KHADIM

November 29, 2022

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

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

Dear Sir / Madam,

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

Sub: Outcome of Investor Meet

This is with reference to Investor Meet held on Tuesday, November 22, 2022.

Pursuant to the provisions of Regulation 30 of the Listing Regulations, we enclose herewith the concall transcript of the said Meeting w.r.t. Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended September 30, 2022.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

ABHIJIT DAN
Digitally signed by ABHIJIT DAN
Date: 2022.11.29 19:01:54 +05'30'

Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above

"Khadim India Limited
Q2 FY23 Earnings Conference Call"
November 22, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY '23 Earnings Conference Call of Khadim India Limited, organized by Orient Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhavya Shah from Orient Capital. Thank you and over to you, sir.

Bhavya Shah: Good evening everyone. Welcome to the conference call to discuss the results for Q2 and H1 of FY 2023. Today, on this call, we have from Khadim India Limited, the promoter, Mr. Siddhartha Roy Burman, who is the Chairman and Managing Director, Mr. Rittick Roy Burman, Whole-Time Director, Ms. Namrata Chotrani, CEO and Mr. Indrajit Chaudhuri, CFO.

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

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

Siddhartha Roy Burman: Thank you. Namaskar, everybody. On behalf of Khadim India Limited, it is my pleasure to welcome you all to this conference call to discuss the Q2 and H1 quarterly result for the financial year 2022-23. On today's call, we will provide a progress report on industry and overall business and its execution. Secondly, I will go into more detail about our demand scenario and what will be our strategy going ahead. Finally, I will return to provide some brief closing remarks containing our outlook for the remainder of the year before opening the call for questions.

Coming to our business, the company has maintained its strong quarterly business performance because of the increased demand for its product over the festive seasons. The first festive season without the long shadow of the pandemic saw buoyant consumers with a propensity to spend higher than average. This has stimulated the business growth and helped us record a robust growth in the first half.

The positive momentum can be attributed to Khadim's continuous focus on developing affordably priced item to suit consumer demand, expanding its brand footprint through scaling up its retail presence and distribution strategy. We have added pan 33 new stores in Q2 and 58 stores in total in H1. Your company continues its expansion in the Tier II and Tier III locations through its asset-light strategy, taking the store tally to 826 as of September. The core proposition of the brand is affordable fashion for the entire family for all occasions. We are maintaining the growth pace of our business by expanding our retail stores, which allow us to reach more people in our target market and provided them with reasonably priced fashionable footwear. To continue providing our customers with the WOW experience, we aspire to establish ourselves as the family’s first choice footwear brand.

Now, Q2 and H1 financial highlights. Q2 FY '23 revenue at ₹ 186 crores has grown year-to-year by 15% and H1 FY '23 revenue at ₹ 352 crores is up 41% year-to-year. Second point, both retail and distribution business have registered double-digit growth in H1 FY '23 year-to-year at 64% and 12% respectively.

In the challenging macro environment, gross margin for H1 FY '23 stands at 41%, an increase of 350 bps year-to-year from 36.5% in H1 FY ‘22. Retail and distribution gross margin have improved marginally. EBITDA for H1 FY‘23 has more than doubled year-to-year at ₹ 39 crores, registering a growth of 195%. We are proud to say that we have reported the highest quarterly EBITDA margin at 11.2%, which has improved by 590 bps year-to-year. We have significant improvement in PAT growing from a loss of ₹ 4.4 crores in H1 FY '22 last year to ₹ 8.4 crores profit in H1 FY '23.

So now we can go for question-and-answer session.

Moderator: The first question is from the line of Abhishek Getam from Alpha Invesco. Please go ahead.

Abhishek Getam: My first question was regarding how has our vision or how has the portfolio evolved around sports and athleisure? And currently, how much would it be contributing and what is the sort of ASP in that segment for us?

Namrata Chotrani: Thank you, Abhishek for your question. So, in terms of in the distribution segment, the sports category has done very well this quarter and in the first half of the year. We've doubled our sales in this first half. And in terms of the category I think we've started this category two years back. So I think the contribution is approximately 7% to 8% of the total sales. And in terms of the retail side also, the contribution of the sports category is the second largest after the mother brand Khadim. So athleisure as a category is a focus part for us and I think it is also going pretty well.

Abhishek Getam: What are the sort of the ASPs we are doing in this segment in distribution and retail ?

Namrata Chotrani: In the sports shoe segment, I think we have a price range on MRP basis, which goes from ₹ 599 to approximately ₹ 1,299 under the brand FitNxt. And the sweet spot in terms of MRP, ASP will be approximately around ₹ 700. And on the same basis, the ASP at our Company level will be around ₹ 400.

Abhishek Getam: Company level ₹ 400.

Namrata Chotrani: For the distribution segment. As for the retail side, the ASP would be around ₹ 1,300 - ₹ 1,400.

Abhishek Getam: In retail, second bit is for us. And leaning towards, I'm guessing sports would be the highest ASP for us. So I do understand since other segments are lower ASP, we can't really offer an online strategy because it does not make it viable including the shipping charges and the return charges. But for sports, can we propel it via the online strategy for athleisure?

Namrata Chotrani: Abhishek, it's a very good point because in the sports category, we are looking at growing extensively in the online business also. And in the next year, we're looking at developing e-commerce focused sports shoe category as well. So that it does not jeopardize our existing trades.

Abhishek Getam: So most of the online efforts will be put towards the sportswear, right?

Namrata Chotrani: Sports shoes, even formal shoes. I think the other categories, which has done very well in the higher price point for us is formal leather shoe, which is in the range of -- on the retail side, we have formal leather shoes at ₹ 1,299 and premium leather shoes is starting around ₹ 1,999 and going up to ₹ 3,000. And frankly, that category for us is a very good category because the kind of price points we are in, there's not much of competition there. On the distribution side also, this year we went out on the formal shoe category at almost ₹ 799 - ₹ 899 where there is very limited competition also. So even in this category, there's a lot of interest on the e-commerce space, which we'll be also focusing on.

Abhishek Getam: How much would formal leather were contributing in retail and distribution, sort of a percentage?

Namrata Chotrani: It will be around 5% to 7%.

Abhishek Getam: In both?

Namrata Chotrani: Leather is not there in distribution, it’s only there in retail. So in the leather footwear will be around 5%, but I think formal shoes as a category is in lot of demand because of the kind of price point that we are offering because as I said, leather footwear at ₹ 1,299 or ₹ 1,999, there are not too many brands offering you a good range and we are able to do that.

Abhishek Getam: Second is a quantitative number. What would be the H1 volumes for retail and distribution?

Namrata Chotrani: 8.19 million pairs.

Abhishek Getam: This is both combined?

Namrata Chotrani: Yes.

Abhishek Getam: Can you give the split between distribution and retail?

Namrata Chotrani: I will personally give you that number offline.

Abhishek Getam: Another was, in Q2, there was a price cuts taken by other players in the mass segment. So, I think the main concern was regarding a lot of price cuts taken by the local players, the unorganized. How is the situation panning out now? And considering what's been the situation in East?

Namrata Chotrani: So frankly, our price was already quite competitive compared to the other branded players because of which the price and the margin in fact was relatively lesser. And also during the financial year, we have brought in some production efficiencies which have helped us cover up the impact of the RM price, the raw material price. So the raw material price has impacted all of us in the mass and economy scale. And especially in the distribution side, we've been able to try protecting the margins purely because we brought in some production efficiencies, but I think we will -- given that this is a strong Hawai season, which is coming up in the third quarter, we will have to evaluate in terms of price correction, if any, to be able to protect the volumes. But after Q2, we've been able to protect ourselves because we are already quite competitive in terms of pricing and margins.

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

Deepan Shankar: Congratulations for good set of numbers. Firstly, I wanted to understand what is the kind of price hike taken in retail and distribution business for us during the quarter?

Namrata Chotrani: Thank you, Deepan for your question. Appreciated. So I think in Q2 in distribution, I don't think we've taken any price hikes purely because the inflation is a reality, and it is impacting a lot of the brands, which are focusing on the mass and economy segment. So we have not taken any price hike in Q2. I think in Q2 the focus has been more to sell in the closed footwear, sports shoe, the athleisure segment, the formal shoe segment, the fashion focused PU segment, which has done pretty well for us. And Hawai as a category in Q2 in general has a lower demand, which eventually picks up in Q3 extensively, which is what we are hoping for.

In terms of retail, there's been no particular price hike, taken in Q2. It's a long supply chain, it is a six-month end-to-end supply chain from selection to getting the product in the store. So whatever price adjustments had to be taken factoring in the raw material price and GST has already been done in the season of previous financial year. So there's no particular change in retail that we've done in this quarter.

Deepan Shankar: Most of the growth, what we are seeing is primarily driven by volumes growth in retail segment?

Namrata Chotrani: No, sir. It's a mix of ASP…

Deepan Shankar: Not a volume change also. Also, are we seeing footfalls increasing at the stores level across all the regions?

Namrata Chotrani: See, footfalls have been almost equal to last year. But I think as I said, the mass and economy segment is largely focused, largely impacted segment in this sector because since you appreciate majority of the products are below ₹ 1,000. And there's no other footwear retail brand with the focus we have on mass and economy. 80% of the items are below ₹ 1,000 and that has been impacted both by inflation and GST. So we are seeing almost equal numbers as last year, but growth is something which we are hoping comes in the near future.

Deepan Shankar: And specially on the distribution side, we are seeing a lot of even bigger players are struggling to maintain pricing and also there is lot of volume decline. So how are we managing the same? And are we expecting this run rate to sustain in coming quarters as well?

Namrata Chotrani: See, this quarter we have managed to do a growth of around 9%, 7% rather in distribution. And if you take it on a gross basis, we've done almost 16%. So I think it will be because our brand is focused on below ₹ 1,000 segment where the GST has had an impact. So the objective is to look at both the gross and the net numbers also. So if you're looking at the gross numbers, almost 16% growth. And in the retail side, it will be almost 25% of growth.

And to answer your question, in terms of how does that impact, how are the other brands managing, how we have managed, we've been able to do a good deal and good growth in the closed footwear in terms of sports and in terms of athleisure and formal shoes. But as I said earlier, we think sluggishness coming in because of the impact of the inflation and GST on the ground level and we're trying our best to be able to incentivize our customers by schemes and incentives so as to ensure there is offtake of stock.

Indrajit Chaudhuri: Also there was impact in the volume of PVC footwear because there was no rain in the Eastern part of the country in this year.

Namrata Chotrani: Because Khadim is very well known for PVC products and the offtake has been lesser owing to the lack of rain, but we've been able to manage growth. Despite that, we see now a good share of closed footwear. And we're trying to fight as much as possible to ensure that the offtake continues.

Deepan Shankar: And how has been the festival demand so far running into Q3? Are we seeing better growth than even Q2?

Namrata Chotrani: Q3, actually the impact of festive, where festive for us is more focused on Puja. So the festive, the entire impact of festive has come in Q2 itself because the end of Durga Puja was in the first week of October. So the Puja was good. The footfall was good. There was a lot of public. There was a lot of people out there. I think there was a lot of people, revenge shopping as we may call it because last two years was a dampener in terms of footfall because people had a subdued experience. And this year was good, which is why I'm saying on a gross level, if you can see we've grown at almost 25% on the retail business.

Deepan Shankar: And lastly from my side, so this current level of operating margins, do we see further improvement as compared to even pre-IndAS period?

Namrata Chotrani: Right now, I think hopefully in the next year, we'll be able to see that improvement. We're hoping as much to sustain the existing margins in the coming quarter.

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

Gaurav Jogani: Thank you for the opportunity and congratulations on decent set of numbers. My first question is with regards to the competitive activity, especially in the March end that we have seen, one of the largest player, Relaxo has been called out for a sharp price cut in September. So in that sense, how are you seeing the demand getting impacted in the distribution business? And are you also taking any retaliatory price cuts in that sense?

Namrata Chotrani: Thank you Gaurav, the question is appreciated**.** So I think the fact of the matter is inflation is definitely a reality and we are seeing the cash crunch coming at the lower mass segment especially. So I think as I said earlier, our price is already pretty competitive compared to the other branded players, which is because the price and margin impact was relatively lesser. And that was also cumulated by the fact that we brought in some production efficiencies by which we were able to protect our margin despite the time of the raw material price had sprung-up pretty significantly.

As Relaxo also has mentioned that the supply chain that is generally required is three to four months, but most of the branded players have purchased a high amount of raw material because of the ambiguity on the political stability in the European markets and the ambiguities around the supply of the raw materials, which would be impacting the continuation of our production.

So most of us had purchased raw material at a much higher price, but we were able to subvent the impact of it because of production efficiencies. But given the fact that the Hawai season also is coming in Q3 and Q4, we will take an objective call on the price corrections if any, based on the demand situation if at all.

Gaurav Jogani: And the second question was in regards to, you actually have maintained margins pretty well on a sequential basis. Because if we see both the margins on the retail front and the distribution front, in that sense, hasn't declined much as you highlighted from here on. So how do you see these margins panning out in the years ahead once this entire inflation thing settles down? And what will it be still driven by, I mean, you already highlighted that you are seeing good growth in the sports shoes and formal wear shoes. So how do you see the demand in these segments sustaining once things will be normalized?

Namrata Chotrani: So athleisure as a category is definitely here to stay, because I think athleisure the way the common man looks at it, it's the closed comfort shoe. And that category is growing significantly high irrespective of inflation, irrespective of the ground situation. And I'm hoping that this continues across quarters. But in the next -- yes, there will be a short-term impact. I think all of us in the branded space are facing a short-term impact in terms -- because of inflation especially those who are focused on the mass and economy categories.

But I would look at the long-term proposition of the category and mass and economy category as a whole and would not be too worried accordingly. So I'm hopeful for the growth, even across the category and athleisure as a segment, definitely is a focus for us internally. And it has been showing a good amount of growth internally.

Gaurav Jogani: Sorry. So if I understand it right, you are saying that athleisure as a category will continue to see some growth rate and once the situation on the RM front normalizes, you also see growth coming back in the mass segment. Is that the right understanding?

Namrata Chotrani: Yes.

Gaurav Jogani: And if I may, can I ask one more question?

Namrata Chotrani: Yes, sure. Go ahead.

Gaurav Jogani: On the retail side, we have been seeing a continuous expansion in terms of the footprint by you and all the other major players and also across different retail formats. So are you seeing any cost escalation here, especially on the employee front, rentals and also because the marketing spend was subdued in the earlier quarters, how are you seeing the escalations of the cost in the normalized world?

Namrata Chotrani: So I mean, whatever adjustments like, for example, the employee cost adjustments that had to be taken compared to the last year, normalized business have already been taken. I think the escalation will happen on the next financial year, but on a normalized basis, I don't see it being totally out of whack at all. It will be on a going concern basis.

Indrajit Chaudhuri: Because in the new shops, the salary of the employees remains the same.

Gaurav Jogani: Because we are hearing that a lot of hike in minimum wages in many cases and also because of the ongoing inflation, the wage rate hike is a bit higher. And hence, I also alluded to this fact?

Indrajit Chaudhuri: Yes. Whatever the minimum wage rates are for a particular state, we adhere to that. And based on that, because we are present in 24 states, so here we are all paying what is the minimum wage there. So that is on the Y-o-Y increase in the employee's cost.

Gaurav Jogani: So just a follow-up on this. So in this case, so once the raw material situation reverses or normalizes, do you think the entire flow through we can see in terms of the EBITDA margin, then ultimately to the PAT ?

Namrata Chotrani: I think it's a bit premature because I think we'll have to assess it based on the demand and business situation because sitting here today, we are hoping that the Q4 stabilizes and inflation impact reduces because the raw material that we are buying right now in forward looking for the Q4, it is on the -- in terms of lower side. But having said that, you don't know how the political instability -- how the political climate, how it changes - how is that impacting the prices. So it is a bit premature to assume that. We are hoping that the impact of inflation reduces earlier than we hoped.

Indrajit Chaudhuri: Also there should be an improved offtake in the Tier II, Tier III cities.

Gaurav Jogani: So my question was more like if the situation remains as is today, because we are seeing some cooling-off in the RM trend and just assuming they remain as it is where they are today, we should expect some benefit in it, right?

Namrata Chotrani: Yes. But I think as Indrajit also mentioned, 60% of our business comes from Tier II-Tier III markets. So we're hoping the disposable income affordability also improves and yes, we can definitely see the improvement coming in then.

Moderator: The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Can you just tell us, what was the revenue mix growth between realization improvement and volumes?

Namrata Chotrani: Sorry, can you repeat your question?

Sachin Kasera: I'm saying, the revenue growth, if you could split between volume growth and realization improvement or product mix improvement, because price hike was not there. So essentially, it could be a function of volume and improvement in the product mix?

Namrata Chotrani: You're saying compared to last year, right?

Sachin Kasera: Yes, compared to last year.

Namrata Chotrani: So on the volume front, there has been a degrowth of approximately 8% and balance has been a growth -- there's been an ASP growth of approximately around 15%.

Sachin Kasera: And this volume degrowth that you are mentioning, is it at the Company level or is the trend between retail and wholesale a little different?

Namrata Chotrani: No, I think at the Company level.

Sachin Kasera: So broadly similar trends across wholesale as well as retail?

Namrata Chotrani: Yes.

Sachin Kasera: Secondly, if you could also, because you mentioned that it's the lower end of the segment and we are primarily in the value economy, but within your overall portfolio, is it that the bigger volume impact was seen in, say, ₹ 500 segment and lesser in ₹ 1,000 and even much less in ₹ 1,500 or was it across all price segments that more or less the trend was similar.

Namrata Chotrani: See, the impact will be higher in the below ₹ 500 because the disposable income is lower in the SEC B and SEC C. But having said that, we are seeing an impact also in the ₹ 1,000 and below because it's a dual impact. One, you've had a GST increase, one you've had a raw material price increase. And on the retail front, we will try to pass on some and retain some because we want affordability in the hands of consumer as well.

So we had to manage and balance out both to ensure that you know that the price is not unaffordable. So you are seeing an impact in both the categories for sure. It's not particularly in the only below ₹ 1,000, but the impact below ₹ 500 is more.

Sachin Kasera: Sure. And then one of the previous guide, you mentioned that below ₹ 1,000 is 80% of our volume or revenue?

Namrata Chotrani: Revenue and SKUs. Our 80% of our SKUs are below ₹ 1,000 on the retail side. And on the distribution side, 80% of our SKUs are below ₹ 500.

Sachin Kasera: But when you see 80% of SKUs that is by volume, by value it will be lower because the above ₹ 1,000 reduction is much higher. So is it that 30% - 40% of revenue on the retail side is coming from above ₹1,000 or…

Namrata Chotrani: No. Around 80% of our sales value was coming from below ₹ 1,000.

Sachin Kasera: Secondly, is there any significant difference in margins between the various price points of ₹ 500, ₹ 1,000 or ₹ 1,400 or is it just that helps you get a better value for store, but the percentage gross margins or EBITDA margins are more or less similar.

Namrata Chotrani: So the target margin that we have set internally is almost equal, but fact of the matter is that the margins are higher in the higher ASP items and higher price items, because if you were selling a Hawai chappal, you are selling open PVC chappal or PU chappal, or a low-price lady sandals, I mean to have a same margin for the low-price items will be tough to get compared to the higher price item. Because the elasticity of demand between ₹ 1,500 and ₹ 1,600 is not much as much as ₹ 500 and ₹ 600. So I think we have to ensure that we're maintaining that balance.

Sachin Kasera: Sure. And so in that case, in terms of trying to renew our portfolio, what are the key initiatives we are taking and this 80%-20% ratio, where do you think we could be, say, two, three years from down the line, it would be more like 65%, 70% above ₹ 1,000? What is your aspiration, if you could say?

Namrata Chotrani: See, I think our brand stands for affordability. So I think the idea is to premiumize within the gamut of affordability. Currently, our ASP is around ₹ 600. I think in the next two, three years, I think we'll be hoping around ₹ 700 - ₹ 750, but I'm not -- we're not hoping that we increase our prices significantly over ₹ 1,000. Otherwise, we will not have a competitive factor in differentiating and competitive factor for our brand. Our brand stands for affordable fashion and affordable is below ₹ 1,000.

Moderator: Next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: The first question is with regards to your guidance for the current year, you have mentioned about ₹ 800 crores of sales on gross basis and 12% EBITDA margin. So firstly, do we stick to that guidance?

Namrata Chotrani: We're trying our best to ensure we are able to keep the guidance. I think we did not anticipate inflation to hit us in the industry. But I think we are trying our best to ensure that we're able to reach that number.

Rahul Jain: And just to get a clarification, the ₹ 800 crores is the gross number. And in the first half, you have already done roughly ₹ 470 crores. And on the other side, the net sales number for the full year guidance would be around ₹ 700 crores - ₹ 720 crores and EBITDA number on the net sales.

Indrajit Chaudhuri: Around ₹ 700 crores.

Rahul Jain: Sir, so the clarification, you had mentioned 12% margin. Now when we take that margin at 12%, so we should be assuming that to be on the gross or on the net. Because if I look at our operating margins for the current quarter, on the net basis, they are somewhere near 12%. But on the gross basis, they are somewhere around 10.25%.

Indrajit Chaudhuri: EBITDA margin is always at the net sales.

Rahul Jain: And secondly, ma'am, just to understand this average sales price you mentioned to the previous participant, has moved up by almost 15%. So typically, if I look at the last year's quarter, leave aside the first quarter, what could have led to this average selling price increase? Is it more product mix and within that product mix, what has helped you to get a better average selling price?

Namrata Chotrani: I think it's a function of some price increases and premiumization within the categories. The focus is to ensure that we are trying to promote the sub-brand and through which you're getting the premiumization increase in ASP. So I think we're trying to create a product with a higher price value to help us increase the ASP accordingly.

Rahul Jain: Lastly, ma’am, on the gross margin. We have seen gross margins on the retail front somewhere around 50% - 55% and distribution margins around 35% - 36% for last three, four quarters. And on the Company as an overall, the gross margins for last two quarters have been around 41%. So typically, do we have some levers or what is the way out to improve the gross margins going ahead into the coming time period.

Namrata Chotrani: So on the retail side, again the premiumization within the gamut of affordable fashion, I think the idea will be to try improving the margins of the higher price point item and try to increase the ASP, which will drive the higher gross margins. On the distribution side also, it will hopefully be both price increases and gross margin and premiumization also by improving the few category items, sports category, formal shoes – but it will have to be gradual. I think we’ll have to take it – we’ll have to pace it out, taking into account the ground reality is based on the demand and inflation. So I think it could be a mix of both but we will tread with cautions.

Rahul Jain: Sure. And lastly, Madam, on the average sales per store, so how has been the movement on the average sales per store, both on the retail side and the distribution side. So more, of course, on the retail side, within COCO and franchisee. How has been the average sales per store and typically, how do you see it going ahead?

Namrata Chotrani: So the average sales per store in our COCO is approximately ₹ 1.5 crores. And the trend is continuing that way. And at franchisee, it is approximately ₹ 90 lakhs to ₹ 1 crore and it continues that way. So I think we are hoping that the SSG continues and we are able to also grow the business through further expansion. Our focus is predominantly franchisee driven, which will help us grow in a capital-efficient model.

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

Deepak Poddar: Yes, thank you very much for the opportunity. So first off, I wanted to understand now on the store count, I mean, I think first half, we have opened around 58. So what's the plan on that front this year as well as next year?

Namrata Chotrani: So I think we're looking at growing by 70 to 80 stores on a yearly basis out of which 10 will be COCO and balance will be franchisees. I think we've done a decent job in the first half of the year and generally first half of the year is always better because everyone wants to start and get the benefit of the entire year. But I think we will be continuing our aggressive growth strategy and hopefully we will have a similar number in the second half as well.

Deepak Poddar: And in terms of growth, which you mentioned, I think we had set a target of about ₹ 1,000 crores by FY '25, right, in terms of top line. So that's what we are saying on a gross basis or on a net basis?

Indrajit Chaudhuri: Gross basis.

Deepak Poddar: So that's gross? So 12% GST will get subtracted, right, I mean to cover that reported number?

Indrajit Chaudhuri: Yes.

Deepak Poddar: And 14% EBITDA margin is also one of our key target areas, right? So any sort of timeline we are looking at, maybe one year, two year or so.

Indrajit Chaudhuri: FY '25 we are targeting around 14% to 15% EBITDA on net sales.

Moderator: The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: My question is on the PBT versus the EBITDA margins since the majority of the growth is driven by the franchisee model -- is it fair to assume that the improvement in PBT margins will be far more than the improvement in EBITDA margins?

Indrajit Chaudhuri: See, if you compared to last year's second quarter, there was other income from savings in rental and the transfer of our office from one place to other, by which Ind AS 116 write-off came. But this year, mainly the profit came from the business income.

Sachin Kasera: So, I'm talking about PBT ex other income because the -- I'm talking of the PBT margin ex other income because a lot of the rentals get reported as a head of interest and depreciation, which I would presume primarily belong to the Company on COCO outlet, right?

Indrajit Chaudhuri: Depreciation and interest mainly in Ind AS 116 the more we open COCO, the impact will come in depreciation and interest. And also, we have shifted some warehouse from one place to another, and we have shifted that rental impact will come in depreciation and interest. So, the EBITDA will…

Sachin Kasera: My question is I'm saying since majority of the retail growth is driven by the franchising model, we do not incur rental, which majority of it gets reported in the interest and depreciation? -- which would mean that the PBT growth should be much faster as the share of franchise in the overall retail and the overall company keeps increasing. -- may not be so significantly reflecting in terms of the EBITDA margin, but far more at the PBT ex other income. Is that a mathematic understanding correct?

Indrajit Chaudhuri: No. Here, I have to say that there are also some investments in the warehouse and the factory front, where there are lease property where the impact of interest and depreciation as per IndAS 116 will impact. So, the EBITDA will be higher, the PBT will be lower.

Sachin Kasera: Okay. Secondly, in terms of the working capital cycle and the ROCE is franchise better than the company owned company operated outlets like -- does it mean that the free cash flow actually should increase and hence, we should be able to repay that much faster?

Indrajit Chaudhuri: The ROCE for franchise is obviously better than COCO, but since there is no investment in franchise. But for expansion in different geographies, we need the support of the COCO and in strategic location where the investment is high, where we need COCO store to cover.

Sachin Kasera: In terms of revenue, what is the current revenue contribution of retail between COCO and franchise.

Indrajit Chaudhuri: COCO is around 55% and franchisee 45%.

Sachin Kasera: And how should we see this mix, say, two, three years down the line, 55-45.

Indrajit Chaudhuri: Maybe the trend may become to 50-50.

Sachin Kasera: Not significant improvement...

Indrajit Chaudhuri: Because of franchise sales are MRP less the trade discount, whereas COCO, we book the sales at MRP.

Sachin Kasera: Sure. Secondly, if you could tell a little bit about the geographical mix the way we are seeing. Because from what I understand, we are very strong on the eastern side and a little bit on the south, but not as strong in North and West. So, three years down the line, when our total store count increase significantly. Is it that a larger number of stores will get open in areas where we have lesser presence, or it will remain the way it is today?

Indrajit Chaudhuri: So, we are focusing on the opening store in North and West. The percentage will definitely increase for North and West. But since the concentration is heavy on east around 60% to 64%. So, the percentage will come down to 58%, not in such a rapid manner.

Moderator: Thank you. Mr. Kasera, may we request that you return to the question queue for follow-up questions. We'll take the next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Thank you for the opportunity, also follow-up questions. So, my question actually is partly in regards to what the previous participant asked. So, we have a 12% EBITDA margin that is the post Ind AS 116. So, if you adjust for the rental cost and other, what would be the pre-Ind AS EBITDA margin for us?

Indrajit Chaudhuri: Around 8%.

Gaurav Jogani: And sir, how do you see the -- because if you look at the PAT level, the PAT level margins actually are a bit lower despite Y-o-Y. The 2%, 2.7%, despite 350 bps higher EBITDA margins. So, in that sense, how do you know we look at the PAT margins going ahead? Because I think that will be a better barometer given the fact that a lot of cost now sits in the depreciation and interest expenses also.

Indrajit Chaudhuri: There are some properties that we have shifted where the impact of Ind AS 116 will come. So, in the EBITDA level, we'll see about much better percentage compared to the PBT or PAT level because this impact comes high in the first two, three years and the impact will be lower in the fourth, fifth year. But since we take lease property, 10-12 lease property every year. So that impact will remain.

Gaurav Jogani: No, sir, that hence I am asking more about the PAT level margins, not at the EBITDA level because, again, the IndAS impact will be there. So how should one look at the PAT margins going ahead? -- because the drop in the back part...

Indrajit Chaudhuri: No, there is a drop in PAT margin because of the deferred tax this year because last year, we had a first quarter loss, the deferred tax impact was negligible. This year, the deferred tax impact was there. So, the impact on PAT was high. But if you see the PBT it has increased. But as you told that going forward, there is lease assets and then lease assets impact are heavy in the first three, four years compared to the rental – say suppose the rental is 50 but the lease impact comes to 70. So, there will be impact in the PAT margin will be comparatively growing at a lesser pace than the EBITDA margin.

Gaurav Jogani: Basically, because you have taken a recent rental of warehouse and the factory and that the impact is higher now and it should be...

Indrajit Chaudhuri: In will come in the PBT level.

Moderator: The next question is from the line of Rakesh Pal from Peace Wealth Capital. Please go ahead.

Rakesh Pal: Sir, my question is what is the same-store sales growth and volume growth in retail side? And if you can talk a little bit about sequential gross margin compression in retail segment compared to Q1 of this trend in the year.

Namrata Chotrani: Sorry, can you repeat your second question?

Rakesh Pal: My second question is if I can see there is a sequential gross margin compression in our retail segment, that is compared to Q1 of the financial year. Maybe if you can share some light on this?

Namrata Chotrani: So, on the gross margin, Q2 versus Q1, the reason that in Q2 this time we had the EOSS also -- and also, we had the entire impact of the promotional campaign, which we do in during the festive season, which is basically we have a gifting campaign, which helps us improve increase the average billing value. So, the both the impacts have come during the Q2. Generally, what happens is that the impact of the promotional campaign is broken up between Q2 and Q3. This time since the Pujo was in the beginning of Q3. So, the entire impact of it has come within Q2. So, I think that's why you're seeing a bit of a blip and Q3 onwards, that number should normalize.

Rakesh Pal: One more question. Last question. What are your same-store sales growth and the volume growth in retail segment?

Namrata Chotrani: So, I think compared to last year, as I said the volume overall, we have de grown by about 8%. I think the value has been 15%. I think the SSG would be in the range of approximately 8% and the balance would be coming from new store openings.

Rakesh Pal: And this volume de growth you are talking it is on the combined level, right? Retail plus distribution level, right? – volume de growth.

Namrata Chotrani: No. So even on the retail side also, it's a similar number.

Rakesh Pal: Same volume de growth has happened in retail side, right?

Namrata Chotrani: Yes.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, two questions. The first question is we intend to reach ₹ 1,000 crores by FY '25 and this year we are seeing on gross basis ₹ 800 crores. So, I'm just trying to decipher this growth. So, we are looking at 12% - 13% CAGR and we are opening 70-80 stores every year. So that gives you 7%-8% delta on growth. And we have said in the past that ASP, we are looking at 4% - 5% increase on a yearly basis. So does it mean that on volume side, we are not looking at a high single-digit kind of a growth also. I mean how should we look at this number? Because math just doesn't add up?

Namrata Chotrani: No. So, on the SSG side is around 5% to 6%, which will be driven by ASP growth of around 4% to 5% and the balance will be coming from new store opening, which will be a function of predominantly volume. So, I think we will be having volume growth coming in.

Dhwanil Desai: Okay. So, I mean Namrata, my follow-up on that is that we are saying that the kind of range that we have for the value that we provide, there is hardly anybody who can match us. So even in the same store, don't you think that the volume growth can be in mid-single digits or high-single digits, it's so difficult to drive volume in the same store?

Namrata Chotrani: So, retailing is a very localized environment. It's not something that people travel 20 kilometers to shop at a store, irrespective of the kind of price point you're offering. So, if in particular, it's a 5-kilometer radius and 6-kilometer radius. So, the 5-to-6-kilometer radius, the population is not increasing that drastically, right? So, you cannot expect a single-digit growth to continue for over like almost 10 years. So, till you reach maturity level, you can expect a volume significant growth. But after reaching maturity, it's not going to be growing around 8% to 10% on a year-on-year basis. It doesn't work practically across all the entire retail industry.

Dhwanil Desai: And second question is slightly longer term on distribution side. So, I think we have been saying that we are working on even range architecture on distribution side and to increase the premium product percentage. So currently, we're standing at 35% - 36% gross margin there. So, with whatever efforts that we are making there in two, three years, do we see our distribution margin going to 39% - 40%. Is that something that you guys are looking forward to?

Namrata Chotrani: Yes, definitely. That's something which we are definitely looking forward to and we're hoping that happens through a mix of premiumization and price increases. But predominantly driven the premiumization because we're looking at getting into more sub -premium and premium categories for the distribution business.

Indrajit Chaudhuri: And that depends on the raw material prices to stabilize though.

Dhwanil Desai: That I understood, the RM price scenario has been pretty volatile in the last 1.5 years. So, I'm saying on a normalized basis, these RMs are not so volatile. And a lot of people on distribution side do make 40% kind of a gross margin.

Indrajit Chaudhuri: Yes, yes. That is fair.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Nachiket Kale from Orient Capital for closing comments.

Nachiket Kale: Hi. Thanks everybody, for participating on this call. I would also like to thank the management for their time on the call. Orient Capital is the Investor Relations advisor to Khadim India. For any queries, please feel free to get in touch with us. Thank you. Have a nice day ahead.

Moderator: Thank you. Ladies and gentlemen, on behalf of Khadim India Limited, that concludes this conference.