KHADIM

June 06, 2023

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

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

Dear Sir / Madam,

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

Sub: Outcome of Investor Meet

This is with reference to Investor Meet held on Tuesday, May 30, 2023.

Pursuant to the provisions of Regulation 30 of the Listing Regulations, we enclose herewith the concall transcript of the said Meeting w.r.t. Audited Standalone and Consolidated Financial Results of the Company for the quarter and financial year ended March 31, 2023.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

ABHIJIT DAN Digitally signed by ABHIJIT DAN
Date: 2023.06.06 12:00:58 +05'30'

Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above

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CITY OFFICE : 7A, LINDSAY STREET, KOLKATA - 700 087

"Khadim India Limited

Q4 FY23 Earnings Conference Call"

May 30, 2023

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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Khadim India Q4 and FY23 Earnings Conference Call organized by Orient Capital. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nachiket Kale. Thank you, and over to you.

Nachiket Kale: Hi. Good evening, everyone. Welcome to the conference call to discuss results for Q4 and FY2023. Today, on this call from Khadim India Limited, we have Mr. Siddhartha Roy Burman, the Chairman & Managing Director; Mr. Rittick Roy Burman, Whole-Time Director; and Mr. Indrajit Chaudhuri, the CFO.

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

Now I would like to hand over the call to Mr. Rittick Roy Burman. Over to you, Rittick.

Rittick Roy Burman: Hi. Good evening, everyone. I hope you can hear me. On behalf of Khadim India Limited, it is my pleasure to welcome you all to this conference call to discuss the Q4 and full year results for the financial year 22-23.

On today's call, we will provide a progress report of our overall business and its execution. Secondly, we will give our financial segmental performance for Q4 and FY23 and I will end with the outlook for FY24.

So, during the year, we witnessed some inflationary pressure on raw materials. Despite that, we were able to maintain our margins. However, with inflation expected to come down, we expect softening in these prices in the near coming months.

The Company has maintained its strong quarterly business performance because of the increased demand for its product at affordable prices. With changing demand scenarios across demographics, we continue to add more trendy and stylish products at reasonable price in our product portfolio. We recently launched a new campaign, “Cholche Khadim Cholbe Khadim” in Bengal to showcase the decade-old legacy of our brand that resonates with the indelible love of our consumers.

Our focus on expanding the reach, digital penetration, portfolio augmentation and customer-focused integrated communication approach has resulted in significant increase of sales across retails with contribution from e-commerce vertical as well.

We added Pan-India 18 new stores in Q4 and 91 stores in total in financial year 23, taking the total store count to 846 stores. In the distribution business, we are capitalizing to grow aggressively in footwear distribution and have a network of 700 distributors as of March’23. To continue providing our consumers with wow experience, we aspire to establish ourselves as the family's first choice footwear brand.

Now moving on to the Q4 and FY23 financial segmental highlights.

Q4FY23 revenue is at ₹ 159 crores, which has grown year-to-year by 2%, and revenue for the full year stood at ₹ 660 crores, clocking a healthy growth of 11.7%. There was strong growth in retail business, was the key driving contributor to the overall revenue growth.

Gross margin for the quarter stood at 44.4%, up by 680 basis points year-on-year and higher contribution from retail lead to favourable product mix. For FY23, gross margin stands at 41.9%, higher by 470 basis points year-on-year.

EBITDA for the quarter 4 FY23 stood at ₹16.4 crores, up by 28.2%. And for full year, EBITDA is at ₹ 72.5 crores, registered a robust growth of 51.7%. Our focus on cost optimization and brand premiumization lead to a healthy EBITDA margin for the quarter at 10.3%, whereas at 11% for the FY23.

Profit after tax for Q4 FY23 stands at ₹ 4.3 crores, delivering a strong 66% year-on-year growth. For the fiscal year, PAT was at ₹ 17.5 crores, doubling more as compared to FY22 with spectacular year-on-year growth of 171%.

Now moving on to some segmental highlights.

For the year, retail sales contributed 63%, while distribution and sales through e-commerce, institutional channels contributed to 34% and 3%, respectively, to the total revenue. Our presence continues to strengthen in Tier II and Tier III cities as we continue to add stores in these regions. In this fiscal year, we opened 47 new stores in Tier III cities, followed by 17 stores in Tier I regions and 27 stores in metro and Tier II cities.

Our retail business also generated a healthy growth of 5% and 12% in the quarter and full year, respectively. We currently operate 74% of stores through franchise models, which includes EBOs, BOs and FRM stores while 26% of the stores are operated through Company-Owned Outlets.

With a focus on product improvisation, expansion through all channels and enhancement of customer service through omni-channel approach, we are well poised for upcoming years.

With this, I now open the floor for question-and-answer session.

Moderator: We have a first question from the line of Viraj Mehta from Equirus PMS.

Viraj Mehta: Congratulations for the numbers. My first question is regarding the change in the management that we have had. In terms of, obviously, Namrata was leading the Company for a reasonably long period of time, would this mean any shift in strategy in terms of the mix of retail and otherwise -- and gross margin improvement that she had always talked about, 100 basis points every year? I mean would you see any disruption at any level in your view?

Rittick Roy Burman: Thank you for the question, Mr. Viraj Mehta. So, yes, now the Company will be lead by me, myself, Rittick Roy Burman, along with our CFO, Indrajit Chaudhuri. And as far as strategy is concerned, it will remain mainly similar. But one thing that we need to understand is that currently, there is some sort of a slowdown, especially in the wholesale business. So if I give very optimistic gross margin updates, especially pertaining to the wholesale business at this moment, it would be a wrong guidance. So in wholesale, we'll have to be competitive in order to increase the volume and the sales whereas in retail, like Namrata used to say that we are focusing on premiumization and also increasing gross margin by few basis points every year. We will focus on that because in retail, we have the opportunity to premiumize at different sub-brands like Pro, British Walker and so we'll continue to do that, so that's our strategy.

Indrajit Chaudhuri: Also, I want to add here that there are some price points in the lower strata of the retail where we were lacking the product. So we'll provide that product in the range of ₹ 399 - ₹ 499, but the margin will remain the same.

Rittick Roy Burman: Yes, in retail, we'll do that. Because in retail also, in the lower strata of the products, there is some sort of a gap because there is some pairage degrowth. And everything -- ASP is increasing, of course. But if we totally -- if we don't focus on the pairage degrowth, then what will happen is slowly, slowly might face some demand problems. So we are -- luckily, we have got sub-brands from where we can sell premium products and attain the margin. And even in retail, in the mother brand Khadim's anything below the pricing of ₹ 700, we are trying to remain competitive like we are introducing products at ₹ 399, ₹ 499, ₹ 599 as well.

Viraj Mehta: Sure. Just wanted to get some update in terms of -- we were always talking about ₹ 750 crores top line by next year. We ended this year at INR660 crores. In your view, with the current slowdown that you see, will we be able to do ₹ 750 crores next year or that looks a tough stretch?

Indrajit Chaudhuri: So last year, – gross sales, we have closed at ₹ 775 crores and net ₹ 660 crores. But this year, our target is to grow around 10% - 12% in retail and distribution 15%. So I think if we grow at 15%, then we'll be able to reach at ₹ 750 crores.

Indrajit Chaudhuri: And ₹ 900 crores gross numbers for the next year.

Viraj Mehta: Right. And in terms of opening of new stores, what's the kind of new stores both in franchisee? And I'm assuming we're not going to do much expansion in COCO. So what's the target for opening new franchisees this year, franchisee stores?

Indrajit Chaudhuri: Last year, we have opened around 91 stores, comprising franchisee of 80 and 10 COCOs. So this year, our target is to open 100 total stores, out of that 12 to 15 will be COCO and balance would be franchise.

Rittick Roy Burman: FRM one.

Viraj Mehta: Sir, just one last question. These 100 new stores that we are opening, and we're only talking about 10% - 12% growth, that means SSG for existing stores is almost 0%. How do we think about that?

Indrajit Chaudhuri: No. SSG, we are considering around 4% - 5%. And the stores are not opened in the first day of the year. So stores are opened during the year. So from the new stores, we can add a value of 6% - 7%. So both of them taken together, we are focusing on 10% - 12%.

Viraj Mehta: Sure. And sir, this 35% gross margin that we did in distribution, do you think would you still remain under pressure for this year? Is that a fair assumption to have?

Indrajit Chaudhuri: Yes, because there is a lot of price competitiveness in this business. And also, in order to have the volume and keeping every price at a competitive level, we cannot foresee margin growth in distribution.

Moderator: We have our next question from the line of VG Jagannathan, an Individual Investor. Since there is no response, we'll move on to the next question from the line of Deepan Sankara Narayanan from Trustline PMS.

Deepan Sankara Narayanan: So firstly, on the retail side, so what is the price hike we have taken during Q4 and FY23?

Indrajit Chaudhuri: FY23, price hike was around 5% - 6%.

Deepan Sankara Narayanan: Okay. And so in terms of product introduction, are we introducing more products in distribution and retail segment in the coming years to add to our product bouquet?

Indrajit Chaudhuri: In retail, we are coming up as -- Rittick has told that we are coming up in the price range of ₹ 399, ₹ 499, ₹ 599. And also, there are new products in the sports segment and athleisure.

Rittick Roy Burman: Yes, we are also doing like in retail, we are -- like I said, like in the mother brand, we are launching some products in the lower MRPs to arrest the pairage degrowth, keep the SSG and all at the healthy level. So we are doing that in the mother brand, Khadim's. But at the same time, in our sub-brands, Pro and British Walker, we are launching very -- like decently premium products.

Like in Pro, we are launching about 40 to 50 new sports shoes, which will have MRP starting from ₹ 999, and it will go all the way up to ₹ 2,699, ₹ 2,799. So like that will -- we are quite confident that once that comes in from the beginning of third quarter or by the end of third quarter, this thing -- that Pro will give us a huge -- will give us a good sale growth because sports shoes, we have not -- we had explored sports shoes like within the distribution segment last year.But this year, we are doing the same in retail segment where the competition is also less because in retail the customer just walks into my store and then if he likes the product, he buys it, because he has come to buy Khadim's.

He might go to another shop, but it's not like a multibrand, right? Where he will see Khadim's and some other Y brand whose price is lesser. At the front of his eyes, he will not see that. So we are quite -- like our whole merchandising team, sales team, we are quite optimistic about the sports shoes range that is coming up and also the medium-priced pocket-friendly products that we are getting. So it should give us the desired growth as Indrajit has said in the retail business.

Deepan Sankara Narayanan: Oh! that's great to hear. So what is the contribution of this athleisure segment now? And where do you see this contribution improving over the next 2-3 years?

Rittick Roy Burman: 20% right now -- 16% to 20%, the athleisure segment business will be in the total retail turnover, the Pro. And so we hope to increase it--we hope to increase it because the kind of range that we are getting this year. And people -- and the strength of the Khadim's brand and the showrooms that Khadim has in each market, the locations, when people will come into these stores, and they will see that Oh! Khadim's has also launched this type of sports shoes in their own store, I think that will give a lot of mileage.

Indrajit Chaudhuri: And also, we have launched our premium British Walker, that was very old British Walker that was very popular in the market. Its code is 888540. It has come up with new effects. So we think that in the leather shoe segment also, we can increase the contribution.

Rittick Roy Burman: Correct. Yes.

Deepan Sankara Narayanan: Okay, so does that mean that we will have a better gross margin improvement in retail segment also?

Indrajit Chaudhuri: Yes, we will try, as Rittick mentioned, that in the sub-brand, the gross margin will improve. But since we are also launching some products in the lower segment, and also, if you realize we have a BO franchisee, which operate in Tier III, Tier IV cities where the product for ₹ 399 will go. That will be slightly in the same -- whatever growth will come in the premium would be slightly downed by the lower segment. But we'll try to increase the gross margin by 1% - 1.5%.

Rittick Roy Burman: Yes. Because this year, the strategy also is that like gross margin has to increase 1% - 1.5% by selling sports shoes, leather shoes, etc. But also there has been pairage degrowth for -- at the cost -- there has been nice ASP growth, it's still continuing. But in the Tier IV markets, those are also our markets. So there has been pairage degrowth in that. So limited articles. We are not like populating the whole -- our whole range with low value -- low MRP articles, but limited articles have to be launched to make sure that these Tier III, Tier IV, we are expanding, if we do not make sure that some economical products are launched for them, then what's the point of opening so many stores.

So we will increase the gross margin through premiumization, but there will also be introductions of not low-margin articles. We will maintain the margins through product, engineering, etc. and we'll have to tap into both the customer segments.

Indrajit Chaudhuri: Because ultimately, there will be a sales growth, will be a mixture of both price and volume.

Rittick Roy Burman: Yes. The volume degrowth needs to decrease and ASP also needs to increase. So now we want to do that.

Deepan Sankara Narayanan: Okay. Sir, lastly, from my side, what is the volume number of pairs sold in FY23? And how is that compared with pre-pandemic number?

Indrajit Chaudhuri: So last year, in retail, we have sold 76 lakhs pair which in FY22 was 70 lakhs and FY21 was 69 lakhs. So there is a pairage growth, but also, you want the pairage growth because in the pre-pandemic we used to sell around 1 crores pair.

Moderator: We have our next question from the line of VG Jagannathan who's self-employed. Since there is no response, we'll move on to the next question from the line of Shreyans J from Svan Investments.

Shreyans J: So my first question is if you could help me with about 5% of SSG. So what will it take for our business to go to 10% odd levels? And when can we actually see that kind of number?

Indrajit Chaudhuri: The 10% SSG in this scenario and this -- with the inflation effect is not possible for the next 2- 3 years. What we have already made a guidance of increasing the sales by 10% - 12% with opening around 100 stores, both COCO and franchisees and also doing our -- increasing the volume. So based on that, we will be able to achieve around 12% every financial year for the next 1 - 2 years. But obviously, if the inflationary pressure and the demand in the lower segment comes back, hopefully, we'll be able to do that SSG in future.

Shreyans J: And sir, the inflation impact we completely passed on? Or is there still some impact yet to be passed on?

Indrajit Chaudhuri: No, there is inflationary impact in the lower segment of the product, especially up to ₹ 500, which we have already noticed in distribution business. And also, we are facing the same in the Tier IV, Tier III cities. So I think by increasing the price or inflation to the customer only affects your volume. So we are trying to keep the volume and also slightly increase the price.

Rittick Roy Burman: Yes. Actually, we have got many franchisees as you can see, so like now that we have come up with pocket-friendly products, especially for the Tier III and IV, we have many franchisees of ours that are in the Tier III and IV markets. So since the pocket-friendly products have come up with normal margin -- good margin. Now we accept that these franchisees will order more.

In last few years, it became so expensive -- like something became very expensive. So they were not ordering. We were just having ASP growth and these things. So now that we'll be launching some of these pocket-friendly products, we have already launched, we can see -- we can actually see that our franchisees are again, like getting energized and they're ordering because you need to understand the market also, Tier III, Tier IV, how it operates. So there should be volume growth -- not growth, like volume degrowth should reduce. And this -- gross margin will increase by 1% -1.5%, like Indrajit has said and retail sales will grow by 10% - 12%.

Indrajit Chaudhuri: Strategy would be in the metro, mini metro through our COOs and sub-brands we will premiumize the product and increase the ASP, and through our BO and some EBOs in the Tier III, Tier IV, we'll restrict the volume degrowth. Whatever volume degrowth has been done, that should be arrested and some increase from the last year's number to be done.

Shreyans J: So sir, if I have to just break your growth of the guidance that you're giving of about 10% - 12-odd percent, so is it fair to assume that 8% - 10% would be value and maybe 1% - 2% would be volume growth?

Indrajit Chaudhuri: Yes.

Shreyans J: Okay. And sir, second is on the BIS standard. We understand that there are some new standards that come in from July 2023. So what is our status on that? And how well are we prepared for that?

Indrajit Chaudhuri: Yes. We have our -- in our manufacturing segment, we have our own labs. So we don't have any problem as such in the manufacturing segment. In the retail segment, whoever is the manufacturer -

- is a limit given of more than ₹ 50 crores in the manufacture. So the manufacturer who supply us of more than ₹ 50 crores will be registered in the BIS. We are also taking our registration for our distribution product, which we manufacture.

In case of the suppliers, outsourced suppliers whose capacity is less than ₹ 50 crores, they will not be required to take the BIS registration. However, we are trying for them to build a lab from where, we can get their product also tested, so that in our retail, though there is no requirement. But there may be some products which are BIS standard based on the manufacturing capacity and some products which are not BIS compliant. But we'll try to make all the products BIS compliant, but it will take some time. However, there is no restriction from the government to have all the products in the retail store, BIS registered.

Shreyans J: So do we envisage a situation where we will need to stock up more inventory before this standard comes in. And I mean do you plan to do that to stock up more inventory than normal?

Indrajit Chaudhuri: We generally plan to stock in the first quarter due to our festive order for the next quarter, second quarter, that we are already doing. So we'll be building in the product. And for those manufacturers who was not required to BIS standard, they will come up because our standards that we follow is higher than what BIS has suggested. So we don't have a problem in that thing.

Shreyans J: Okay. And sir, what would be a capex figure for the next 1 - 2 years? And where do we see the debt?

Indrajit Chaudhuri: We have a capex of around ₹ 12 crores - ₹13 crores for our retail expansion, modernization of the retail and also our factory. And debt at present is at ₹ 116 crores. We expect to be by next 2 - 3 years around ₹ 80 crores - ₹ 90 crores.

Shreyans J: You will repay, or you will come to ₹ 80 crores - ₹ 90 crores?

Indrajit Chaudhuri: ₹ 80 crores - ₹ 90 crores -- we'll come to ₹ 80 crores - ₹90 crores level.

Sachin Kasera: This is Sachin Kasera here. Just one question on the volume. You mentioned that in the peak you sold 1 crore pairs. So that is retail plus distribution combined or that you are telling only for retail?

Rittick Roy Burman: Only for retail.

Indrajit Chaudhuri: Only for retail.

Moderator: I request you to come back in the queue for follow up question.

Sachin Kasera: So this 1 crore to 76 lakhs, sir, is mainly a loss of market share? Or the market itself is corrected by 25% - 30%.

Indrajit Chaudhuri: As market has corrected -- I mean corrected...

Rittick Roy Burman: There is COVID also in between, so that effect was there.

Indrajit Chaudhuri: Because in the COVID year, in FY21, it came down to 68 lakhs. Now, it has gone up to ₹ 76 lakhs. I mean next year; maybe it's going to ₹ 85 lakhs - ₹ 86 lakhs.

Moderator: We have a next question from the line of Abhishek Getam from Alpha Invesco.

Abhishek Getam: Yes. Sir, my question was on institutional sales. So out of the current receivables of ₹ 188 crores, how much is from institutional debtors pending?

Indrajit Chaudhuri: Around ₹ 70 crores.

Abhishek Getam: ₹ 70 crores. And have you like any plans to provide or what is the status on that?

Indrajit Chaudhuri: In UP, we've actually got -- I mean the fund was transferred to treasury. But the treasury, there was -- server crashed on 31st, so that's why we didn't get the payment. But again, we are following up because in government, if one financial year ends, then the next financial year, there are a lot of procedures and all these things. Hopefully, we'll be getting this payment in the month of July.

Abhishek Getam: So I just want to know what is our sort of view or way forward on this institutional business? Are we looking or has we completely stopped doing...?

Indrajit Chaudhuri: From FY22, we have exited out of this government institutional business.

Abhishek Getam: Okay. One more question was what will be the volume in wholesale business?

Indrajit Chaudhuri: Volume in our wholesale business was 2.42 crores pairs.

Abhishek Getam: And last year?

Indrajit Chaudhuri: Last year, there was 2.80 crores pairs.

Abhishek Getam: Okay, so we have the degrowth. Okay, fine.

Moderator: We have a next question from the line of Rahul Jain from Credence Wealth.

Rahul Jain: Sir, going forward for next 2, 3 years, overall, what is the kind of strategy which we are having with regard to two things, one is volume growth; and secondly, the proportion of retail and distribution in our overall sales?

Indrajit Chaudhuri: See, as we mentioned earlier that our main focus will be to increase the ASP in the premium segment in our sub-brands, in the metro, mini metro and Tier I and also to protect our Tier III, Tier IV cities, our EBOs and BOs market through products in the lower price strata. So these would be the 2. In one segment, we will grow by ASP, price increase. And in one segment, there would be a volume growth.

So the growth will be a mixture of both volume and price and will be ranging a growth of around 10% - 12% in retail business. And the proportionate of retail to distribution this year was 60-40. But in way forward the retail will increase -- the proportion of retail will increase, and the distribution portion will be less.

Rahul Jain: And what kind of advertisement budget, promotional expenses are we working on for next year?

Indrajit Chaudhuri: Next year, we are working on a budget of around ₹ 15 crores for our advertising plan, but that will be a mixture of both online and some offline advertisements.

Rahul Jain: Okay. So sir, as a strategy, do we -- and since our distribution margin is a low-margin business and somehow, it's been quite difficult to sell this half. So do you feel going ahead, our focus has been largely more, more in retail side, which can go up to, say, 5 years back, somewhere in FY19, it was almost 72%-73% of our sales which stands at 63% today. So in the next 2-3 years, can we look at the retail being almost, say, 70%-75% of the total proportion -- total sales?

Indrajit Chaudhuri: So after 3 years, obviously, 70-30 ratio will come because we are focusing more on the retail business. Distribution will also be the focus. But as I mentioned, we will be -- not be reducing the price and increasing the volume, and we'll try to maintain the margin and make it a profitable business.

Moderator: We have a next question from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Sir, my first question is, I think, in earlier interactions, we were aiming to go to 15% EBITDA margin in FY25, if I remember correctly. So are we on course and now raw material prices have softened. So are we likely to get any benefit in FY24? And what kind of margin that we are looking for in FY24?

Indrajit Chaudhuri: Yes, we -- in FY23, we have achieved 11% EBITDA margin. Hopefully in FY24, we'll try to increase it to 12.5%. The raw material level has softened, but the price pressure is in the distribution segment. So we'll try to increase the EBITDA margin through our retail business, where we are coming up with new products, premium product with higher margin or increase the volume in retail.

Distribution also, we'll try to keep the margin -- the gross margin intact with the raw material softening and also taking some steps in manufacturing, we'll try to increase the EBITDA there also. Both of them, taken together, we'll try to achieve 12.5% in FY24. And if all things remain the same, then the EBITDA margin of 15% is obviously there for FY25.

Dhwanil Desai: Okay. Sir, this change of 400 bps that we are envisaging will it come largely from the gross margin improvement on the distribution side mainly and then some on the retail side, that is the right way to look at?

Indrajit Chaudhuri: Distribution side, the gross margin improvement is difficult, as Rittick has mentioned, because there is a price competition. And if we increase the price, the volume also gets impacted. So mainly, we will focus on retail business from where we will try to increase the gross margin, increase the volume so that the volume of sales in value terms increases, and if the volume of sales in value increases, obviously, with the cost optimization, the EBITDA margin in retail business will be increasing more than distribution.

Dhwanil Desai: And sir, my second question is on the larger picture. So we are a well-recognized brand, and we have such a large network, and we have a mind share or in people's mind. So given all that, are you guys happy with 12% - 13% kind of growth year-on-year? I'm not talking about FY24, where inflationary -- no pressure is playing out. I'm saying, in general, isn't there aspiration more to grow at much higher rate given where we are and the value proposition that we have been talking about? I mean aren't we undershooting ourselves?

Indrajit Chaudhuri: One thing is that we can grow more by opening 200 stores per year, but I think that will not be a wise decision because if you open 200 stores, then there will also closure of stores. So in order to open correct store at the correct place and see the volume in the mature store doesn't increases.

So keeping the track and all the things, obviously, and also opening store needs capex for our COCO also. So based on our profitability, we have to plan out our capex plan. So based on that, for the next 2-3 years, we'll be keeping our focus on opening around 100-120 stores. But definitely, if the profitability increases, we'll try to open more stores and the increase in sales from 10% - 12%, maybe definitely top of around 15% - 17%.

Moderator: We have our next question from the line of Aman Vishwakarma from Robo Capital.

Aman Vishwakarma: My questions have been answered.

Moderator: We have a next question from the line of Shreyans J from Svan Investments.

Sachin Kasera: This is Sachin Kasera here again. One question around the volume growth. So you mentioned that this year we had 76 lakhs versus 1 crore pre-COVID. So what I understand, we also increased our number of outlets in the last 3 years. So that would mean that in terms of the per outlet volumes would have gone down even more. And we are not hearing such type of commentary from any other player that we are talking of like this 30%-40%, degrowth in the market volume. So if you could tell a bit more granularity about what exactly has happened, why our volumes per outlet like 30%-40% lower than pre-COVID?

Rittick Roy Burman: No, that was due to COVID, there has been a degrowth. First of all, that is one of the reasons because when COVID struck, the footfalls reduced, okay.

Sachin Kasera: FY23, we are not getting any major impact or very minor impact from most of the players on the volumes. '21, '22 was fully understandable.

Indrajit Chaudhuri: Volume for FY 23 definitely is more than FY22 as result volume has increased around 10%. So what I am telling was in FY19, what was the volume. At that time, our ASP was ₹ 420. And now the ASP is ₹ 650. So that's why -- Rittick was mentioning in the Tier III and Tier IV cities where there are lots of volume degrowth has come. So there, we want to try to provide some products for which we can protect the volume degrowth and increase the value growth in sales.

And also, definitely, there are a lot of stores open and there are a lot of stores closed during the COVID time. In COO, we have closed around 15 - 17 stores during this COVID period which were bleeding. And there were some EBOs closure during the COVID time. So there was a closure, and were having 750 stores before COVID and now we are having 840, there is 100 net additions in stores.

So these factors have impacted the volume and also the inflationary pressure in the lower segment with GST coming in from 5% - 12%, there is an impact in the volume also. So that's -- all these reasons come up and reduce the volume. But definitely, 1 crore pair is achievable, and we are exactly looking at that type of product, which can improve our volume also and protect the margin also.

Rittick Roy Burman: Yes. And just let's stand corrected that from last year, we have grown in volume, the volume that you are talking about that, that 1 crores pair is when there was no COVID, like there's like pre-COVID.

Indrajit Chaudhuri: And also the price was...

Rittick Roy Burman: Price was also lower at that time. So I'm talking of that. So we are trying to reach that benchmark as soon as possible. We have already reached, how much?

Indrajit Chaudhuri: 76 lakhs.

Rittick Roy Burman: 76 lakhs. So we'll try to reach that benchmark as soon as possible. From last year, we have grown. From last year, we have grown, we are talking about 3-4 years back. If you ask some other players, maybe if everyone would not give the total. But if you ask some other players about 3-4 years back, 4-5 years back, the scenario would be same. At that time, everyone's ASPs were much lower than what it is right now and also COVID was not there. So, that is what we are trying to explain here.

Sachin Kasera: Sure. Sir, secondly, you mentioned that in 2 different queries, one query you mentioned that this year, you're expecting 76 lakhs to go to like 84 lakhs-85 lakhs. And in some other question you answered this 12% of the retail, will be 10% price led and 2% volume, so it's a little confusing. And in also another query, you mentioned that -- you said the share of retail will go up for next 2-3 years but you again guided for 12% growth in retail, 15% in wholesale. So it's a little confusing if you could verify on both of these -- 3 points?

Indrajit Chaudhuri: No, no. That what I have told that 8% -10% would be the value and 2% with volume. But what I told that it may achieve 80 lakhs-85 lakhs because if the product becomes successful, and the demand comes back in the Tier III and Tier IV cities, then we can achieve 85 lakhs pairs also, then the growth will be on the higher side.

So whatever numbers we are guiding that's what I believe the product does not reach to the -- I mean if the product doesn't become hit, then the volume what we are expecting will not come. But whatever we are telling is that we are trying to go to volume level. We're trying to go at the level where we used to be in FY19. And in distribution, we are guiding you around 15%. And in retail, 12%, with both of them will be around 13% -14% sales growth.

Sachin Kasera: But unless we achieve this 81 million, 82 million, 85 million volumes, the share of actually wholesale will go up this year, right, rather than reduction, which is our target.

Indrajit Chaudhuri: No, if -- the share of distribution will grow, but if our sales in retail is around 10% -- retail, we have done ₹ 500 crores. So it will go to around ₹ 560 crores whereas distribution, we have this year degrowth and come down to ₹ 260 crores -- ₹ 240 crores -- ₹ 235 crores. So in fact, if 15% increase you would consider, then our retail proportion will increase.

Sachin Kasera: Okay. And sir, one question on this debt and capex and all. So we have very minimal capex ₹ 12 crore -13 crores in that case and you're also talking that this year, we are looking at 12.5% and if things go well, in '25, our margins could even be 15% but even if you take like conservative 13%-13.5% margin. My sense is that our cash flow should be quite robust, plus I think we are looking at monetizing certain noncore assets. So that's why I thought is your guidance on this net reduction of only ₹ 20 crores - ₹ 25 crores in the next 2 years, a little very conservative side?

Indrajit Chaudhuri: see our debt is mainly working capital. Okay, we don't have any term loans there. So the working capital requirement increases with increase in the volume of sales. On that basis, I'm telling that we'll reduce around ₹ 30 crores of debt. So there would be an increment in the -- in the ordinary course of business, there was an increment, increased requirement of working capital. But still, since we are doing a less capex, and we are trying to improve our profitability, we will reduce the debt to ₹ 30 crores. So already we have -- from last year, we have reduced the debt.

Sachin Kasera: So Sir, apart from this ₹ 13 crores of capex, what type of working capital increment would we require, say, in FY24? How much do you think will be the requirement for working capital?

Indrajit Chaudhuri: Whatever sales growth that we achieve, 20% of that working capital growth is also required.

Sachin Kasera: But that is more on the wholesale side, right? Retail side that much is not required.

Indrajit Chaudhuri: Retail, we have to keep our stock in our warehouse and also for the franchisee and also stock in our COCO outlet. So if you open 15 COCOs, then keeping ₹ 20 lakh stock, ₹ 3 crores of working capital is required for our COCOs.

Sachin Kasera: Sure. Just last question. You mentioned ₹15 crores as the advertisement and sales promotion budget including offline and online. Do you think that is sufficient and are you happy with that? or ideally you want to spend more, but because currently, we are in a recovery mode and hence our profitability permits to spend ₹ 15 crores. So -- and suppose if you were to spend like ₹ 20 crores - ₹ 25 crores instead of ₹15 crores, you will see we could aspire to get a much higher sale?

Indrajit Chaudhuri: No, that -- I think the reason is that the permissibility of our pocket. So we kept our budget on the lower side because depending on what is the business growth, we will increase -- I mean we'll do the advertisement. If the business is really good, then we can have a few more crores of advertisement budget for that reason. But now seeing the business and seeing the inflationary pressure, if we increase from ₹15 crores to ₹ 25 crores, the volume and all this will not increase. So depending on the situation and demand, we will do that.

Moderator: We have our next question from the line of Ankit Shah, an individual investor.

Ankit Shah: Yes. I was looking at the cash flow statement. So last year, while your EBITDA was high, right? But again, we ended up investing a lot of capital in working capital, right? So the net result was that the cash flows were lower, right? Because, like, for example, our cash flow from operations were ₹ 39 crores and the money we have spent on lease is ₹ 34 crores. So net-net, we made only ₹ 5 crores from a cash flow perspective.

And now again, you are saying that next 2 years we'll again invest in working capital, whereas right now if I look at your net working capital, it's already 5 months of your sales of ₹ 660 crores for FY23.

So I don't understand why do you need to again invest because you're saying ₹ 70 crores is stuck in government receivables. You have another ₹ 50 crores - ₹ 60 crores of GST receivables, right?

So I don't understand this whole cash flow conversion because -- and next year, you're guiding for a 1% higher gross margin, 10%-12% growth. Then that should also translate into a higher EBITDA? So I just wanted to understand how this...

Indrajit Chaudhuri: Repayment of lease liability is mainly rental, okay.

Ankit Shah: I know, which is why I'm reducing it from your cash flow from operations to come up at your...

Indrajit Chaudhuri: Whatever means in this government, we are not doing any sales, but ₹ 70 crores stuck. So once this government amount is released, we are expecting that. So once the government amount is released, definitely the loan will come down because that will come to our working capital.

Ankit Shah: Look but why are you expecting to reduce that -- I mean why are you not expecting to collect that in the next 1 year or even 2 years? You think 2 years, the debt will release only by ₹ 20 crores - ₹ 25 crores, whereas you have INR70 crores of government receivables, so you should be guiding for zero debt.

Indrajit Chaudhuri: No. For government receivable, we cannot guide like that because it depends on a lot of -- because as I explained earlier that in market cost to treasury and then we come back. Definitely, if it comes, it will reduce to -- the loan will reduce to that much a bit, means from, say, ₹ 30 crores from -- I'm talking ₹ 30 crores, we will reduce by normal activity. But if the government receivables come, then it will be -- whatever receivables come, the loan will be reduced to that extent also.

Ankit Shah: No, you have -- if I just look at your cash flow from operations, you've generated ₹170 crores in the last 4 years. And if I reduce your financial liabilities, which is basically your rent, that is, say, around ₹ 70 crores and ₹ 50 crores, ₹120 crores, right? So you are generating around last 3-4 years on an average, you have generated around ₹ 20 crores per year net of your...

Indrajit Chaudhuri: So there are capex also, so we have ₹13 crores - ₹14 crores capex also we have done.

Ankit Shah: No, but you're already high at 5 months if you look at most of the other footwear companies, they are at a much -- if you look at their balance sheet, they are at much lower working capital. Net working capital is more like 2 - 3 months for, say, some of your other peers, which are all listed. You're already at a high base.

Indrajit Chaudhuri: So if you reduce that ₹ 70 crores of government from our side, that will reduce to 3.5 months. And we have both EBO franchisee and distribution business where the credit limit is more. If you see the other company, one is doing only retail business, and someone is doing only distribution business. So we had a mixture of all the things.

Definitely, that is on the higher side. We'll definitely try to reduce the working capital debt with the government receivable coming in, that will bound to reduce.

Ankit Shah: Okay. The other question was what is your store level EBITDA for -- so we did around say, last year you did around ₹ 250 crores in the own stores. ₹ 250 crores in own and ₹ 195 crores in franchise, right? So here, what is your store level EBITDA?

Indrajit Chaudhuri: Store level EBITDA is around 25%.

Ankit Shah: Okay. So basically around ₹ 110 crores is what you are generating at the store level?

Indrajit Chaudhuri: Yes.

Ankit Shah: And what is your corporate overhead?

Indrajit Chaudhuri: Again, I think that you can come up with this query -- -- give a mail to us, we'll definitely come back to you.

Ankit Shah: Okay. Sir, just one last question. Are you tracking your market share in say, West Bengal and South India? And how has that done in the last 12 months?

Indrajit Chaudhuri: No, West Bengal, we have seen an improvement, definitely West Bengal, the demand for Khadim product is much higher compared to other states. And in the Eastern part, we have definitely grown more from -- I mean the Southern also, we have maintained our sales there. But West Bengal, the growth is around...

Ankit Shah: I'm talking about market share, so...

Indrajit Chaudhuri: Market share in retail, we are -- in West Bengal, more or less, we have a market share of around, say, means, we and Bata are more or less the two retail players that are having the higher market demand in the organized segment.

Ankit Shah: Yes, yes. Okay. But your market share has improved or not, and again, in South India, where you say...

Indrajit Chaudhuri: I think if you see the -- as we have told the volume as...

Rittick Roy Burman: So market share should have -- market share has increased, okay, think like that. Volume has grown from last year. So market share has increased. ASP is also growing, okay. So that is also -- it's not market share increase, ASP is not market share increase...

Indrajit Chaudhuri: But there is no definite data from our market share.

Rittick Roy Burman: People are liking our products that's why they are willing to pay more money to buy some better product.

Ankit Shah: That is very anecdotal that people are liking, and market's ASP has gone up. But I mean if you're actually tracking...

Indrajit Chaudhuri: Yes. One thing we can tell that volume has increased compared to FY22. So we can tell that definitely, our market share has improved in West Bengal.

Ankit Shah: And South India? Like...

Indrajit Chaudhuri: South India, the volume has more or less remained the same. So we cannot tell that market share has improved. But definitely, with new products line coming up, we'll expect the volume growth there also. We are trying to plug the volume degrowth.

Ankit Shah: For retail, this you're talking early from a retail perspective?

Indrajit Chaudhuri: Retail, yes.

Ankit Shah: But aren't there any agency who tracks the market share like...

Indrajit Chaudhuri: In footwear, we don't have any such agency who tracks the market share.

Moderator: Ladies and gentlemen, due to interest of time, that was the last question for today. I would now like to hand over the call to management for closing comments. Over to you.

Rittick Burman: Yes. So thank you. Thank you so much to all the investors for joining us for this year ending and quarter 4 ending con call. And I'm Rittick and Mr. Indrajit Chaudhuri, CFO, we look forward to talking to you again soon. Thank you so much.

Moderator: Thank you. On behalf of Khadim India, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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