross profit margin. So those costs are attracted in the profit and loss account. But if you see the distribution and the retail business separately, this is the margin before the Ind-AS impact. Some costs that are deducted from the sales that is why that margin is coming to Rs.60 Crores, but this is the margin before Ind-AS adjustment.

Jignesh Makwana: Okay, and we have booked institutional orders of Rs.128 Crores in FY2021. So how much that revenue we have booked in Q4?

Indrajit Chaudhuri: Total revenue is booked in Q4.

Jignesh Makwana: Okay. But then again, if I am doing the mathematic details of Rs.106 Crores and Rs.59 Crores from the distribution and about Rs.128 Crores from the institutional business, then my revenue should be higher than Rs.270 Crores?

Indrajit Chaudhuri: No, we can take that question offline. You can share your excel sheet. We will clarify it.

Jignesh Makwana: What is our growth, particularly the expansion plan for FY2022?

Namrata Chotrani: Sorry, can you repeat your question. Your voice is a bit blur.

Jignesh Makwana: Yes, so my question is what kind of expansion are we looking for in FY2022, number of stores expansion on the COCO side?

Namrata Chotrani: In terms of the total number of stores, we are looking at expanding approximately 80 to 100 stores including all company and outlet and franchises.

Jignesh Makwana: Then lastly, how much price hike have we taken in distribution business in this quarter?

Namrata Chotrani: Sorry can you repeat?

Jignesh Makwana: How much price hike have we taken in distribution business in this particular quarter?

Namrata Chotrani: In the Hawai and PVC segment was taken approximately 10% to 11% hike in the entire year.

Jignesh Makwana: Okay, so does that indicate that we have witnessed a volume decline in the distribution business in this particular quarter?

Indrajit Chaudhuri: That's incorrect. The 11% increase was for the entire year. For Q4, the growth in volume was 6% and ASP 1%.

Jignesh Makwana: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Naitik Mody from OHM Portfolio Equi Research. Please go ahead.

Naitik Mody: Thanks for the opportunity. The CMD said in the opening remarks, there is an effort to consolidate the receivable and inventory rationalization. So, could you elaborate more on the receivables part? Was it more to do with the distribution business? Or is it more to the franchisee business? And how much is already done? And how much is still left?

Indrajit Chaudhuri: In the franchisee business, the debtors as on March 31, 2019, was Rs.59 Crores FY20 it was Rs.35 Crores, December 2020, it was Rs.25 Crores and now it has come down to Rs.17.5 Crores. In distribution FY2019 it was Rs.34 Crores, FY2020 it was Rs.41 Crores. December 2020, Rs.29.92 Crores and March 2021, it is Rs.21.16 Crores. So in case of franchisee, we are trying to keep the level at 45 days and in case of distribution we are trying to keep the level at 30 days.

Naitik Mody: 30 days, okay. So, this will be the normalized scenario going ahead?

Indrajit Chaudhuri: Yes.

Naitik Mody: And what was it earlier if I say look at 2019 and 2020?

Indrajit Chaudhuri: In franchisee, it was 72 days and distribution it was around 50 days.

Naitik Mody: But would not that also hit your margins. Would you have to take lower gross margins to affect this kind of receivable days?

Indrajit Chaudhuri: No, the sales were less in the fourth quarter as you have seen distribution growth was around 7%, but you have to take corrective action and then when the demand comes, the volume automatically grows and the sales will grow to keep the receivables at the same level.

Naitik Mody: No, that is fine. I am not referring to this quarter, per se. I am just speaking on an annual basis, if you were to reduce your debtor days from, let us say 72 to 45 in franchisee and from 50 to 30 in distribution, would not that also mean that you will have to take a gross margin hit? I mean, sell them at a lower price, to effect these, kind of, working debtor days?

Indrajit Chaudhuri: See your working capital also gets improved, you are saving in finance cost, but the working capital and gross margin does not change if I sell at 45 days or at 70 days, the margin remains the same, but it is the better utilization of working capital, which gives you benefit in finance cost.

Naitik Mody: All right, fine. Anyway, I will take that up offline with you. Secondly, you mentioned that you have booked the entire institutional order of the Uttar Pradesh department in this quarter itself. Is that correct?

Indrajit Chaudhuri: Yes.

Naitik Mody: So which means, there is a 10% degrowth in your topline for your footwear business if I were to remove this order?

Indrajit Chaudhuri: That's incorrect. Our retail business were up 6% and distribution by approximately 7%.

Indrajit Chaudhuri: You are taking Rs.128 Crores, but the net sales is Rs.115 Crores, so you should deduct Rs.115 Crores from the total sales. Rs.128 Crores is the gross sale.

Naitik Mody: Okay. And what is the sort of gross margins we make in institutional business?

Indrajit Chaudhuri: The net margin at around 3.5%.

Naitik Mody: 3.5%.

Indrajit Chaudhuri: There is no other cost involved after the gross margin.

Naitik Mody: All right, Sir. Thank you very much.

Naitik Mody: Fourth quarter FY2020 also had an institutional component?

Indrajit Chaudhuri: Just a minute.

Naitik Mody: Yes.

Namrata Chotrani: Yes, if there was a small amount, but it was not a large amount. It was around Rs.7.5 Crores in the last year fourth quarter.

Naitik Mody: All right. Fine, thanks. That is helpful.

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

Gaurav Jogani: Yes, hi. Thank you for taking my questions. My question is with regards to the raw material. What sort of inflation trend are you seeing in the raw material and is the pricing increases that you have taken is enough as to cover that inflation or you might need to take further price increases?

Namrata Chotrani: Your voice is a bit blur. Can you please speak a bit louder?

Gaurav Jogani: Sure. So, my question was with regards to the raw material inflation. What kind of raw material inflation are you witnessing in the RM index? And whether the price increases that you have already expected covers this inflation, or you need to take further price increases?

Namrata Chotrani: The price increase in the footwear segment has been extremely high in the raw material space. Just to give you a perspective across the major raw materials, which are used in the footwear segment are EVA, rubbers, PU, PVC, and the kind of price increases that we have seen over there has been in the range of 40% to 50% from last year to sometime this year. The price increase that we have taken have adjusted for the raw material price increases also. Now, we do not need to do too much further increase to protect against the raw material, but if there is a further increase in raw material prices, then we may have to take a further price increase.

Gaurav Jogani: Okay. What about the competitors? Has the competitors also affected similar price increases because our check suggests that the competitors has not taken similar price increases?

Namrata Chotrani: The competitors also have taken price increases. I think for us in the last two, three years, the number of price increase that we have taken was relatively limited. The price differences that we had for similar products was pretty high, so we have tried to reduce the gap by taking multiple price increases this year. Having said that, the competitors also has taken price increases, I think there was two price increases in the year for sure,

adjusting for the raw material price increase. At least the organized players definitely have.

Gaurav Jogani: Thank you so much. Just to summarize it, now the pricing-premium gap between you and the competitors, has it reduced or has it remained more or less and are you premium in pricing versus the competitors?

Namrata Chotrani: Your first question is, has the price increase reduced. And your second question is?

Gaurav Jogani: I am saying are you at a premium to the competitors in terms of pricing and has that gap reduced, the pricing-premium gap, has that reduced?

Namrata Chotrani: I think the pricing gap has definitely reduced in the year because you have taken these multiple price increases to reduce the gap because of limited product differentiation and the quality differentiation and we have a very strong brand recall in the markets that we are present in. In some products, we are more premium and we can command a better pricing. In some products, they are premium and we are trying to try to figure out how to improve our product mix, our positioning and our marketing to be able to garner the kind of premium value. So I think this is subject to the product. I do not think you can generalize totally.

Gaurav Jogani: So, I was talking on a weighted average level. I mean, if you just compare apple to apple, similar products, because you said the pricing-premium gap has reduced. I was just trying to understand who was more premium and who was less premium earlier?

Namrata Chotrani: It also depends on the product basket mix. Some of our competitors, the branded and larger competitors in footwear distribution (not retail) have a good proportion of closed footwear which we are trying to build in and I think which we have mentioned in the last couple of calls that our brand is focusing on the various product categories across the distribution segment, which has also helped us improve our ASP and our margins. From that perspective, yes, other brands have a more premium product basket in terms of a larger product basket. But we are getting

there. We are focusing a lot on the premium range of products. We are investing in people, we are investing in merchandising. We are investing in our factory as well to ensure that we can create a kind of product base so that we are able to cater to the demand and also meet the targeted ASPs and margins. In the current product mix that we have, as I said, it is subjective to the product - it is very product-specific.

Moderator: Thank you. And sorry to interrupt you, Gaurav, I will request you to come back in the question queue for a follow-up question. The next question is from the line of Bhargav from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good afternoon, team. It seems we have lost some market share in the distribution business in the fourth quarter on the back of tightening of working capital. So, is this trend sustainable in terms of tightening of working capital or we will resort to some loosening to grab market share?

Namrata Chotrani: Sorry. This is, you wanted tightening on working capital?

Bhargav Buddhadev: No. I mean if you look at your competitors' growth in the distribution business, it is far superior as compared to your growth.

Namrata Chotrani: Yes.

Bhargav Buddhadev: So essentially, it seems like you have lost some market share in an effort to tighten your working capital.

Namrata Chotrani: Yes.

Bhargav Buddhadev: Can we expect similar working capital trends to continue in the distribution business or we will sort of resort to our old technique of relaxed working capital in order to chase volume growth?

Namrata Chotrani: No, I think as I said, the idea was to consolidate our balance sheet and make it more healthy. Having said that, in the third quarter, we have grown by 30% plus and the competitors has not grown at such a healthy

rate. In the fourth quarter, yes, we have let go some sales, but it is not that we will not be able to get back that sale or that share at all. We will definitely get back. We have become stricter with regard to the working capital and that is something what the distributors are also getting used to and it is a relationship, which we are building with them. Any change will require some adjustments from both the sides, from our side and the distributor side as well. We were more lenient compared to competitors the idea was to come closer to industry standards Things are settling down and so I think the volume will accordingly get back to the growth path. So, I do not think I am too concerned about the growth in market share going forward.

Indrajit Chaudhuri: So, we will keep at a 30 days level of debtors in distribution business.

Namrata Chotrani: That is the target.

Bhargav Buddhadev: And this tightening of working capital happens starting 4Q or has it happened much earlier?

Namrata Chotrani: No. We have started the process from third quarter itself, but we have got a bit tighter in the fourth quarter, and that is why you see the kind of numbers. Sometime back Indrajit narrated the entire reduction in the debtors in both distribution and retail business.

Bhargav Buddhadev: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Vishal Chopda from UTI Mutual Fund. Please go ahead.

Vishal Chopda: Thanks for taking my question. Actually, my question was largely on the distribution business which got answered in the earlier participant's question, so actually no question. Just one thing Indrajit, I think till last quarter in the presentation we were giving the data on the post IND-AS basis. Now, this quarter we are giving on pre IND-AS. So, it was very difficult to compare when the reported P&L is on different accounting, it is post IND-AS while your segmented numbers, margins actually are on

pre IND-AS. I think that is why you get a lot of confusion with respect to the growth numbers. Is it possible to revert back to the old way of reporting in the presentation? That will be easy to understand because this is really confusing.

Indrajit Chaudhuri: The thing is that we wish to give at post IND-AS but, our selling expenses are booked in different quarters. So you cannot see the actual margin growth in the business because of the adjustment of the credit note. Suppose the credit note third quarter is adjusted in fourth quarter. I can give you both pre IND-AS number and post IND-AS number offline. Otherwise, most of the people will not be able to see what the impact the business has done for a particular quarter because the IND-AS suppose in fourth quarter last year, still selling expenses were less compared to fourth quarter this year, because the credit note are given based on the scheme. In order to see the business growth, we have changed the model, but obviously we have both pre IND-AS and post IND-AS figures that I can give you one to one.

Vishal Chopda: The trouble is that then we cannot correspond to the reported P&L. I mean, given people are trying to back calculate the institutional business and numbers get all wrong and even the gross margins on reported basis and segmental basis does not correspond to, that is the problem. I get your point also. I get your point. But I mean I know there are problems in both methods but I think it is better if we continue to do it on post IND-AS basis only, if that is possible with you guys.

Indrajit Chaudhuri: I can share both pre IND-AS and post IND-AS numbers with you.

Vishal Chopda: Got it. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Shiv Bansal from Lighthouse Funds. Please go ahead. Shiv Bansal, may I request you to unmute your line from your side and go ahead with your question? Shiv Bansal, can you hear us? Due to no response, we move on to the next

participant. The next question is from the line of Abhishek Jain from Arihant Capital Markets. Please go ahead.

Abhishek Jain: Sir, thank you for taking my question. Post unlock 2, how the things are shaping up and which are the segments, which are the regions you are seeing a faster pickup?

Namrata Chotrani: The lockdowns have just started opening up but it is not opened up across all the states, even northeast is open till 2:00 o'clock. Bihar is still opening up three days a week. So I think it is still lockdown, it is not totally opened up but whatever has opened up, we are seeing that the recovery is a bit better than last year because I think people know how to handle themselves. There is more experience in handling even the situation compared to last year. We are seeing the recovery to be better, and hopefully this trend should continue, momentum should continue. Fingers are crossed.

Abhishek Jain: Which are the areas or segments that are looking good in the last 15, 30 days?

Namrata Chotrani: Compared to last year, given that the impact in the last year was more in the cities compared to tier 2 or 3 cities, this year, I think we are seeing a similar kind of trend across all the areas. Tier 2 and 3 cities will definitely be a little better, but I think the difference compared to last year is reduced.

Abhishek Jain: Thank you Madam.

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

Harsh Shah: Thanks for taking my question. Of the trade receivables which you have recorded in the balance sheet as on March 2021, on the Rs.120 Crores, how much of the institutional order would be sitting in this amount?

Indrajit Chaudhuri: Out of that, Rs.120 Crores, Rs.77 Crores is from institutional business.

Harsh Shah: Okay. So basically apart from that, it is only Rs.53 Crores, right, trade receivables?

Indrajit Chaudhuri: Yes. Rs.43 Crores.

Harsh Shah: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Girish Pai. Please go ahead.

Girish Pai: Thanks for the opportunity. Namrata, you came in a couple of years back and prior to that Khadim had a decent IPO, then it went through a challenging phase. What do you think are the issues that Khadim was grappling with at that time and how well you tackled them as the CEO? And do you think you put all of them behind you? I mean the problems or are you still grappling with some of them and when do you think you will kind of tackle them? And if you do tackle them, what kind of EBITDA margins pre IND-AS 116 or do you think you can work with on a longer-term basis?

Namrata Chotrani: Thanks for your question, Girish. Appreciate it. Just prior to me joining, there were a few things in terms of the way the product range was being structured, the way the premiumization was being structured, the way the gross margin was being addressed, the fixed cost increase, there were multiple challenges across the business, even the way the outstanding have increased around the franchisee business and distribution business. The focus on product across both the retail and distribution business had reduced. So, what we have done is essentially try to improvise on the entire range architecture, which I have mentioned earlier to ensure that it is more relevant to the younger audiences, which is more vibrant, more colorful. It is in line with trying to ensure that we are increasing our ASP, we are increasing our gross margins and the conversions increased in the store, the average billing value increased in the store, eventually translating to increased operational income. So, there is more structure in the way we are looking at business. It is a very data-oriented approach

that we are looking at the business compared to how it was conducted earlier. There has been a very, very high focus on reducing the fixed costs; there has been a very high focus on improvising the working capital, and that is very apparent with the kind of metrics that we are seeing. There has been improvement in ASP, in gross margin which is visible both in retail and distribution businesses; there has been improvement in working capital efficiency which we are trying to ensure and these metrics and this trend is definitely here to stay. We are ensuring and working on the fact that how to ensure that these metrics continues across both retail and distribution business and the only thing right now that is missing is the volumes, which hopefully by Q2 we will be able to see an upliftment. Q1 has been again much slower than what we were anticipating. So we are very confident to ensure the positive trend continues once volume picks Q2 onwards. With regards to the EBITDA levels, we have mentioned earlier, from 10% to 11% is what we are targeting. In ideal scenario, hopefully we should be able to achieve it sooner than later once things normalize.

Girish Pai: Just a couple of more questions. This institutional business, do you think it is an important business at all? And what kind of margins and return ratios would that business have compared to either distribution or your retail business?

Indrajit Chaudhuri: See, the margin in institutional business is lower, but that margin that we get from 3.5% to 4%, it is back to back with our vendors. So, our working capital is not involved in this business and we are able to generate some margin out of, without investing any funds.

Girish Pai: My last question is regarding advertising and promotional spend. Can you give me the number for FY2021? I recall you saying I think, Namrata, that it will go down to 1% in FY2022. Did I hear that right?

Namrata Chotrani: No, I have not made a statement like that as of now, but I think we are not looking at spending more than 1%, 1.5% in this year. I think most of spend will happen now maybe in end of Q3, during the festive period.

And maybe post that depending on how the trend goes. Again, as I said, when you start the year you have a certain plan and budget in mind. We had a budget of approximately 2%, but given the way the year has started and so much ambiguity around in terms of the entire sales coming in, footfalls and lockdowns, to give you an exact number of how we plan to spend the marketing and advertisement is a bit premature right now. I think we will take it as it comes and how the year comes around.

Girish Pai: What was the number in FY2021?

Indrajit Chaudhuri: Around Rs.4 Crores.

Namrata Chotrani: This is pure advertisement. The sales promotion expense will be separate here.

Girish Pai: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Bhargav from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Yes, just one data point. What would be the receivable cycle for this institutional order?

Indrajit Chaudhuri: Generally, it is around six months.

Bhargav Buddhadev: Six months?

Indrajit Chaudhuri: Yes.

Bhargav Buddhadev: What was the rationale for getting order, I mean at one end we are trying to curtail our receivable cycle. So, what would be the rationale for taking up this institutional order then?

Indrajit Chaudhuri: As I told you in a previous question that our working capital is not involved in this institutional business. We work back to back with our vendors. So, you are getting a margin without investing any money.

Bhargav Buddhadev: Yes. So, would that not be the case with our other businesses?

Indrajit Chaudhuri: We do not hold any stock. It is receivables and creditors. But in other business, there is receivable stock, and if the stock is not sold, then it is a paid stock. Here, there is no paid stock, nothing. It is only receivables and creditors. So whenever you get your receivables, you pay it to the creditors.

Bhargav Buddhadev: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of Amit Luthra an Individual Investor. Please go ahead.

Amit Luthra: Thanks for the opportunity. And I hope everybody is safe that, you know, on the other end. Quick two questions. So one is, where do we see ourselves in three to five years timeline, compared to the other brands? And the second is in terms of what, sort of, plan for the EBITDA margins, compared to, I mean, other brands like, Bata and Relaxo, because we are at the little lower end. So where do we see our self-arbitraging in terms of the same timeline for three to five years? Thank you.

Namrata Chotrani: Thanks for your question, Amit. In terms of next three to five years, we definitely intend to have our focus on the product, both in retail and distribution. We definitely want to continue to be an affordable footwear fashion brand. We do not intend to become a premium brand but we intend of premiumize within the affordable fashion segments itself. We want to continue to be catering to the entire family for all, so across all merchandised categories. Intend to grow the retail business by 10% to 12% year-on-year and distribution by around 15% year-on-year. In terms of gross margin, so when you are comparing to the other retail brands, you are seeing mainly the company owned outlet margins, which you compare on a like-for-like basis for that margin, we pretty much are in place there. Our margin is very comparable to the other brands when it comes to the gross margin, why you are seeing it relatively lower, because we also have the franchisee business where we sell to the franchisee. We are giving them a certain amount of retail margin

enabling them to earn money. So that is where the average margin reduces. But on a product gross margin, we are pretty much comparable to all the other brands.

Amit Luthra: Thank you. Just one last question; I think you said, we are looking for 80 to 100 new stores in FY2022. Any distribution in terms of regions like how are they placed, because we are trying to get into other regions. So, is there any distribution that is been targeted for these new 100 stores?

Namrata Chotrani: Your question is for the stores what is your question?

Amit Luthra: So the new stores, that 80 to 100 stores across the company-owned model and the franchisee that we are targeting in FY2022. So, is there any distribution that we are targeting across the region basically?

Namrata Chotrani: You are asking in terms of where do we?

Amit Luthra: 100 stores? Correct, in terms of the regions like how we are trying to distribute those.

Namrata Chotrani: So, we are looking at the Northern side, the Northeast, the North, which includes the UP, Bihar, even Southern region Tamil Nadu, Karnataka, Kerala, some of the Western parts of Gujarat, Maharashtra. I think is not specific to any particular area. We are pretty much looking at a Pan-India presence.

Amit Luthra: All right. Thank you, Madam. All the best.

Moderator: Thank you very much. The next question is from the line of Mr. Girish Pai. Please go ahead.

Girish Pai: I had a few questions, you mentioned 80 to 100 stores, how many of them would be COCO stores?

Namrata Chotrani: COCO stores would to be around five to seven. We are looking at predominantly focusing on franchisees this year in terms of both

allocation of capital, protecting the P&L as well in terms of the fixed cost.

Girish Pai: The other question is regarding gross margin. 4Q gross margin for the distribution business, I think, I recall the numbers were significantly better both on a Y-o-Y and a Q-o-Q basis. Is there any specific reason? Is that a one-off? Or do you think that is sustainable trend?

Namrata Chotrani: We are definitely looking at a gross margin increase year-on-year. The reasons are both; one is the price increases and even the premiumization changes in the sales mix, product mix enhancement. The increased trend will definitely continue. We will continue focusing on trying to ensure that our product mix will lead to a growth in gross margin in our yearly basis across the retail and distribution business both.

Girish Pai: My last question is regarding your distribution business, obviously most likely working through multi-brand distributors. If you had stricter terms, do you think they will built their business more towards the other brands? Or what do you think is going to incentivize them to sell your products?

Namrata Chotrani: So, in terms of the using of tightening of norms, I think every brand has its own credit policy and CD policy. So as to ensure that, you know, they are recovering the money faster than the others. I believe we were a bit lenient, and we are trying to correct that, if not that we are becoming stricter than the other brands. We are pretty much similar to be other brands. And the second question was, sorry can you repeat that?

Girish Pai: No, I was asking whether, because it is stricter norms whether they will tilt more towards your other peers. And so what are the incentives for them to sell your products?

Namrata Chotrani: As I said we are not more stringent, compared to the other brands. I believe we were more lenient, compared to the other brands. I think we are just correcting our leniency and becoming fairer, I would believe. What is in it for them to sell our brand is our brand recall and they fact

that they make money. There is more to just credit – there is distribution margin, schemes, advance payment % and product range and quality We have a strong brand in our existing market and we have the right product range we are building on that as well. So it is in their interest to sell the products because there is demand for the products that we are offering.

Girish Pai: Thank you.

Moderator: Thank you. The next question is from the line of Vikas Shah from AQ Capital Limited. Please go ahead.

Vikas Shah: Just a quick question. Could you share the breakup of the revenue in terms of EVA, PU, PVC and Hawaii?

Namrata Chotrani: This year it has been more open footwear basis, so I am not sure of this year would be a good benchmark to judge the business at all. I would believe that Hawaii, PVC, EVA contribute almost in normal times contributes almost 80% of the business, balance PU, Sports, Sport Sandal, Formal Shoes contribute 20% of the business.

Vikas Shah: That was helpful. Also, what is the total capacity and the utilization? And what is the capex typically involved for incremental capex rather?

Indrajit Chaudhuri: Last year we had a capex of around Rs.3 Crores for the total business. So, in factory it was around Rs.40 lakhs to Rs.50 lakhs for investment in molds. But in this year, we will be going for a new press line, so that would be having an investment of around Rs.1 Crores. So, it will increase our capacity, right now we are having a capacity of around 1,20,000 pair Hawaii per day, so that will be increased to around 1,40,000 pair per day.

Vikas Shah: Okay. And what is the current utilization?

Indrajit Chaudhuri: In case of Hawaii, it is around 90% utilization and in case of PVC it is 60% to 65% utilization.

Vikas Shah: That was helpful. Thanks a lot.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Girish Pai for closing comments.

Girish Pai: With that we conclude the interaction that the Khadim management. We would like to thank it for giving us this opportunity to host this call. Thank you all for taking part and have a good day.

Siddhartha R Burman: Thank you.

Namrata Chotrani: Thank you for your time and interest. Appreciate it and look forward to connecting with you soon again.

Moderator: Thank you very much. On behalf of Nirmal Bang Institutional Equities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.