

**YOUNG LEG . TOUGH SHOE . NEW SHINE .**



## **FORWARD LOOKING STATEMENT**

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainties and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw material cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business and other factors relating to the Company's operations such as litigation, labour negotiations and fiscal regimes.

## **CONTENTS**

Khadim's realities • Khadim's success stories • Khadim's performance in 2004-05 • Khadim's vision and mission • Khadim's values • Chairman's statement • Khadim's consolidation • Managing Director's overview • Khadim's growth model • Management's discussion and analysis • Review of financial performance • Outlook and opportunities • Risk management • Directors' report • Auditors' report • Financial statements • Corporate information

**WHY WOULD  
PEOPLE  
QUEUE FOR AN HOUR OUTSIDE  
A KHADIM'S STORE JUST TO  
BUY A PAIR OF**





 **Khodim's**

# 6 EXCITING

**CONNECT**  
(Emotion)

**COST**  
(Affordability)

**CHOICE**  
(Variety)





# REALITIES

**CONVENIENCE**  
(Proximity)

**COMFORT**  
(Ergonomics)

**CONTEMPORARY**  
(Design)



*"Main to apne padosiyo aur relatives ko bhi  
Khadim's ka raasta dikhaata hoon!"*

- Rajen Gupta, 36, service

# CONNECT

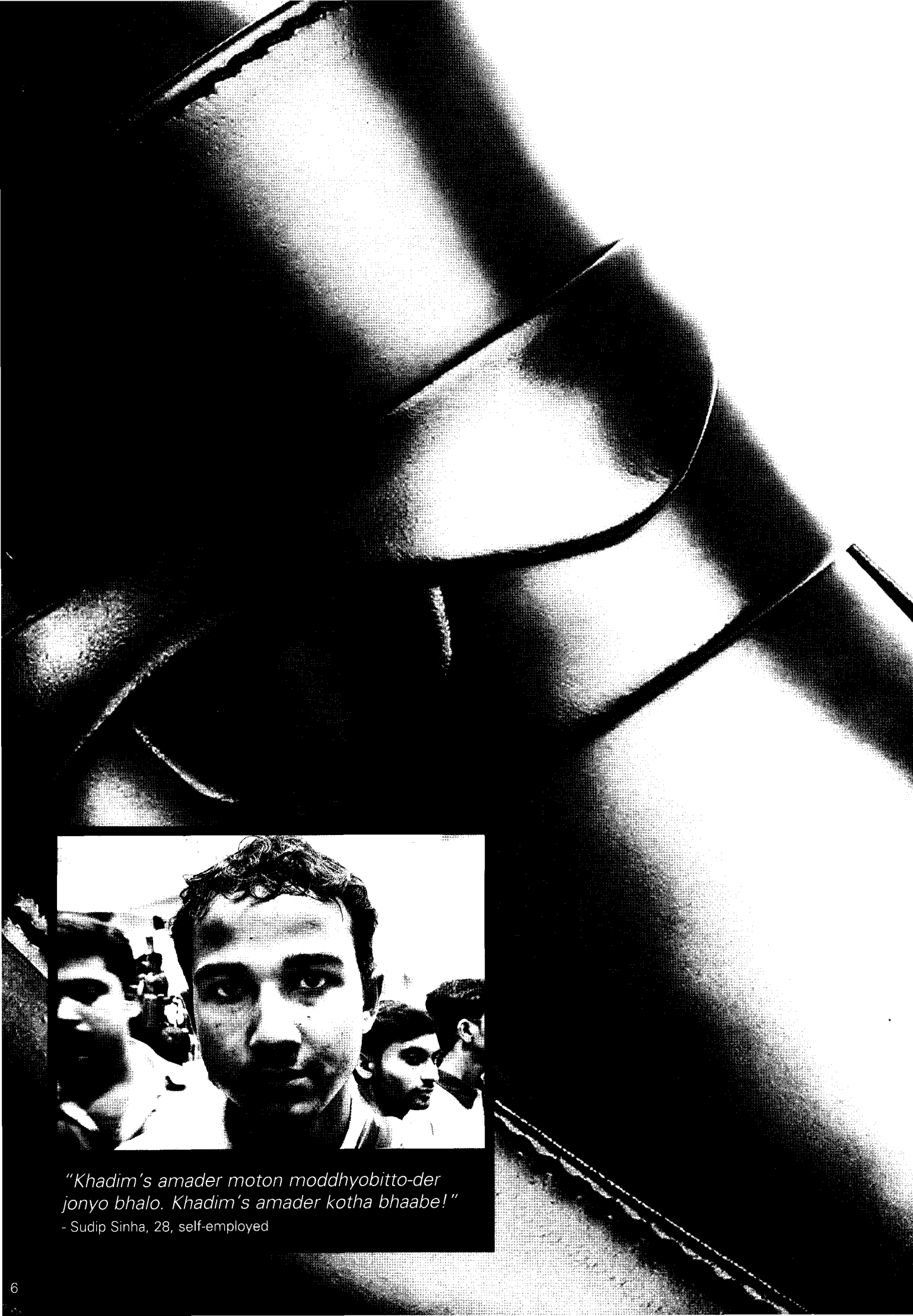
## Emotion.

This represents the foundation of the Khadim's brand.

Over the years, Khadim's has reinforced emotional connect between the consumer and the product through the following initiatives:

- A distinctive positioning of the product for the growing middle-class around the 'unbeatable price value' proposition
- A responsible extension to the virtues of 'honesty', 'authenticity' and 'affordability' reflected in positioning, product and store presentation, leading to a credible recall
- A reinforcement of this recall with a corresponding investment of Rs. 230.07 mn in responsible brand building in the five years leading to 2004-05
- A comprehensive exposure across the print, outdoor and electronic media to capture consumer attention
- A prudent visibility at major entry and exit points of towns helping the brand identify with the floating target population

*Result:* The Khadim's sales growth of 13.52% (compounded) over the last five years outperformed the industry average as the brand emerged as the number one in the 'value for money segment' in Eastern India.



*"Khadim's amader moton moddhyobitto-der jonyo bhalo. Khadim's amader kotha bhaabe!"*

- Sudip Sinha, 28, self-employed



# COST

## Affordability.

This translates into a superior price-value driving the Khadim's brand acceptability.

Over the years, Khadim's reinforced its promise of unbeatable affordability through the following initiatives:

- The dispersed manufacture of leather products through an outsourcing model that leverages the advantage of unorganised sector overheads
- The marketing of branded products at unorganised sector prices with an organised sector efficiency
- A commitment to keep prices reasonable even during periods of unexpected excise increase
- A scientific model that focuses on modest pricing based around consumer behaviour, consumption and industry trends
- A focus on maximising the franchised:owned ratio, reducing the Company's direct investment
- An investment in the large scale manufacture of high-volume non-leather footwear products, generating attractive economies of scale

*Result:* Khadim's enjoys the narrowest price differential between branded and unbranded shoes in the country and can cater to the entire family's requirement of footwear within a mere Rs. 1,000.





## AFFORDABILITY AND BRAND



**Excise increase:** In the Union Budget of 2003, the government introduced an excise levy on branded footwear - 16% on footwear priced (MRP) above Rs. 125 each. Since 85% of Khadim's products fell in this price classification, the Company and consumers were impacted by a large liability.

**Cost spike:** This translated into a potential cost increase of Rs. 7-8 per footwear pair priced aggressively at Rs. 150, threatening to skew the Company's long established price-value.

**Challenge:** This cost spike could have made the Khadim's brand relatively uncompetitive against unorganised manufacturers outside the purview of the country's tax structure.

**Response:** Khadim's responded decisively to this unprecedented phenomenon; in line with its longstanding platform of affordability, it did not pass on any significant cost increase to consumers but absorbed the excise impact of approximately Rs. 20 mn in 2003-04.

**Development:** In the Union Budget of 2004, the government announced that only footwear products priced (MRP) above Rs. 250 would now attract excise. This ruling reduced the Company's excise exposure from 6.55% of its topline to 3.56%.

**Overview:** An unwavering commitment to keep prices consistently affordable strengthened the Khadim's brand in the minds of consumers, translating into an increase in market share.

### KHADIM VS NON-KHADIM PRODUCT PRICES

Open footwear	Khadim's price	Competitor's price
PVC	Rs. 60 - Rs. 115	Rs. 60 - Rs. 150
EVA	Rs. 70 - Rs. 125	Rs. 50 - Rs. 140
Sandals / chappals	Rs. 90 - Rs. 720	Rs. 200 - Rs. 2,500

Closed footwear	Khadim's price	Competitor's price
Shoes	Rs. 350 - Rs. 1,700	Rs. 450 - Rs. 3,500

# CHOICE

Variety.

A wide Khadim's range holds the key to consumer excitement, enabling her to match consumption with aspiration.

At Khadim's, we have consistently widened choice through the following initiatives:

- Availability of one of the widest product ranges in the business – *hawai* to PVC footwear to EVA footwear to open footwear (*chappals* / sandals) to leather shoes to sneakers – that address every family member
- A sustained business investment leading to a significant widening of the variety on offer – 1,100 SKUs in 2000-01 to 3,796 SKUs in 2004-05
- Availability of this wide variety in the widest permutation of sizes, colours, styles and finishes among peer companies
- A continuous availability of material through accelerated stock replenishment support
- Enhanced flexibility in evolving designs in line with changes in fashion and customer preferences through the partnership-driven outsourcing model

*Result:* This wide variety, appealing to the widest consumer taste, translated into an increase in Khadim's footfall and conversion.







*"Humein Khadim's mein har tarah ke jootain mil jaate hain. Aur sabse achchi baat to yeh hain ki apni pasand paane ke liye jagah-jagah ghumna nahi padta."*

Rajesh Agarwal, 69, businessman







*"I never fail to visit a Khadim's showroom on my annual visit to Kolkata. It represents superior value-for-money and provides the same comfort that any foreign brand provides. I look forward to Khadim's outlets in Mumbai as well."*

- T R Fernandes, Executive Vice President, Rolta India Limited, Mumbai

# CONVENIENCE

Proximity.

Khadim's facility of being just round the corner translates into a higher footfall and conversion.

Over the years, Khadim's has widened its presence through the following initiatives:

A prudent location of its owned stores within middle-class shopping environments

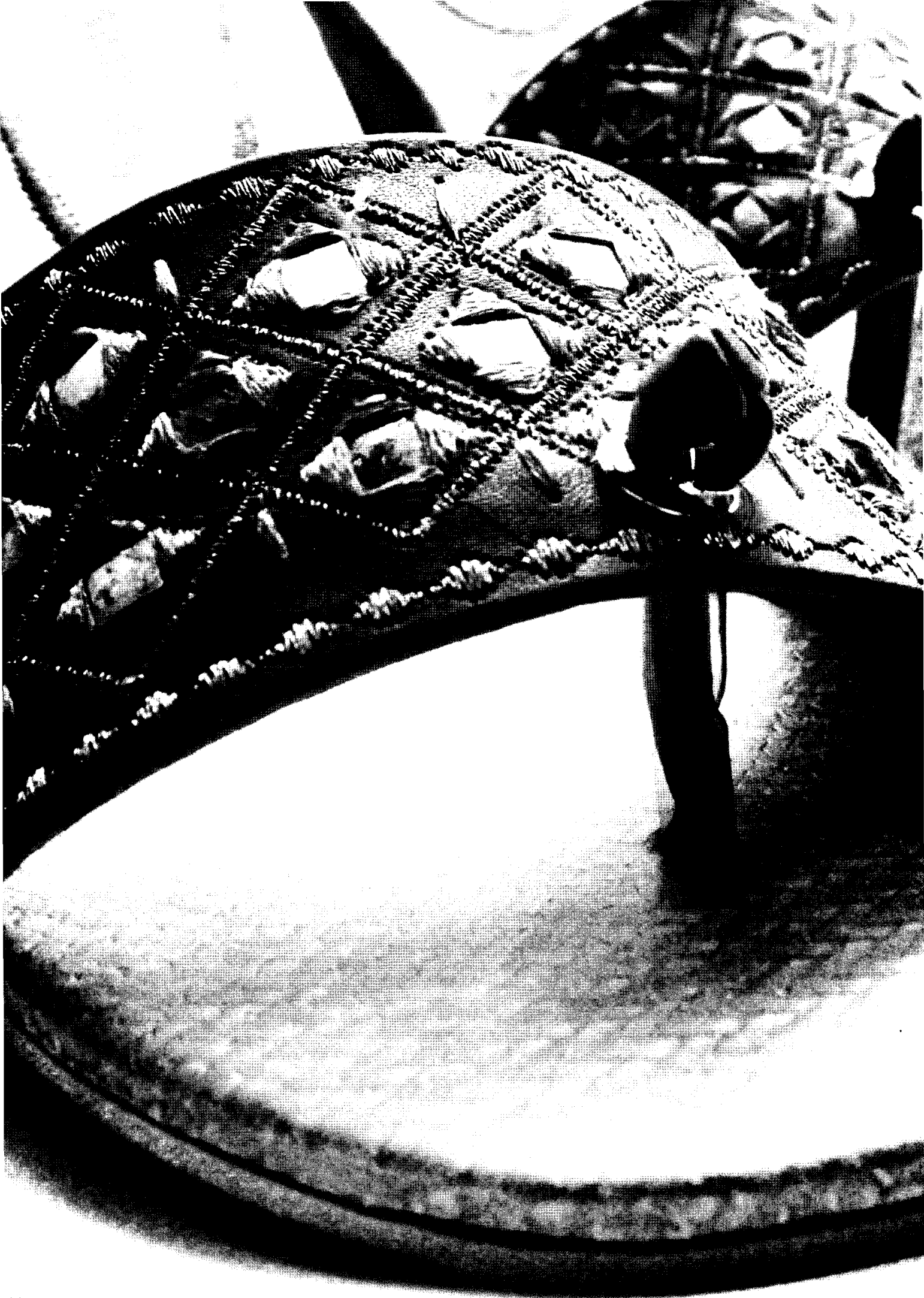
A consumer-friendly approach comprising retail outlets open on all days for customer convenience

A prudent retail presence in suburban and urban retail locations; an attractive 5.76:1 ratio between franchised and owned retail stores

A relevant segregation of roles in the franchised network, whereby all promotional responsibility vests with the Company and all store management is undertaken by the franchisee

An extension of its own-franchisee retail network beyond West Bengal to other Eastern states and the South with the objective to emerge as a pan-national brand by 2010

*Result:* Khadim's products are available at around 200 exclusive retail outlets and over 600 dealers in major Indian cities across 17 Indian states; in West Bengal, the Khadim's reach extends far beyond its nearest competitor.





*"I use Khadim's because it comes without bites!"*

- Tandra Bose, 59, professional singer, Kanchrapara

# COMFORT

## Ergonomics.

The Khadim's product is not just high on style but comfort as well.

Over the years, Khadim's has enhanced the science going into its footwear through the following initiatives:

- The creation of a team comprising designers and footwear technologists to continuously test and assess footwear functionality
- A careful assessment of the dimension and suitability of lasts for their intended markets
- Extensive fitting trials on new footwear ranges before they are commercialised
- Ongoing foot dimensional surveys leading to the customisation of products for specific population requirements
- Ongoing conduct of tests like footwear flexibility, ground insulation, shock absorption and thermal insulation for enhanced comfort
- Specialised research and development team to innovate comfort, ergonomics and back-end footwear engineering
- Advice on sizing systems and conversions

*Result:* The Khadim's range has emerged the most comfortable products in the 'value for money' range.





*"I make a fashion statement wherever I go because with the colour and design of Khadim's footwear, you are never out of style."*

- Mithun Chakraborty, 21, student.



# CONTEMPORARY

## Design.

The Khadim's product enhances a pride of ownership because it is absolutely contemporary.

Over the years, the Company has continuously evolved the fashion appeal towards a personality statement through the following initiatives:

- The creation of a specialised design team that matches prevailing fashion trends with product functionality
- A unique outsourcing model that makes it possible to translate concepts into successful products in the shortest time
- An ongoing collection of feedback from channel partners on evolving consumer preferences leading to relevant productisation
- An ongoing permutation of various styles, material, sizes and textures resulting in the most aesthetic combination
- An ongoing customisation of geographic preferences into designs

*Result:* Khadim's footwear has emerged as a product of choice for the fashion-conscious middle-class across all ages.

**KHADIM'S IS  
EMERGING AS THE  
MOST EXCITING  
PHENOMENON IN THE  
LARGEST SEGMENT  
(GREAT INDIAN  
MIDDLE-CLASS) OF  
THE  
SECOND  
LARGEST  
FOOTWEAR  
PRODUCING NATION  
IN THE WORLD**







# S OF THE HADIM'S SUCCESS STORY

## 'KUL'

- Set up as a footwear business in 1965 by Sri Satya Prasad Roy Burman
- Commissioned to provide low cost, high quality footwear products for the Indian middle-class
- Supplemented its rich consumer insight with a backward integration into the manufacture of footwear and leather products in 2001
- Consolidated six group companies with synergic interests into Khadim India Limited with effect from 1 October 2004
- Became a major footwear player in Eastern India with pan-national interests
- Privately held company

## 'KAROBAR'

- Invested progressively in direct and outsourced manufacture
- Graduated to retail through owned and franchised stores for footwear products in 1993
- Commissioned 'Khadim Khazana' in Kanchrapara (West Bengal) in 2004, its first super store directed towards providing a large range of affordable products in India's neo-markets
- Possesses the widest business extension within its industry: from trading – manufacture – retail (owned and franchised) – super store format

## 'KARYA'

- Comprises leather (shoes and accessories) and non-leather products, the former (PVC products and basic rubber hawai footwear) accounting for 33.19% of turnover
- Also markets leather accessories like handbags, wallets, pouches, cases and belts benchmarked with international standards
- Introduced Khazana superstores to cater to the comprehensive need of any household under one roof



## 'KARMA-SHAALA'

- Possesses nearly 40,000 sq. ft. of state-of-the-art footwear manufacturing facility across two locations of the Kasba Industrial Estate in Kolkata with a consolidated production capacity of 12,370 footwear pairs a day
- Reinforced by an outsourcing arrangement from across 80 dedicated vendors within 25 kms of its principal manufacturing facility
- A presence of 196-town/city retail stores marked by 29 owned outlets and 167 franchised outlets supported by more than 600 dealers
- Supported by three distribution centres in Kolkata for inventory management
- Superstores at Kanchrapara

## 'KHAAS'

- Complete ownership of Khadim's, the Company's principal brand
- Prudent use of sub-brands like 'Wash-n-wear', 'Pedro', 'Easy Walk', 'Schooldays', 'Kid's Club', 'Lazard', 'Executive', 'Waves' and 'Sharon'
- Use of a distinctively different brand called 'Khazana' for super stores
- Khadim's and Khazana brands synonymous with quality and affordability
- Products directed at the burgeoning Indian middle-class

## 'KARTAVYA'

- Focus on extending prosperity from the corporate to the community
- Participation in socially relevant activities and community-welfare programmes
- Commissioned '*Pather shaathi*', a mobile blood bank
- Donated footwear to tsunami survivors in Chennai and the Andaman Islands
- Introduced environment-friendly in-factory processes



# WHAT THE NUMBERS SAY ABOUT OUR PERFORMANCE IN \*

\*Khadim India Limited consolidated its business with effect from 1 October 2004. So the performance of the Company reflects the benefit of the consolidation from the second half of 2004-05. In other words, Khadim India Limited's financial performance as reflected in its balance sheet and profit and loss account indicates unconsolidated numbers for the first half of 2004-05 and consolidated numbers for the second half of 2004-05. To provide readers with a credible basis of financial comparison in the non-statutory portions of the annual report, the Company's management has consolidated the numbers for the entire financial year of 2004-05 (based on actual performance) and compared them with the consolidated performance for 2003-04.

## Numbers

- 20.59% growth in net sales from Rs. 939.12 mn in 2003-04 to Rs. 1,132.45 mn in 2004-05
- 40.89% increase in EBIDTA from Rs. 67.96 mn in 2003-04 to Rs. 95.75 mn in 2004-05
- 124 basis point increase in the EBIDTA margin from 7.16% in 2003-04 to 8.40% in 2004-05
- 63.07% increase in net profit from Rs. 26.95 mn in 2003-04 to Rs. 43.95 mn in 2004-05
- 44.06% increase in cash profit from Rs. 44.41 mn in 2003-04 to Rs. 63.98 mn in 2004-05

## Operations

- Exceeded the budgeted output, profit and profitability
- Expanded the non-PVC footwear manufacturing capacity from 3,000 pairs per day in 2003-04 to 5,000 pairs per day in 2004-05
- Expanded the PVC footwear manufacturing capacity from 6,000 pairs a day in 2003-04 to 9,000 pairs per day in 2004-05
- Installed a new assembly line for the manufacture of stuck-on shoes
- Commissioned a state-of-the-art ethyl vinyl acetate (EVA) injection plant in 2004

## Innovation

- Increase in the number of active SKUs from 3,100 in 2003-04 to 3,796 in 2004-05
- Increase in the introduction of new products and designs by 696 in 2004-05

## Quality assurance

- Commissioned a quality control laboratory in Kolkata
- Received the ISO 9000:2001 certification in the year 2004 for the manufacturing division

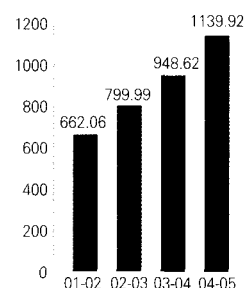
## Marketing

- Increase in the proportion of retail sales from 63.54% of turnover in 2003-04 to 64.41% in 2004-05
- Increase in retail outlets from 163 in 2003-04 to 196 in 2004-05
- 20.17% increase in total income to Rs. 1,139.92 mn in 2004-05

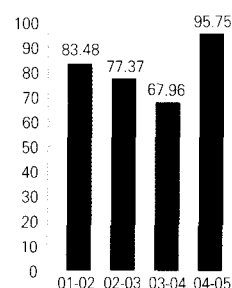
## Board room

- Consolidation of six standalone companies into Khadim India Limited pursuant to an Order of the Hon'ble High Court at Calcutta vide its Order dated 22 June 2005 approving a Scheme of Amalgamation between Khadim Chain Stores Private Limited (now Khadim India Limited) and Colt Enterprises Private Limited, Khadim Industries Private Limited, Khadim Holdings Private Limited, Khadim Shoe Private Limited, and AAR ESS Land Development Private Limited

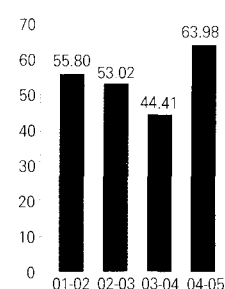
Revenue (Rs./mn)



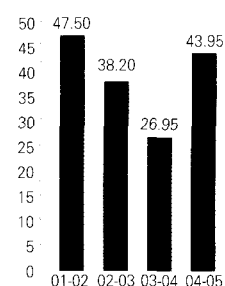
EBIDTA (Rs./mn)



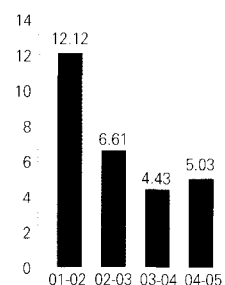
Cash profit (Rs./mn)



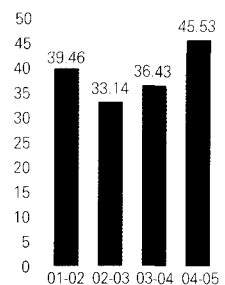
PAT (Rs./mn)

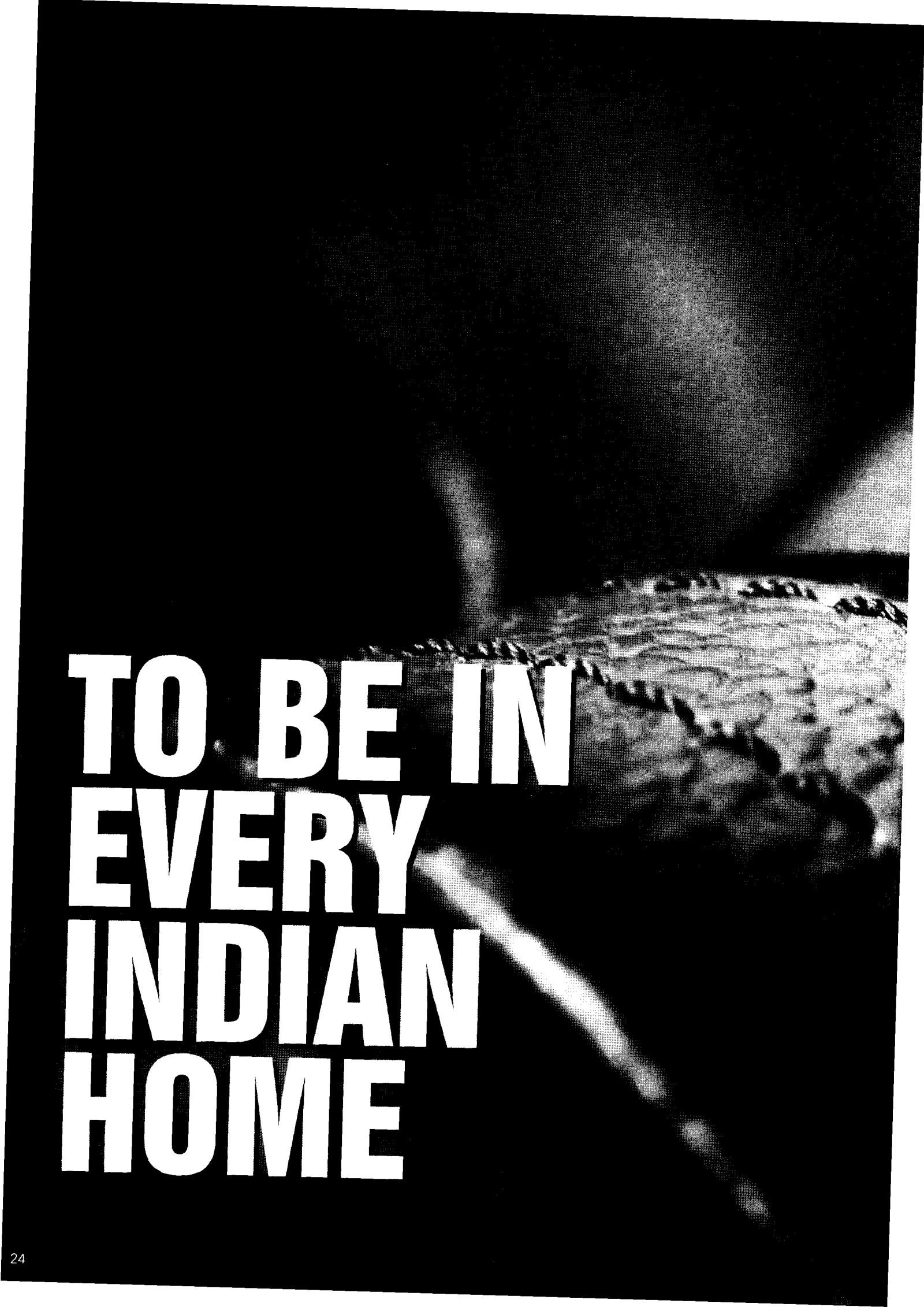


EPS (Rs.)



Book value (Rs.)

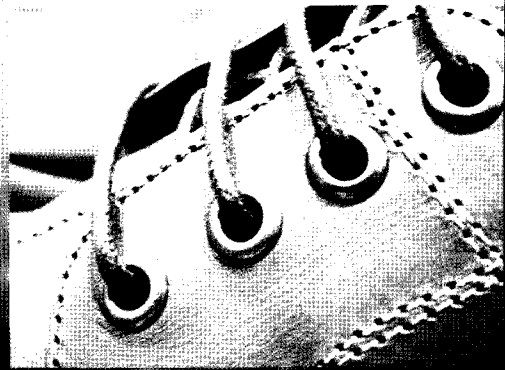




**TO BE IN  
EVERY  
INDIAN  
HOME**

# Our mission

Ensuring customer delight and enhancing stakeholders' value by delivering quality product at affordable price through extensive retail network.

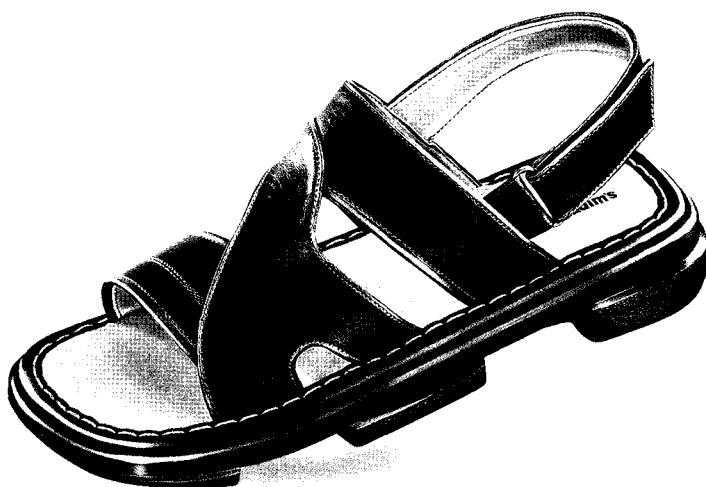




## **INTEGRITY**

- The highest ethical standards of our people
- Manufacturing value-for-money products

# **OUR VALUES**



## **PEOPLE DEVELOPMENT**

- Creating leaders and opportunities at every level
- Caring for our people as family



## **CUSTOMER FOCUS**

Listening keenly to the  
'Voice of the Customer'

## **TRANSPARENCY**

Processes and practices for  
enhanced transparency



## **SPEED**

'Do it now!' approach to  
seize every opportunity

## **KNOWLEDGE SHARING**

Teamwork through appropriate  
knowledge sharing

## **ATTITUDE OF SERVICE**

Service to internal and external  
customers with sensitivity



# STATEMENT

"I believe that the amount of invention over the next 10 years in our retailing business will be greater than the amount of invention over the last 10. I think there is so much more to do".

- Jeff Bezos, *Founder and Chief Executive of internet retailing giant Amazon.*

*Dear friends,*

It is a proud moment for me to address existing and prospective stakeholders for the very first time in the history of our existence.

It is an exciting moment as well. For decades, we have been an honest Company marketing footwear and leather products for the Eastern Indian middle-class.

We are now on the cusp of a dramatic transformation that will evolve our mindset, organisational structure, geographic presence and format orientation, resulting in a dynamic response to a challenging industry environment.

The Indian middle-class revolution

For decades, we have been servicing

the great Indian middle class as well as an incrementally growing business environment with value-for-money products and services. This segment is already undergoing the most dramatic transformation that we have seen in our lifetimes and is emerging as the focus of global businesses. We are seeing one of the largest consumer opportunities in the world for the following reasons:

- India is the only country (save China) to sustain a GDP growth in excess of 4% over more than the last five years, putting a larger disposable income in the hands of Indians than ever before
- This growth is growing the country's middle-class, acknowledged as the largest

consumer segment of its type in the world, swifter than ever before

- An increased exposure to global lifestyle trends is inspiring this middle-class not just to spend more but to extend their spending to newer areas, quicker than ever before
- There is an increase in the availability of quality and affordable products driven by increasing competition

Retail boom

This phenomenon is already creating some interesting manifestations. One of the most evident is in our purchase habit, pattern and frequency.

- For one, we are buying a whole new range of products that we never did before

# STRENGTHS

Comprehensive product mix, among the largest in the Indian footwear industry

Compelling price-value proposition

A dedicated R&D team and state-of-the-art manufacturing facility

Product outsourcing model for enhanced flexibility

Extensive distribution network of franchisees and dealers

Rich human capital representing a mix of youth and experience

- Secondly, we are buying more *branded products than before*
- Third, an increasing proportion of our purchases are being made not at the conventional by-lane shop but in modern-day malls and department stores

## A new Khadim's

As a future-focused organisation, Khadim's is responding to this reality with a newfound vigour through the following initiatives:

- **Organisational restructuring:** We consolidated six group companies into a single entity called Khadim India Limited, effectively transforming from a private limited company into a vibrant public limited company.
- **Format re-orientation:** We are extending our presence from retail outlets (owned and franchised) to super stores, reaching out to a wider consumer audience. In doing so, we

are widening our product range through the superstore Khazana: from footwear to grocery, jewellery, cosmetics, toys and food, leveraging on the enduring goodwill of quality plus affordability arising out of the Company's brand

- **Market re-focus:** We are extending from an urban to a suburban focus (neo-markets) on the grounds that even as it accounts for more than 70% of the Indian population, there is a mismatch between incomes and retail options available in these locations
- **Selective manufacture:** From an outsourcing approach, we extended gradually into selective manufacture: of upmarket leather products and the entire polymer-based footwear (PVC and EVA) segments, resulting in lower costs
- **Geographic expansion:** We are replicating our success in Eastern

India to South India, followed gradually by the North and West India.

## Outlook

The sum of these changes, I am optimistic, will transform the Company from a focus on one activity and business into a three-activity Company (outsourcing /manufacture, footwear retail and general product super stores), regional to a national brand and revenues from Rs. 1.15 bn to a projected Rs. 6.50 bn by the year 2009-10.

In doing so, Khadim's expects to emerge as one of the most profitable footwear and retail companies in India over the foreseeable future.



Satya Prasad Roy Burman  
Chairman

Restructuring

# Yesterday's

# 6

Between 1965 when it went into business and 30 September 2004, the Khadim's Group conducted its business across six entities. In 2004-05, the Khadim's Group embarked on a landmark initiative to consolidate these diverse outfits into a unified corporate entity. The consolidation was approved pursuant to an Order of the Hon'ble High Court at Calcutta vide its Order dated 22 June 2005, resulting in the integration of the various business units with effect from 1 October 2004. The consolidation of six independent Khadim's Group constituents into a consolidated entity was conducted in response to a dynamic domestic industry and global business environment with the unified objective to emerge bigger and better – *quicker*.

**independent  
companies.  
Today's  
consolidated  
KHADIM'S**

**KHADIM CHAIN STORES LTD.**

*(Transferor company)*  
(Retail business)  
Incorporated in 1981  
Turnover in 2003-04:  
Rs. 330.77 mn  
Profit in 2003-04:  
Rs. 6.16 mn

**KHADIM HOLDINGS (P) LTD.**

*(Transferor company)*  
(Ownership of the Khadim brand)  
Incorporated in 1998  
Income in 2003-04:  
Rs. 16.29 mn  
Profit in 2003-04:  
Rs. 5.63 mn

**KHADIM SHOE (P) LTD.**

*(Transferor company)*  
(Wholesale business)  
Incorporated in 1991  
Turnover in 2003-04:  
Rs. 610.45 mn  
Profit in 2003-04:  
Rs. 13.23 mn

**KHADIM INDIA LTD.**

(excluding operation of  
months of transferor company)  
Turnover in 2004-05: Rs. 719.52 mn  
Profit in 2004-05: Rs. 20.00 mn

**AAR ESS LAND DEVELOPMENT (P) LTD.**

*(Transferor company)*  
(Ownership of Dakhinapan outlet)  
Incorporated in 1992  
Income in 2003-04:  
Rs. 0.91 mn  
Profit in 2003-04:  
Rs. 0.24 mn

**KHADIM INDUSTRIES (P) LTD.**

*(Transferor company)*  
(Manufacturing unit and export)  
Incorporated in 2000  
Turnover in 2003-04:  
Rs. 85.36 mn  
Profit in 2003-04:  
Rs. 2.26 mn

**COLT ENTERPRISES (P) LTD.**

*(Transferor company)*  
(Land holding at Kasba Industrial Estate)  
Incorporated in 2002  
Income in 2003-04:  
Rs. 0.00 mn  
Profit in 2003-04:  
Rs.(0.18) mn



# RATIONALE FOR

## BRAND

**Ownership:** The brand, which was earlier owned by one company, now belongs to the consolidated organisation

**Identity:** A change in the name to Khadim India Limited reflects a national identity

**Niche:** Khadim's is the only brand with a majority presence in the sub-Rs.250 footwear segment (a non-excise category which constitutes more than 60% of the Company's turnover); this represents a large opportunity

**Brand:** The consolidation of the financial strength will lead to a lower cost funding

## FINANCIAL

**Scale:** Enhanced financial strength will reduce risks leading to an enhanced stakeholder (employees, lenders, investors, vendors, customers) confidence

**Overheads:** Administrative simplification will lead to lower overheads

**Tax simplification:** There will be an elimination of tax levies earlier incurred in cross-transfers between companies

**Transparency:** Streamlined transfer pricing will lead to enhanced credibility

**Better leverage:** There will be a seamless cross-leverage of balance sheet strengths

**Integration:** The tangible assets and cash flows earlier segregated into separate companies, will now integrate, leading to improved liquidity and better fund management

**Purchase economies:** Bunched purchases will lead to related economies

**Business investment:** A cumulative employed capital of Rs. 471.76 mn for generating 1.91 mn pairs of footwear (2004-05) will emerge as among the best in the industry

## INTELLECTUAL

**Recruitment:** Scale will help recruit better and quicker

**Retention:** Unified identity will lead to a greater belonging, maximising retention

**Career paths:** Integrated business enhances the opportunity to perform at different levels and opens up possibilities for performers. Emergence of a specialised HR function will help streamline career paths at each management level

**Knowledge management:** More effective utilisation of intellectual capital

**Cost:** Manpower cost-to-sales ratio will now be one of the lowest in India's organised footwear industry



# BUSINESS CONSOLIDATION

## OPERATIONAL

**Inventory:** There will be a quicker transfer of slow moving stock from non-consumption points to consumption points

**Integrated logistics:** There will be a seamless integration of the procurement, manufacturing, retail, export and wholesale functions of the erstwhile units

**Environment management:** There will be a competent address of environment challenges with the most competent resources

## MANAGERIAL

**Relevant:** The consolidation will catalyse a pan-Indian presence

**Alignment:** There will be an alignment of organisational scale with the vastness of the marketplace opportunity

**Competencies:** There will be a better affordability of larger and more specialised resources, optimising performance and quicker response time

**Control:** The alignment of stronger processes will enhance control

**Informed:** There will be a pooling of erstwhile islands of information for quicker access and informed decision making

**Compliance:** There will be a reduction in statutory requirements, enhancing compliance

## MARKETING

**Goodwill:** A larger market share will become a reality resulting in wider industry respect

**Presence:** There will be a replacement of geographic overlaps with a larger footprint

**Cross-sales:** There will be a better opportunity encashment through increased cross-sale; retail products will now be sold in the wholesale market and vice versa

**Responsiveness:** There will be a stronger cross-flow of knowledge and insights, shrinking the time-to-market

**Identity unification:** There will be an elimination of conflicts of interest in advertising across erstwhile constituents – now to be controlled by a centralised merchandising division

**Co-ordination:** There will be a closer co-ordination between the promotional, marketing, distribution, manufacturing and merchandising teams

# 5

# YEAR FINANCIAL HIGHLIGHTS

(Consolidated figures of Transferor and Transferee Companies)

Particulars	(Rs./mn)				
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Sales	600.66	655.03	788.93	939.12	1132.45
Other income**	3.75	7.03	11.06	9.50	7.46
Expenditure**	541.07	578.58	722.62	880.66	1044.17
Profit before depreciation, Interest and tax - PBDIT	63.34	83.48	77.37	67.96	95.75
Interest & finance charges	0.80	1.97	7.58	8.61	18.08
Profit before depreciation and tax - PBDT	62.54	81.51	69.78	59.35	77.66
Depreciation	6.55	8.23	12.64	15.43	21.03
Profit before tax (PBT)	55.99	73.28	57.14	43.92	56.64
Tax	21.56	25.78	18.94	16.97	12.69
Profit after tax (PAT)	34.43	47.50	38.20	26.95	43.95
Equity capital*	36.72	39.20	57.78	60.78	87.39
Reserves & surplus	64.37	115.58	133.81	160.93	310.52
Miscellaneous expenditure	0.14	0.08	0.09	0.26	-
Net worth	100.95	154.71	191.50	221.45	397.92
Net fixed assets	38.40	53.31	114.34	147.93	393.70
Capital work-in-progress	-	-	-	4.72	30.58
Capital employed (Net fixed assets + working capital)	100.22	165.99	250.36	286.81	471.76

\*Equity share capital for the FY 2004-05 includes share capital pending allotment pursuant to the Scheme of Amalgamation.

\*\* Includes prior period adjustment



# KEY FINANCIAL RATIOS

(On the basis of Consolidated Financial Accounts of Transferor and Transferee Companies)

Particulars	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
PBDIT/Total turnover (%)	10.48	12.61	9.67	7.16	8.40
Interest/Total turnover (%)	0.13	0.30	0.95	0.91	1.59
PBDT/Total turnover (%)	10.35	12.31	8.72	6.26	6.81
Net profit/Total turnover (%)	5.70	7.17	4.78	2.84	3.86
Cash Profit/Total turnover (%)	6.79	8.43	6.63	4.68	5.61
ROCE (PBIT/avg. capital employed) (%)	67.18	56.53	31.09	19.56	19.70
Capital output ratio (turnover/average capital employed) (%)	714.98	497.40	384.29	353.19	300.54
Debt equity ratio (times)	0.08	0.09	0.31	0.28	0.16
Debtors' turnover (days)	9.10	12.03	17.83	15.56	34.83
Inventory turnover (days)	27.08	22.23	21.42	20.88	49.38
Interest coverage ratio (times)	71.12	38.23	8.53	6.10	4.13
Current ratio (times)	1.55	2.06	2.19	1.82	1.11
Assets turnover (times)	2.73	2.38	2.17	2.09	1.28
Growth in turnover (%)	48.49	9.54	20.83	18.58	20.17
Growth in PBIT (%)	7.63	32.50	(13.98)	(18.84)	42.24
Growth in PAT (%)	12.72	37.94	(19.57)	(29.45)	63.06
Growth in cash profit (%)	18.40	36.04	(4.99)	(16.21)	44.04



**“We expect to migrate from a Rs. 1,150 mn company into a Rs. 6,500 mn organisation by 2009-10!”**

Mr. Siddhartha Roy Burman, *Managing Director*,  
reviews the past and outlines the future

# OUR AGENDA FOR 2005-06

## Financial

- Strengthen topline by 25%
- Reinforce EBIDTA margin by 10%

## Human resources

- Strengthen the strategic management team through the induction of professional competence
- Build a performing team through a judicious mix of the old and the new
- Introduce new skills required to drive tomorrow's businesses
- Increase productivity and performance through training



QA  
AND  
SESSION

Were you satisfied with the Company's performance during the year under review?

Absolutely! The year under review was significant, not just by what we achieved but also by the initiatives we embarked upon to lay the foundation for exponential and sustainable growth across the foreseeable future.

What were the numerical highlights of the Company's performance during the year under review?

From a general perspective, our annualised net sales grew 20.59% over 2003-04, while annualised profit after tax increased 63.07%.

What is important to note is that we successfully demonstrated that even in a competitive business like footwear and leather products, volumes do not need to be derived out of declining profitability. As a result, readers will find that even as competition increased, our EBIDTA margin actually strengthened from 7.16% in 2003-04 to 8.40% in 2004-05 (annualised) and we succeeded in maintaining our return on employed capital in excess of 19% for the fifth

consecutive year. As a result, it was a performance that clearly vindicated the robustness of our business model in a competitive environment.

You indicated a growing topline and increasing competition. How did the Company reconcile the two?

By leveraging what we know best: the sustainable delivery of a superior branded price-value for an aspiring middle-class. I have used this sentence most consciously: At Khadim's, we recognise that there is a shift in the consumption preference of India's middle-class – the largest such segment in the world - from unbranded to branded products. At Khadim's, we are responding to this structural shift through responsible branding that ensures the offering of first-rate products at absolutely affordable prices leading to an unbeatable price-value.

From what initiatives was the Company's superior value proposition derived?

I will encapsulate our approach in one line – the more competitive it got, the harder we worked. Let me explain the various initiatives that translated into advantages of market, format, choice and costs:

- **Market:** We extended our presence across states. Result: the addition of the new states translated into an incremental revenue during the financial year under review.

- **Format:** We embarked on the graduation of our business model from wholesale to retail (with a mix of owned and franchisee stores) and then to a super store format, reaching a wider product offering to a larger population slice.

Result: we generated Rs.120 mn of revenues from a single super store in only the first 12 months of its being in business.

- **Choice:** We accelerated the introduction of new designs and products in the footwear and accessories segments to the extent of more than 1500 SKUs during the year under review as against the usual annual average of around 700-800 SKUs. Result: a stronger product acceptability led to a quicker offtake.

- **Costs:** We moved towards multiple-vendorship to strengthen our negotiation capability and engaged the services of leading consultants to streamline our supply chain management. Result: total cost as a proportion of total revenue has declined by more than 150 basis points.

Interestingly, the Company embarked on a challenging combination of three initiatives, reflected in the introduction of a new format (retail to super store), a new locational focus (urban to semi-urban) and an expansion in choice (leather footwear to general

## Marketing

- Enhance South Indian revenues from 9.78% in 2004-05 to 15%
- Launch the Khadim's brand through owned and franchisee retail outlets in West and North India
- Increase online connectivity between the corporate office, franchisee/owned outlets and distribution centres

## Cost management

- Develop an integrated costing system to address an evolving business model
- Introduce effective cost controls in the business of product suppliers
- Strengthen product pricing through various direct and indirect initiatives

## Brand

- Launch and enhance the Khadim's brand visibility in West and North India
- Register the Khadim's brand in the US, UK, EU and UAE
- Launch the British Walkers' brand in US and the Khadim's brand in UK and UAE

merchandise) for its Khazana super store. What prompted the Company to embark on such an ambitious extension?

Some interesting developments.

A decade-and-a-half of liberalisation and sustained economic growth has put an increased disposable income in the hands of Indians across the country. More specifically, the last three decades of agricultural reforms have enriched an entire generation of the population of suburban Bengal leading to enhanced consumer aspirations.

While retailers have moved with speed to encash this phenomenon across the urban centers of the country, our understanding at Khadim's is that they are yet to enter the suburban locations due to the relative difficulty in understanding consumer responses, presenting an attractive opportunity.

The Company was attractively positioned to leverage the vast potential: being a middle-class focused organisation, it possessed a rich understanding of this price sensitive consumer segment. Being historically a Bengal-dedicated brand, it enjoyed strong consumer acceptability and terrain knowledge.

These competitive advantages translated into tangible results within a short time of setting up of the super store at Kanchrapara, a suburban location in West Bengal: average daily

store footfalls increased from 1,200 to 8,000; daily store revenues increased from Rs. 0.40 mn to a peak of Rs. 2.20 mn in 2005-06, surpassing all estimated budgets.

Where do you see Khadim's five years from now?

At Khadim, we are convinced about the robustness of our business model. As a result, we expect to scale the organisation by leveraging this durable foundation – faster than before. In view of this, the Company has embarked on a five-year strategic blueprint comprising the following initiatives:

- **Internal expansion:** The Company will make sizeable investment in manufacturing equipment, distribution centres and infrastructure that serve as systemic benchmarks and enablers for business and retail outlets.
- **External expansion:** The Company will enlarge the outsourcing capability of footwear products through an increase in vendors and create a pan-Indian vendor base to support its expansion plans.
- **Regional expansion:** The Company expects to increase the number of outlets (owned and franchised) from 196 in 2004-05 to 650 (approx) in 2009-10; it expects to extend its presence from 17 states to 28 states during the period.
- **Format expansion:** The Company

will leverage its profitable franchise model brand more effectively through the accelerated rollout of franchised stores. We expect to extend Khazana super stores in numbers and across geographies (both urban and suburban) over the same period.

- **Global expansion:** The Company registered the Khadim's brand in Sri Lanka and Bhutan and expects to do so similarly in the US, EU and the UAE over the coming months; its British Walkers' brand for the North American markets is awaiting registration. Consequently, export volumes are expected to increase over the foreseeable future.
- **Segment expansion:** The Company is extending its maximum price range from Rs.1,700 in 2004-05 to Rs. 2,800 in line with enhancing middle-class aspirations, addressing footwear for every occasion and reaching its products across a larger consumer population; correspondingly, we expect to increase average footwear realisations significantly.

How is the sum of these initiatives likely to translate into revenues?

We expect to emerge as India's fastest growing footwear and accessories Company with a growing interest in retail formats: we expect our revenues to increase from Rs.1.15 bn in 2004-05 to Rs.6.5 bn by 2009-10.



# Relationships represent the foundation of KHADIM'S growth model

A win-win relationship with channel partners – outsourcing partners at the back end and marketing partners at the front end – represents the foundation for our growing Company. These channel partners supply outsourced products to the Company at one end and distribute products to consumers at the other.

Over the years, Khadim has streamlined its back-end and front-end through category wise guidelines – defining the area and scope of operations - for its business partners, thereby helping manage business partner expectations and growth – and creating a happy family.

Products outsourced to reduce costs and increase choice



Products marketed faster due to an attractive price differential between Khadim's and competing branded products



Direct customer interaction results in a valuable feedback on emerging trends



Feedback on emerging designs, styles and colours incorporated in the new product range



Wider product variety leading to an ability to maximise the conversion of casual interest into offtake



Enhanced brand and outlet reputation around a superior price value proposition



Faster product turnaround at the store leading to higher profitability with lower investment



Larger orders translate into economies of scale and increased profitability, a virtuous cycle







# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOOTWEAR INDUSTRY OVERVIEW

National size: Rs.104.48 bn

National status: Second largest footwear producer in the world

Annual growth (estimated): Around 10%

Per capita consumption: 1.1 pairs per person (equivalent to Rs. 50 per person)

Share of consumer wallet: Three per cent

Exports (estimate): USD2 bn

### Overview

India is the world's second largest footwear producing country, leveraging its position as the nation having the largest cattle population in the world.

### Industry characteristics

- Domination by the unorganised sector
- Manufacture of leather shoes and uppers by the large units, sandals and open footwear (especially non-leather) by the household and cottage industry.
- Broadly labour intensive, except among large organisations leveraging automated technologies
- Production skewed in favour of men's footwear, contrary to the global trend
- Organised sector focus on the branded premium end
- Organised sector preference for outsourcing
- Brand appeal largely regional in character



India's annual footwear production is estimated at over USD 4 bn with the unorganised sector accounting for 60-65% of the production



## SEGMENTWISE ANALYSIS

### BRANDED

- About 40% of the market
- About 10% branded sales in the unorganised markets
- Catered to by large corporates and MNCs
- Marketing on an all-India basis

### UNBRANDED

- About 60% of the market
- Largely sold in the unorganised markets
- Serviced by the small-scale sector
- Largely region-based

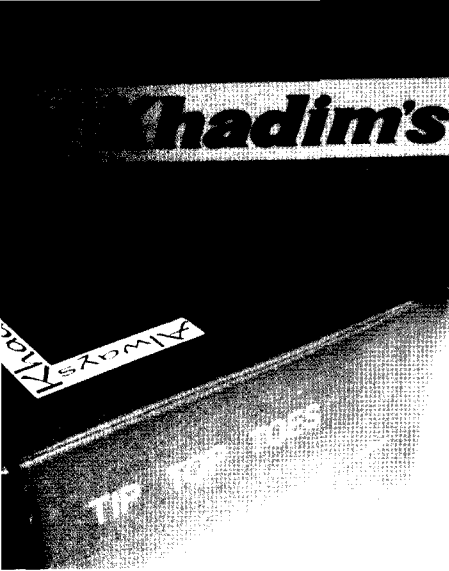
**INDIAN  
FOOTWEAR  
INDUSTRY  
(Rs. 104.48 bn)**

### ORGANISED

- Comprises about 30% of the footwear market
- Monitoring of sales volume possible – since marketing largely through retail chains
- Growing segment, growing faster than the unorganised, due to increased ad-spend, increased awareness and brand orientation

### UNORGANISED

- Accounts for 70% to the footwear market
- Monitoring of sales volume not possible, since sales transpire largely on the street
- Some of the stores have few shelves for shoes
- No branding in certain product segments to escape the excise net
- Largest segment of the footwear industry



The Indian footwear industry is concentrated in Tamil Nadu, Delhi, Punjab, Uttar Pradesh, West Bengal, Maharashtra, Karnataka and Haryana



### Geographical spread

The Indian footwear industry is concentrated in Tamil Nadu, Delhi, Punjab, Uttar Pradesh, West Bengal, Maharashtra, Karnataka and Haryana. The major production centers in India are Chennai, Ranipet, Ambur, Kolkata, Mumbai, Kanpur, Jalandhar, Agra and Delhi.

### Production split

India's annual footwear production is estimated at over USD 4 bn, growing annually at about 10% with the unorganised sector accounting for 60-65% of the production. The large exporting factories are equipped with modern technology across several production lines leading to superior quality and controls. These factories, primarily located in North and South India, service the demanding quality requirements of leading international brands.

### Strengths

- Large domestic market, broadly under-consumed and unorganised
- Abundant raw material base derived from the second largest cattle head count in the world
- Maximum leather varieties permitting a diverse product variety
- Relatively low labour cost, creating an attractive global wage arbitrage
- Institutional support through premier institutions like Central Leather Research Institute (Chennai), Footwear Design & Development Institute (Noida) and National Institute of Fashion Technology (New Delhi), among others, in design, product, technology and human resource development

## Historical insight into the Indian footwear industry

### 1947-1970

High excise and sales tax on factory-made footwear; growth of the outsourcing strategy; creation of production clusters of small entities feeding the large and organised brands.

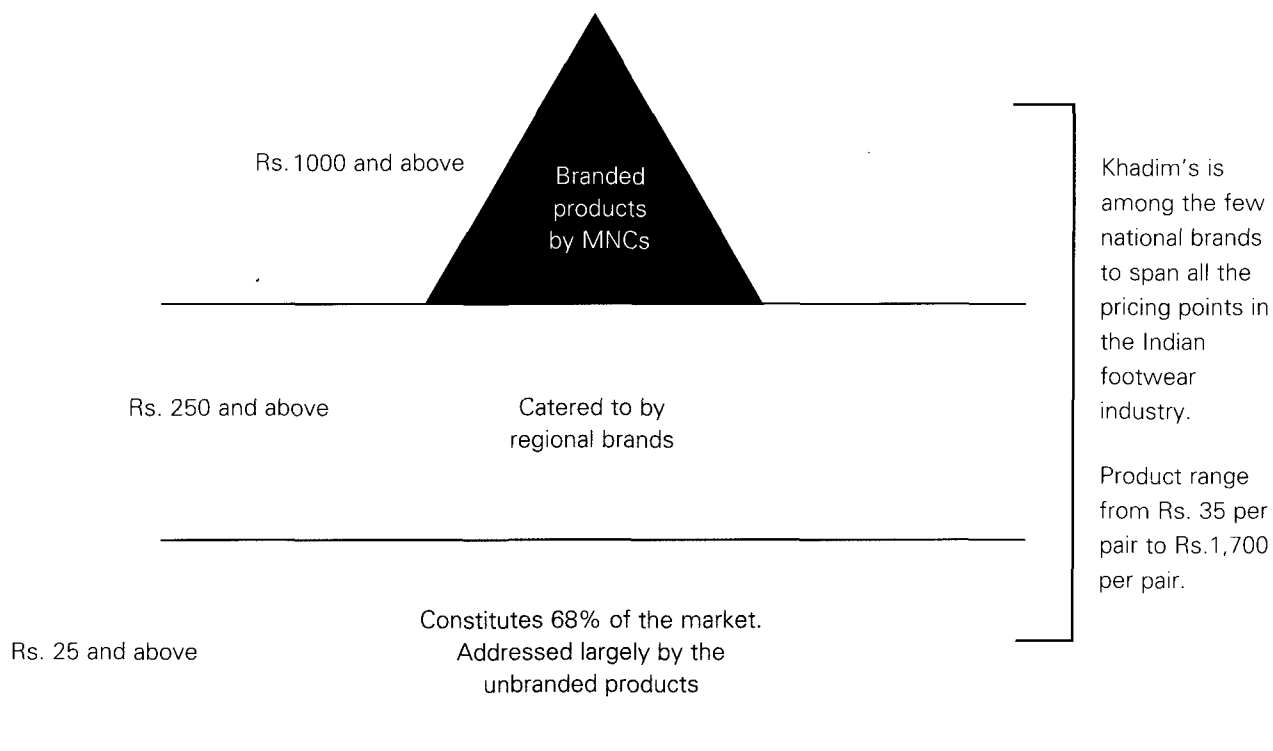
### 1971-1990

Extension of manufacturing licenses to medium and large factories against a 95% export obligation, later revised to 50%; government controls a deterrent for global investments in the sector, in contrast to Asian countries.

### 1991-2005

Abolition of licenses and export quotas; easier import of shoe machinery leading to sectoral modernisation; leather industry now 'de-licensed' and 'de-reserved'; 100% foreign direct investment and joint ventures permitted; 100% repatriation of profits and dividends (provided original investment was made in convertible foreign currency) now a reality; rapid industry growth enabling the Indian leather industry to emerge as the eighth largest exporting sector in India.

# KHADIM'S PRESENCE IN THE INDUSTRY PYRAMID



## Exports

The world leather and leather products market in 2003 was USD 88 bn out of which footwear constituted USD 53 bn (60%), the balance comprising leather garments and accessories. Nearly half the size of the world's footwear market (30% world footwear) is in the US, the volume of which during 2003 was USD 16 bn.

The total value of Indian leather and leather product (including non-

leather footwear) exports was USD 2216 mn (2003), out of which footwear amounted to about 35% (USD 768 mn), followed by leather accessories, finished leather and leather garments. The present trade volume in footwear is expected to triple to USD 2.5 bn by 2010. The increase in footwear trade is likely to come from the US footwear market.

The US is the largest importer of Indian leather and leather products after Germany and the UK. India's

share in the US leather garment sector in 2003 was 3.23%, while leather goods accounted for 4.27%, saddlery-harness 4.42% and the share of footwear just above 1%, providing a huge opportunity for growth. This change has already begun to transpire from 2004-05.

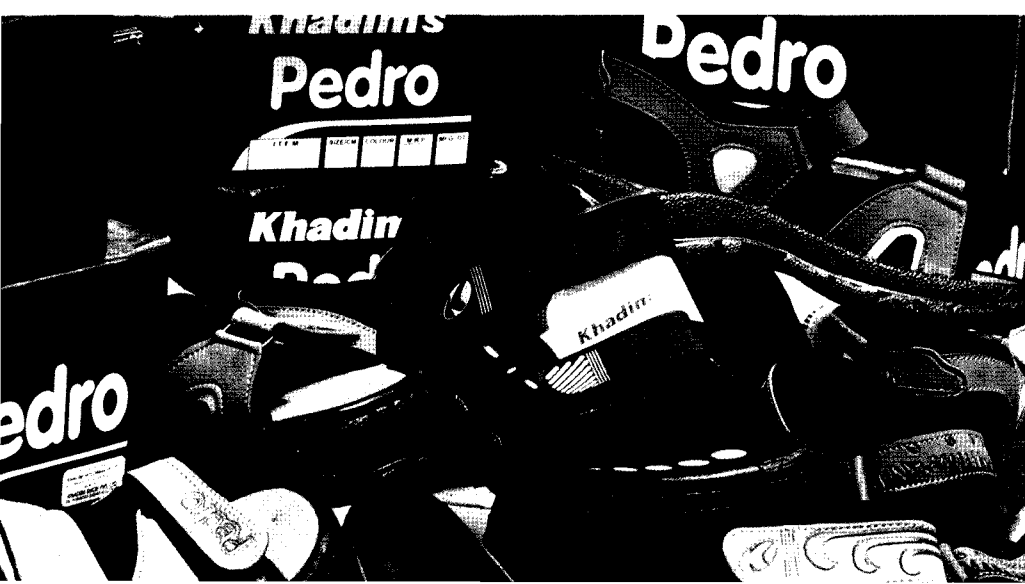
While Indo-US trade during 2004-05 saw a significant jump of 11.18% over 2003-04, the footwear segment witnessed a higher growth of 15% over the same period.

## World import of leather and leather products and India's share 1999-2003

(Value in USD mn)

Details	1999	2000	2001	2002	2003	CAGR%
<b>Leather footwear</b>						
World imports	26901.92	27598.13	28908.00	30600.23	33297.17	4.53%
India's exports	377.39	381.37	395.39	423.30	553.04	11.54%
% share of India's exports	1.40%	1.38%	1.37%	1.38%	1.66%	
<b>Footwear components</b>						
World import	4537.86	4446.66	4598.18	4374.37	4612.19	-0.02%
India's exports	215.09	238.09	233.94	175.07	161.27	-7.47%
% share of India's exports	4.74%	5.35%	5.09%	4.00%	3.50%	
<b>Non-leather footwear</b>						
World imports	17189.40	18159.53	18313.71	18331.79	19611.93	3.61%
India's exports	14.12	19.11	26.02	26.88	53.42	24.97%
% share of India's exports	0.08%	0.11%	0.14%	0.15%	0.27%	

Source : World Statistics, ITC, Geneva



The value of Indian footwear exports was USD 768 mn (2003), which is expected to triple to USD 2.5 bn by 2010



Format analysis

# Khadim's Khazana: Super store

**Number** : One at Kanchrapara, 55 km from Kolkata

**Size** : Centrally air-conditioned four-storied 30,000 sq ft. floor area

**Commissioning** : September, 2004

**Popularity** : Average weekday footfall of 2,218 and average weekend footfall of 3,229 with an average conversion of 36%

**Revenues** : Rs. 118.5 mn in the first 12 months (ending 17 September 2005).



#### Products

Grocery

Cosmetics

Women's garments

Men's garments

Home accessories

Jewellery and gold

Khadim's shoes and other accessories

Food court

#### Sub-brand

Roz Khazana

Roop Khazana

Shrimati Khazana

Shriman Khazana

Home Khazana

Sona Khazana

Shoe Khazana

Food Khazana





50%  
পর্যন্ত\*

Despite India being the second largest retail market in the world, the organised format – aggregation of stores into malls - accounts for only 3% of the country's retail format

## Rationale for existence

Despite India being the second largest retail market in the world, the organised format – aggregation of stores into malls – accounts for only 3% of the country's retail format. Going ahead, this under-penetration is expected to correct faster for the following reasons:

- **Convenience:** Facilitates merchandising of commonly used products in one complex
- **Speed:** Enhances consumer efficiency by enabling access to multiple stores in a single location
- **Recreation:** Provides something for every family member and reconciles marketing and recreation within a single destination

## Rationale for location

Interestingly, the incidence of malls and super stores has been restricted to urban locations. As a result, India's top six cities account for 66% of the country's total organised retailing. India's 200 Tier-II cities present a larger opportunity. Unlike the metros, where crowds largely visit malls to hang out (low conversion), footfalls in the super markets of small cities are driven by a fixed agenda of purchase (high conversion).

Khadim's extended its longstanding

retail presence with a pioneering super store deliberately selected in a suburban location (Kanchrapara) for the following reasons:

- An increase in the per capita income and aspirations in suburban West Bengal without a corresponding increase in retail format options.
- A first-mover's advantage translating into an enhanced recall.
- Greater operational liquidity due to a preference for making purchases against cash (over credit cards).

## Initiatives

The Company established its presence in a hitherto unexplored location (from an organised retailing perspective) through the following initiatives:

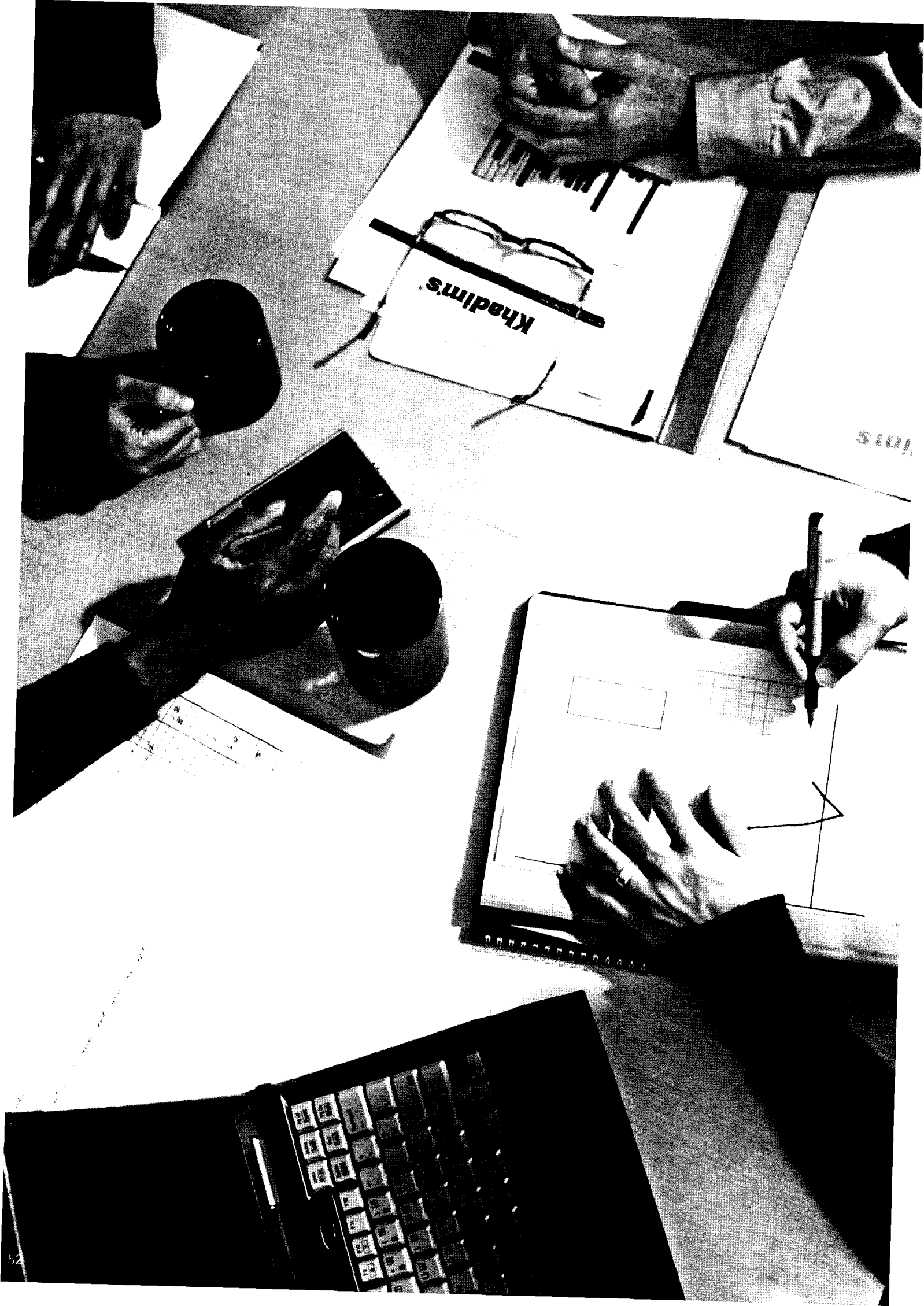
- **Change in the organisational mindset:** From footwear to multiple products
- **Recruitment:** From home grown personnel to the recruitment of professionals with organised retail experience
- **Merchandise management:** From an understanding of what footwear would be preferred to an understanding of broader emerging needs within consumer budgets
- **Vendor selection:** Prudent

selection of channel partners on the basis of their experience, financial strength, business stability, scalability and credibility; migration from the 'bought out' to the 'consignment' mode, a win-win for both

- **Replenishability:** Supply products directly from vendors to the super store, reducing the turnaround time for delivery
- **Technical support:** Use of sophisticated IT systems to monitor stocks continuously leading to ongoing replenishment
- **Training:** Extensive product training to enable store assistants to bridge the gap between consumer needs and product portfolio
- **Awareness:** Consumer awareness programmes on promotional campaigns (Puronodin Notundin) and loyalty programmes (Club Khazana - smart card)
- **Security:** Introduction of security tags and sophisticated equipment to eliminate shoplifting

## Outlook

Based on the established advantages of this format, the Company expects to significantly increase its presence across urban and suburban locations primarily in Eastern India.



Khadim's

STUD

# REVIEW OF FINANCIAL PERFORMANCE

## 2004-05 vs 2003-04

Khadim's reported a year of all-round growth in 2004-05:

- Total income increased 20.17% from Rs. 948.62 mn in 2003-04 to Rs. 1,139.92 mn
- Sales (net of excise duty) grew 20.59% from Rs. 939.12 mn in 2003-04 to Rs. 1,132.45 mn
- EBIDTA strengthened 40.89% from Rs. 67.96 mn in 2003-04 to Rs. 95.75 mn
- Profit after tax increased 63.07% from Rs. 26.95 mn in 2003-04 to Rs. 43.95 mn

Note: Khadim India Limited consolidated its business with effect from 1 October 2004. So the performance of the Company reflects the benefit of the consolidation from the second half of 2004-05. In other words, Khadim India Limited's financial performance as reflected in its balance sheet and profit and loss account indicates unconsolidated numbers for the first half of 2004-05 and consolidated numbers for the second half of 2004-05. To provide readers with a credible basis of financial comparison in the non-statutory portions of the annual report, the Company's management has consolidated the numbers for the entire financial year of 2004-05 (based on actual performance) and compared them with the consolidated performance for 2003-04. However, the figures represent the consolidated financials for the whole year and the same have been compared with the consolidated financials of 2003-04 to make them comparable.

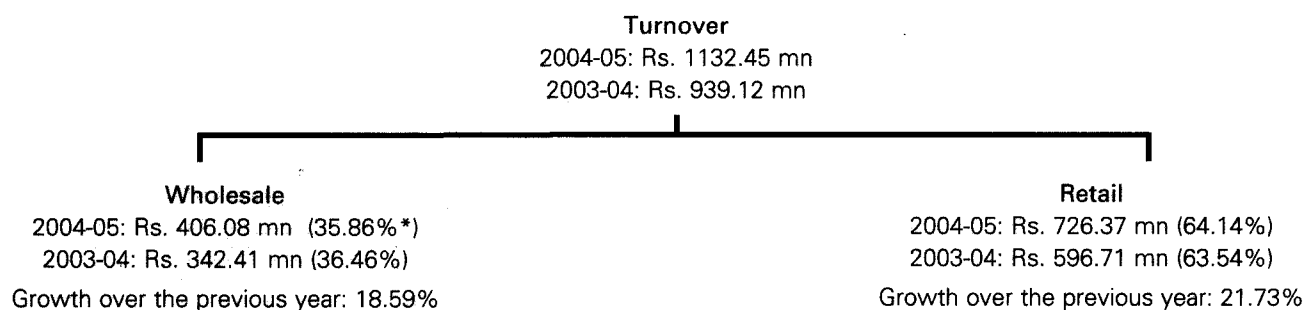
## Revenues

The Company registered a 20.59% growth in turnover in 2004-05 and a CAGR of 13.52% over the five years leading to 2004-05. A higher growth than the average of the last five years was delivered through the following initiatives:

- Organic capacity expansion
- Accelerated introduction of designs
- Introduction of new product segments
- Deepening the distribution within existing geographies
- Widening the distribution into new geographies
- Extension into a new retail format

- Revenue analysis by segment

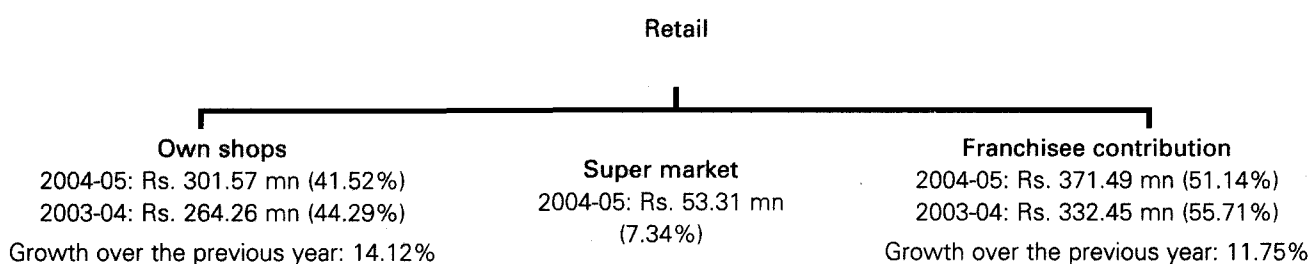
Khadim's derived its turnover from two streams – wholesale and retail - in 2004-05.



\* NB: These figures represent the contribution to the total turnover of the Company

- Revenue analysis by retail format

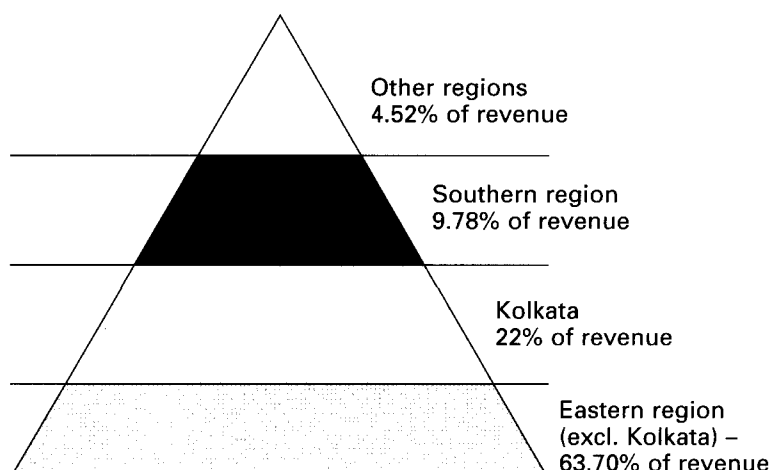
The Company's retail business – comprising owned shops and franchisee outlets – was its principal revenue earner, accounting for about 64.14% of its turnover in 2004-05. The Company introduced super stores to this segment during the year under review.



\* NB: These figures represent the contribution to the total turnover of the Company

- Revenue analysis by geography

Khadim's derived its turnover from a growing number of geographies in 2004-05. The Company derived more than 85% of its revenue from Eastern India (22% from Kolkata) and 9.78% from South India. The latter proportion is expected to increase substantially following the accelerated rollout of own and franchisee retail outlets over the near future.

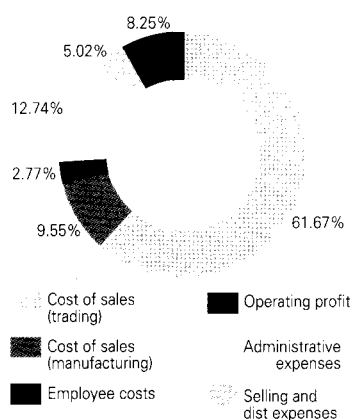




## Expenses

Trading (outsourcing and inward transportation payments) represents the principal cost for the Company, comprising 61.67% of the total revenue in 2004-05 (63.26% in 2003-04). Prudent cost management enabled the Company to rationalise its total expenditure as a proportion of the turnover.

### Expense break-up (%)



**Material cost:** While raw material cost increased by 18.05% in absolute numbers during the year under review, it declined as a proportion of turnover from 70.03% in 2003-04 to 68.55% in 2004-05. This was on account of the spiralling cost of crude oil translating into dearer polymer prices as well as an increase in raw leather costs. As the year progressed, the Company extended the option of multiple-vendorship in the sourcing of leather to polymers, resulting in a better financial proposition.

**Outsourcing costs:** The outsourcing model includes the movement of

finished and packed goods to the Company's premises and the semi-finished products for finishing, packing and branding. The Company continued to outsource principally from vendors in East India despite its increased presence in other geographic zones. Currently, the Company is reinforcing this dispersed marketing presence with the commissioning of distribution centres in these growing regions (North and South India) equipped with packaging support to despatch products faster into consumption points and eliminate their being routed to Kolkata for onward distribution. The Company maintained its policy to remunerate contractors on a piece rate basis, ensuring high productivity.

Logistics plays a critical role for the Company for an important reason: each region has diverse usage pattern, sizes and colours. Its improving supply chain management, being currently restructured through the advice of leading management consultants, will generate attractive results from 2005-06 onwards.

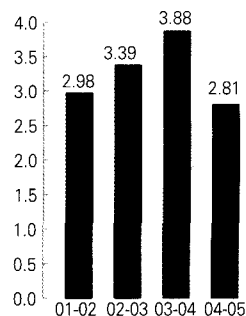
With the increase in the regional spread, the Company is now working on spreading its outsourcing hubs for efficient cost management and a faster supply chain. For this the Company is planning to set-up regional hubs, which will comprise outsourcing, packing and finishing expertise, thereby reducing inventory and logistics costs. Over the medium

term the Company will adopt a practice of regional merchandising as opposed to a centralised one being currently practiced.

**Mould cost:** The Company's designs are translated into footwear moulds created by international associates, supported by an in-house tool room for ongoing mould repair and maintenance, cost reduction and a quicker turnaround to address marketplace requirements.

**Employee cost:** Employee cost increased by 9.83% in 2004-05 to Rs. 31.56 mn following an increase in the number of employees consequent to the expansion of the manufacturing facility, increase in owned retail outlets and commissioning of the super store in 2004-05. As a forward-looking organisation, the Company linked employee remuneration to productivity and presence, incentivised through various awards for deserving employees.

### Turnover per employee (Rs. mn)



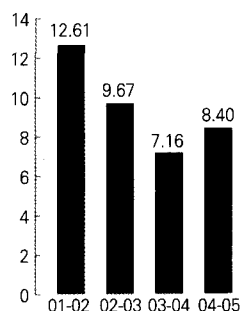
NB: The benefit of the growth in the employee strength is expected to yield significant results from 2005-06 onwards

## Margins

Despite increasing input costs, the Company strengthened its EBITDA margins from 7.16% in 2003-04 to 8.40% in 2004-05 and net margin from 2.87% in 2003-04 to 3.88% in 2004-05 through the following initiatives:

- Higher realisations
- Improved product-mix
- Larger volumes
- Stringent cost control

### EBIDTA margin (%)



This increase in the margin clearly vindicates the Company's outsourcing model.

The operating margins for the Company are expected to increase in the coming years. The Company is making a larger foray into the volume-driven super market business. In addition, the Company is expanding its retail outlets – strengthening its holding in East India and expanding its

geographic presence in other regions. This is expected to leverage volumes and increase capacity utilisation, derive economies of scale and thereby strengthen margins.

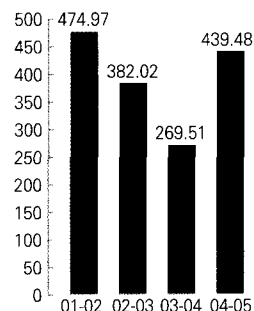
## Funding sources

**Equity:** The Company's equity capital comprised 3.1 mn shares with a face value of Rs.10 per share (as on 31 March 2005) of which 3 mn shares were issued by way of a capitalisation of free reserves. As per the Scheme of Amalgamation, the Company issued 56,39,308 shares to the shareholders of the transferor companies (allotment pending as on 31 March 2005). Following the allotment of these shares, the Company's equity capital at Rs. 87.39 mn.

**Reserves:** The lowest cost of funds, created out of operational accruals - represented the cumulative retained earnings used for business investments. Reserves increased substantially from Rs. 160.93 mn in 2003-04 to Rs. 310.52 mn in 2004-05 due to an increase in the retained cash flow and reserves arising out of amalgamation. During the last five years, the Company invested Rs. 371.54 mn in its business, of which 66.25% was financed out of accruals, translating into an improved

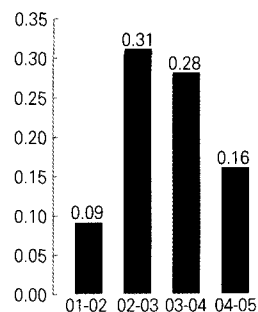
return on net worth.

Profits ploughed back into the business (Rs./mn)



**Loans and cost:** Loans increased from Rs. 115.13 mn in 2003-04 to Rs. 304.81 mn in 2004-05 to support the growing business scale. However, the Company's debt-equity ratio of 0.16 as on 31 March 2005 continued to be attractively low given its growing business volume.

### Debt-equity ratio



Over the years, the Company has consistently endeavoured to rationalise the cost of its borrowed



During the last five years, the Company invested Rs. 371.54 mn in its business, of which 66.25% was financed out of accruals



funds. It has swapped high costs loans with low coupon options, leveraged the corporate brand to negotiate for a lower coupon rate on existing loans. These initiatives enabled the Company to reduce the average cost of external debt.

The Company expects to leverage the benefits of the business consolidation and use a wider array of financial instruments to rationalise its coupon rate. The Company has drawn up a blue-print for an ambitious expansion comprising an extensive rollout of its own retail footwear outlets, sourcing hubs, warehousing facilities and super stores across more locations, which may entail the mobilisation of a larger debt outlay.

As a measure to reduce its interest cost, the Company plans to enlist for a credit rating, which will facilitate a better negotiation for the coupon rates on external funds. In addition, the Company plans to issue commercial paper to fund a part of its working capital requirements. These measures, the Company expects, will reduce its interest burden from 2005-06 onwards.

### Capital employed

In a capital-intensive business, the Company's fiscal efficiency is gauged by its ability to report a return that is higher than what investors would ordinarily have derived out of an investment in fixed income instruments. In line with this strategic direction, the Company graduated towards value-added products and a wider product introduction leading to enhanced income and profitability.

The Company's employed capital increased from Rs. 286.81 mn in 2003-04 to Rs. 471.76 mn in 2004-05, driven primarily by an increase in the earned reserves and reserves arising out of consolidation (81%), increase in share capital (14.40%) and a growth in borrowings (4.60%). It is to the

Company's credit that despite the large investments made, the Company increased its return on employed capital from 19.56% in 2003-04 to 19.70% in 2004-05.

This growth in the returns on invested capital transpired despite the fact that large investments were made in new segments, which are expected to start giving optimal returns only from the current financial year or later.

This increase in the employed capital was necessitated by growing investments in the following:

- New formats like a super store retail chain
- Increased rollout of owned shops in South, West and North India
- Capacity expansion of existing manufacturing lines
- Investment in new technologies for value-added products
- Launch of premium footwear

Over the medium term, the Company is expected to appreciably improve its capital employed: topline ratio from 41.66 in 2004-05 through a more effective sweating of the Khadim's brand:

- Increasing the franchisee network to capitalise on the consumer revolution and without a significant investment in financial resources.
- Changing the retail format from Khadim's to Khazana; this value for money proposition in the mass markets will offer 262,000 SKUs covering 10 categories that address a large share of the individual's wallet.
- Probable partnerships with hypermarkets and malls as purchases move from high-street shops to malls.
- Establish retail outlets close to the mall to capitalise on mall footfalls.
- Invest in malls for high footfalls.

The Company expects these investments to yield results over the medium terms and result in a

substantial growth in the return on invested capital from 2006-07 onwards.

### Fixed assets

The increase in the book value of fixed assets is a cumulative effect of the consolidation and certain acquisition of assets during the year.

In a volumes-led business, the management of the gross block influences profitability in a number of ways: a lower investment in gross block influences gearing and accelerates payback while a better utilisation of capacity translates into incremental margins.

Over the years, the Company has arrived at a prudent balance of owned and outsourced infrastructure in response to the governmental restrictions on size with reference to small scale industries and also in response to the need to liberate its own direct investments in the gross block leading to a productive allocation in brand building and productisation. As a result, the Company prudently outsourced the majority of leather products, marketed its brand names and selected to manufacture polymer-based products in-house attracting no restrictive limit. The outsourcing model has been a success strategy reflected in the increasing operating margins. Had the Company adopted the 'make' strategy instead of the 'buy and make' option, the Company's gross block would have been significantly higher in terms of space (within the city limits, an expensive investment), machines and expensive skilled manpower to achieve scale in footwear manufacture.

Over the years, Khadim's increased its investment in production assets: from Rs. 2.45 mn in 2000-01 to Rs. 132.22 mn in 2004-05, with Rs. 11.58 mn transpiring during the financial year under review. The

Company's gross block primarily comprised manufacturing equipment and facilities at Kasba Industrial Estate in Kolkata and the outright purchase of commercial space for commissioning its own shops.

**Depreciation:** The increase in the book value of fixed assets translated into a higher depreciation provision by 36.30% over the previous year to Rs. 21.03 mn. For depreciation on fixed assets acquired on amalgamation of Aar Ess Land Development Pvt. Ltd., Colt Enterprises Pvt. Ltd., Khadim Holdings Pvt. Ltd., Khadim Industries Pvt. Ltd. and Khadim Shoe Pvt. Ltd., and on the new investments made during the year under review, the straight-line method of depreciation was applied. For other assets, depreciation was provided at rates under the Written Down Value Method. However, the Company plans to review this dual calculation approach and consider providing for depreciation as per the uniform straight-line method on all assets from 2005-06 onwards.

## Investments

The responsibility with which the Company manages its short-term surplus determines its long-term direction. For an important reason: the Company is at an inflection point in its history where every rupee invested in the business will generate a higher return over the medium term.

To estimate resource requirements accurately, the Company maintained a periodic cash budget position enabling it to identify present and prospective inflows and outflows. All long-term operational surpluses were reinvested in the core business and compulsory tax saving instruments. An adequate

safety margin was maintained to address unexpected resource requirements.

## Working capital

In the business of manufacturing leather products and polymer-based footwear, the role of working capital is critical to the profitable running of the business for the following reasons:

- A large inventory of finished products needs to be maintained across a wide distribution network.
- A large proportion of the offtake is seasonal primarily in the festive seasons, necessitating the stocking of finished products over a period of time.
- Advance payments need to be made for the purchase of quality raw material.
- The wholesale segment of the business attracts an extended credit period.
- Dealing with various customer segments enhances the unpredictability of the receivables cycle.

The Company strengthened its working capital management through the prudent segregation of its products across strategic business units, resulting in a stronger focus on fiscal efficiency and a healthy current ratio of 1.11 in 2004-05.

**Inventory:** At Khadim's, inventory management is a critical driver of working capital efficiency due to the need to maintain a large product range across different colours and sizes across time. Over the year, the investment in inventory increased on account of a strategic decision by the management to marginally

overprovide as a hedge against any stock-out across its distribution chain, its entry into super stores and gold retail. As a result, inventory increased from Rs. 54.28 mn in 2003-04 to Rs. 154.21 mn in 2004-05; this corresponded to an increase in the inventory cycle from 20.88 days of turnover in 2003-04 to 49.38 days in 2004-05.

The Company is adopting a hub-and-spoke model for its distribution model in new geographies. This model requires the Company to set up a number of its own showrooms initially for incentivising the franchisees. This temporarily necessitated an increased stock and working capital cost, the cost of entering new geographies. Once established, it is estimated that the inventory cycle is expected to stabilise at 70 days of turnover by 2006-07.

**Debtors:** In a business that deals with around 700 buyers (franchised retailers and wholesale buyers) across a large geographic area, the Company must sell with a certainty that its debtors will remit proceeds on schedule. Any disruption can inflate working capital requirements and, in turn, drive up the cost of funds for the Company.

The Company has intelligently segregated its marketing approach – products sold against upfront payment (leather-based, retail) and products (polymer-based, wholesale) entailing credit.

Debtors for the Company arise primarily from distributors comprising close to 34% of the Company's business (a decline from 60% of revenue in the late 90s). Prudently, the proportion of business that generated immediate resources

comprised a healthy 55% of turnover in 2004-05.

**Loans and advances:** These advances declined by Rs. 7.85 mn in 2004-05 over the previous year. These comprised advances with Income Tax authorities, fixed deposits to land owners for the rented commercial space for its own retail outlets and advances given to others. The Rs. 22.50 mn advances for the properties of the Company are likely to be adjusted/received by 2005 end.

**Cash and bank balances:** The cash and bank balances increased from Rs. 88.15 mn in 2003-04 to Rs. 96.81 mn in 2004-05. The growing cash balance in the Balance Sheet was primarily on account of the fixed deposits compulsorily maintained for the overdraft facility availed by the Company. As a prudent hedge against unforeseen requirements, the Company maintains cash equivalents to 34 days of its expenses.

**Creditors:** The creditors primarily comprised quality raw material suppliers supplying directly to the Company's manufacturing facility as well as outsourcing partners, warranting prompt payments. Thanks to a better negotiation, the Company

extended its creditor cycle from 33 days (as on 31 March 2004) to 50 days (as on March, 2005), increasing its working capital efficiency.

### Tax management

The consolidation of the business was largely tax neutral and therefore the corporate tax status remained unchanged. Tax provisions made during the year were at an effective rate of 36.60% as per the applicable laws, translating into a provision of Rs. 13.98 mn on account of current tax and Rs. (1.29) mn towards deferred tax in 2004-05 (Rs. 14.94 mn and Rs. 2.03 mn respectively in 2003-04).

### Government duties and taxes

As per Chapter 15 of the Central Customs and Excise Section of the Union budget 2003 "labeling or re-labeling of containers and repacking from bulk packs and adoption of any other treatment to render the product marketable to consumer, amounted to 'manufacture' vide Clause 147 of the Finance Bill, 2003. Therefore, companies who sought to outsource and brand their products (like Khadim's) were required to pay a

16% excise duty if the maximum retail price of their products exceeded Rs. 125 from 2003-04 onwards. This floor limit was later revised to Rs. 250 from July 2004. This upward revision resulted in a notional saving of Rs. 35.50 mn for Khadim's in 2004-05.

Additionally, the Company's products attracted sales tax, which varied from state to state. It would be relevant to indicate that the Company emerged as one of the largest excise and sales tax payers in the footwear industry in Eastern India.

### Forex transactions and management

The Company entered into forex transactions for the import of capital goods from Italy and the procurement of moulds from China during the year under review. While there were no forex earnings by the Company during the year under review, such earnings are expected to materialise in the current financial as the Company commenced exports of footwear to US, EU and UAE, filed for the registration of its brands in more countries and entered into understandings for offtake of its products overseas.



Khadim's is adopting a hub-and-spoke model for its distribution model in new geographies



# OUTLOOK AND OPPORTUNITIES

The outlook for Khadim's is optimistic as the Company is present in the right place with the right products targeting the right population segment with the right offerings

**Middle-class overview:** Since inception, the Company has focused singularly on delivering a compelling price-value for the vast and aspiring Indian middle-class for the following reasons:

- It accounts for 23% of India's population (241 mn people) but accounts for more than 42% of the country's consumption expenditure (Rs.3,025,340 mn), higher than any of the comparable segments
- It represents the largest such income segment in the world

**Disposable incomes:** In 1995-96, 80% Indian families earned less than 90,000 per annum; in 2001-02, this declined to 72% and by 2010 it is expected to decline further to 51%. Only 3% families earned between Rs. 2—5 lakh in 1995-96; this doubled to 6% in 2001-02 and is expected to be 13% by 2010. The number of households with incomes of over Rs. 45,000 per annum is expected to grow from 58 mn in 1999-2000 to 81 mn by 2005-06. The Company's widening product range is expected to capitalise on this evolution.

**Growing size:** Increased literacy – from 52.2% in 1991 to 65.4% in 2001 – will drive the earning capacity of the Indian middle class, reflected in the government's educational spending increasing 12-fold in the last 10-15 years and catalysed by the government's decisive goal of at least eight years of education for every Indian by 2010 (source: Department of Education). This earning capacity will inevitably translate into an enhanced consumption of footwear on the grounds of health and hygiene.

**Demographics:** Seven out of 10 Indians are under 35 years. India is slated to overtake China by 2025 and have almost 1.6 bn inhabitants, making it the most populous nation (source: The Times of India). An average age of 26 will make India the world's youngest nation with the largest workforce by 2020. Interestingly, global wealth will decline sharply from USD 85 trillion currently to USD 54 trillion by 2025 (source McKinsey), while the opposite is likely to transpire in India and China. In India, this improvement is expected to be derived from its demographic structure: about 37.25% of India's

population, presently under 15 years of age, will be of the order of 312 mn by 2025 and in the prime saving age of around 35 years.

**Mindset:** There is a significant transition in the national mindset. A Synovate Pan Asia Cross Media Survey indicates the following:

- 62% of the Indian are willing to pay more for enhanced quality
- 56% of the Indian masses prefer well-known brands
- 54% purchase new products to make life more enjoyable

This represents the basis of the Company's optimism with regard to increasing investments, widening product portfolio and a stronger branding.

**Retail growth:** India is the second largest retail market in the world after China. The Economist Intelligence Unit estimates the retail market in India to grow from USD 394 bn in 2005 to USD 608.9 bn in 2009. The National Council of Applied Economic Research forecasts an increase in the number of consumers from 46 mn households in 2003 to 124 mn

households by 2012. At present, organised retailing accounts for 3%, with the top six Indian cities accounting for 66% of the total organised retailing and the top 10 retailers accounting for just 2% of the total market. However, organised retail is expected to grow to 20% by 2008 (source: KSA Technopak) and the apparel industry (of which footwear is an extension) is expected to grow 13% a year in value (source: AT Kearney).

**Suburban market:** It is estimated by NCAER that about 75% of India's 'sheer rich', 64% of clear rich and 58% of near-rich live in 67 neomarkets (non-metro). Interestingly, the proportion of the 'middle' income households in non-urban India has increased from 32.2% in 1989-90 (just prior to liberalisation) to 62.3% in 2005-06, the largest structural shift across any income segment across urban or non-urban India, representing a stronger case for investing in formats customised to these locations. While urban incomes are growing at 3.2% per annum, non-urban incomes are rising 4.5%. The non-urban middle class (Rs. 2—10 lac a year) is expanding from 35% of India's 60 mn middle-class (2001-02) to 33% of India's 154 mn middle-class (estimated, 2009-10).

Household incomes in non-urban India

Year	Low	Middle	High
1989-90	67.8	32.2	0.6
1994-95	61.3	37.0	1.6
2001-02	42.7	53.7	3.6
2005-06	32.5	62.3	5.2

**Location:** There has been a significant turnaround in West Bengal, the Company's principal revenue provider (about 85% of income in 2004-05).

- West Bengal was the best performing in terms of GDP growth: a

15% growth from Rs. 918.37 bn in 2001-02 to Rs. 1058.07 bn in 2003-04, the second highest growth during the period in India.

- LIC sold the highest number of its 'future plus' policies, almost 25% of the total unitised pension plan, in east India. The Howrah division in West Bengal emerged as the largest among all divisions in the country (source: *The Economic Times*, 30th April 2005).

- West Bengal received a higher share in the aggregate (IEMs) filed in the recent months. Of the 1561 Industrial Entrepreneur Memoranda filed between January and March 2005, the state with 119 was also the third in the country.

- Of the 32,258 new jobs created in 2004, 5,294 or 16.4% were in West Bengal (source: *The Economic Times*, 17th August 2005)

The Company is extending to South and West India for the following reasons: these states contribute more than 50% to India's GDP and account for around 40% of the FDI into the country; the South is the IT hub of the nation while the West is India's financial hub; the literacy rate in these regions is significantly higher than the national average.

Non-urban markets:

- Rural India buys products more often (mostly weekly)

- Buys small packs, low unit price more important than economy

- Distribution and pricing are the mantras to success in rural India

- In rural India, brands rarely fight with each other, they just have to be present at the right place

- Many brands are building strong rural base without much advertising support

- Fewer brand choices in rural: number of FMCG brand in rural is half

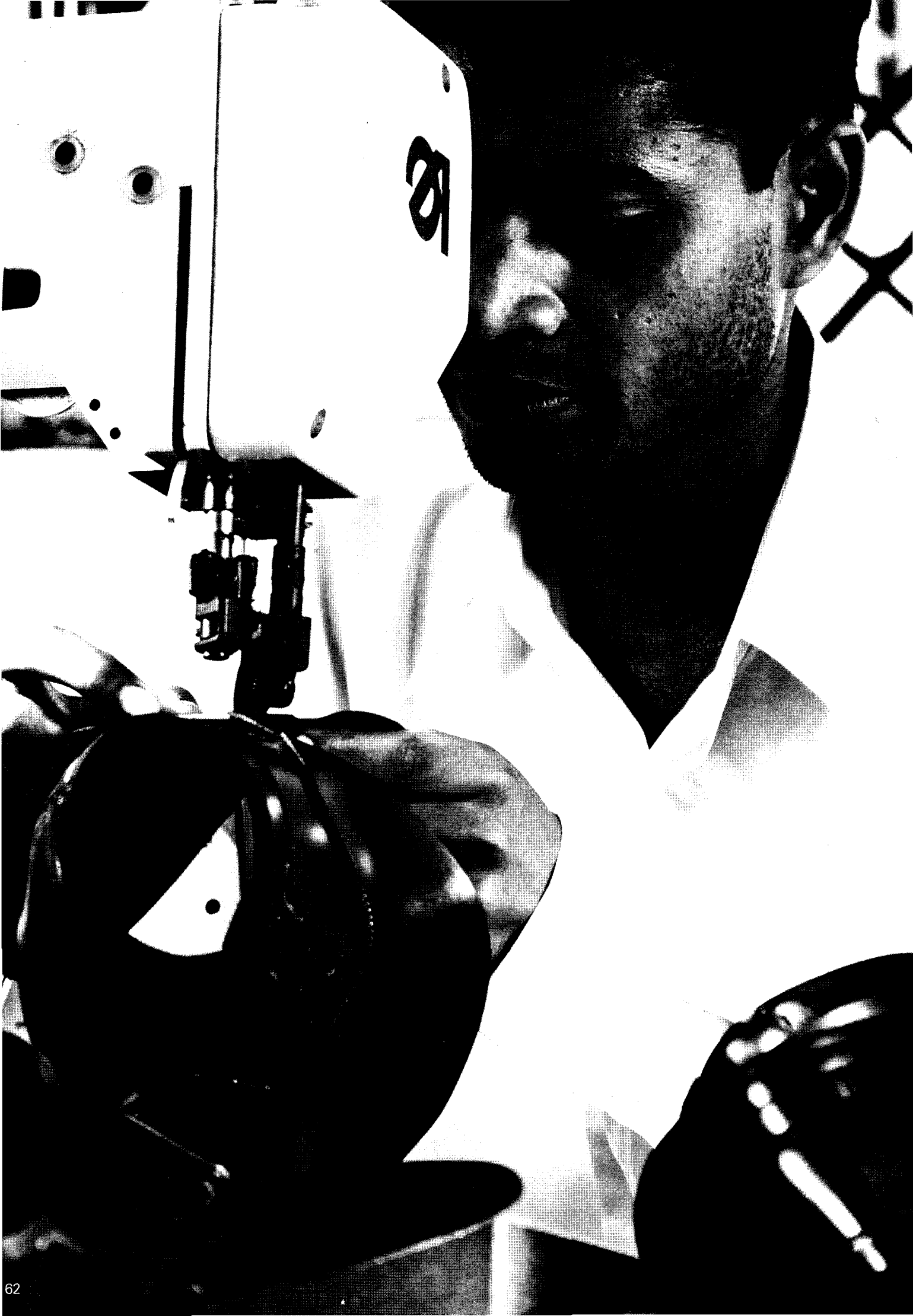
that of urban

- Rural consumers prefer value-for-money, not cheap products

**Malls and super store:** Even as India's 25 operational malls in 2003 are expected to grow to over 220 malls by 2006-end (cumulative estimated space of 40 mn sq ft) and 600 malls by 2010 (100 mn sq ft), the phenomenon is expected to remain largely urban, creating a large suburban opportunity. Khadim Khazana is a pioneering venture to address this gap, generating revenue of Rs. 53.31 mn in its first six months of operation ending March 2005. Enthused by the power of the rural consumer, the Company will roll out more super stores to other suburbs within the state.

**Industry:** The per capita footwear consumption in India, the second most populous nation, is a mere 1.1 pairs and comprises only 3.5% of the household expenditure. Even a marginal increase can transform the size of the footwear industry. For instance, the proportion of India's population in the poverty bracket declined from 55% in 1973-74 to 36% in 1993-94 to 26% in 1999-2000, accelerating footwear offtake. Besides, the image of Chinese footwear, which accounted for a considerable share of the Indian footwear market, is associated with sub standard quality, creating a significant opportunity for organised local brands.

**Outsourcing:** Being a labour intensive process, the Indian footwear industry represents a significant global wage arbitrage opportunity. As an extension, India is the second largest exporter of footwear in the world. Correspondingly, leather exports grew from USD 949 mn (April - August '2004) to USD 1,006 during the same period in 2005.



# RISKS, CONCERNS AND THEIR RESPONSIBLE MANAGEMENT

## Overview

Risk is an expression of the uncertainty about events and their possible outcomes that could have a material impact on the performance and prospects of the Company.

As a risk-mitigating organisation, Khadim's is committed to its proactive awareness, appraisal and action.

At the heart of this mitigation is a comprehensive and integrated risk management framework, which comprises prudential norms, structured reporting and control. This approach ensures that the risk management discipline is centrally initiated but prudently decentralised, percolating to line managers and helping them mitigate risks at the transactional level, the most effective form of risk management.



## RISKS COMMON TO THE FOOTWEAR INDUSTRY

Risk description	Risk mitigation	Mitigation measurement
<p><b>Industry risk</b></p> <p>The Indian footwear industry may cease to be attractive.</p>	<ul style="list-style-type: none"> <li>• India's per capita footwear consumption a low 1.1 pairs and consumer spend on footwear a mere 3% of family income, waiting to correct</li> <li>• Offtake accelerating due to increasing disposable incomes</li> <li>• Urbanisation accelerating the migration from open to closed footwear</li> <li>• Greater multiple ownership per individual driven by functionality and fashion</li> </ul>	<p>The Indian footwear industry has been growing annually at close to 10% over the last five years, faster than other industry segments</p>
<p><b>Competition risk – international</b></p> <p>Global brands entering India are increasing.</p>	<ul style="list-style-type: none"> <li>• International brands focus on rugged and casual shoes with a low presence in <i>leather</i>.</li> <li>• Price segments addressed by the international segment and Khadim's are mutually exclusive</li> <li>• International shoe brands present at the high end, starting from Rs. 2,200 per pair upwards; Khadim's present upto Rs. 1,700 per pair</li> <li>• International brands focus on the upper segment of the middle-class and upper income segments; Khadim's addresses the middle-class</li> <li>• International brands focus on metro locations; Khadim's is growing in India's neomarkets</li> </ul>	<p>Khadim's has grown its business scale in every year over the last ten years of its existence.</p>
<p><b>Competition risk – domestic</b></p> <p>Unorganised competitors enjoy tax and other fiscal advantages resulting in an ability to undercut organised players.</p>	<ul style="list-style-type: none"> <li>• Prudent Khadim's positioning between the organised and unorganised sectors, which is relatively under populated</li> <li>• Wider Khadim's product portfolio (leather and non-leather) than the unorganised sector</li> <li>• Differential between Khadim's and unorganised sector pricing not significant enough to deter offtake</li> <li>• The considerably superior Khadim's price-value proposition a big competitive edge</li> </ul>	<p>Khadim's (consolidated) has outperformed the industry CAGR of about 10% (five years leading to 2004-05) with a 13.52% growth over the same period.</p>

### Risk description

#### Design mortality risk

The Company's products may be cannibalised by competing or proprietary products, making investments in moulds and brand building useless.

#### Product mortality risk

Rapid technology changes may make the Company's significant investments in product lines obsolete.

### Risk mitigation

- Accurate assessment based on what (in terms of colour, texture and style) will sell in what region derived out of a rich four-decade intellectual repository
- Alignment with ongoing global and national fashion trends
- Ability to make its own products obsolete through aggressive introduction of new designs
- Greater proportion of investment in areas – leather products for instance - that have demonstrated their durability over decades
- Close understanding of international trends with a reference to consumer price-benefit proposition, helping the Company proactively enter or exit product segments

### Mitigation measurement

The Company increased its active SKUs from 3,100 in 2003-04 to 3,796 SKUs towards the close of 2004-05

As consumer preference evolved from PVC to EVA products; Khadim's invested in EVA technology and capacity to shrink payback; it adapted the PVC capacity to manufacture other products.

## RISKS FACED IN OPERATIONAL ACTIVITIES

#### Outsourcing risk

Slackness in the outsourcing chain – outside the Company's control – could affect timeliness and prevent the Company from encashing opportunities in the marketplace.

- Tried and tested outsourcing model across four decades by the Company
- Vendors treated as business partners leading to corresponding win-win growth
- Vendors integrated into product development, enhancing a sense of belonging
- Outsourcing discipline managed by a dedicated team to review timeliness continuously through a documented material delivery system
- Outsourcing discipline enforced through incentives for comprehensive compliance – and vice versa

Khadim's vendor base has increased significantly over the last five years, to seamlessly manage its volume-led growth indicating its outsourcing efficiency.

#### Outsourced product quality risk

A poor quality control in the outsourcing chain – again, outside the Company's control – could destroy the Company's brand.

- Documented and ratified production process, resulting in quality stability and predictability
- Direct or controlled raw material supply to vendors, resulting in product integrity
- Direct presence of quality control personnel at the vendor's site to appraise quality at intermediate production stages
- End product quality control comprising various tests prior to despatch

Rejections have declined considerably; repeat business from renowned clients forms a sizeable share of the Company's revenues.

## Risk description

### Raw material risk

An increase in raw material cost could dent the Company's superior price-value.

## Risk mitigation

- Raw material accounts for 68.55% of realisations, an adequate buffer against any prospective price rise
- Raw material use is spread across leather (40% of the product) and polymers (60% of the product)
- Active networking with members of the Plastic Association has facilitated a comprehensive industry understanding resulting in proactive hedges
- Purchase of large raw material quantities across the long-term has translated into competitive prices and assured availability
- Close working with technology providers has resulted in better productivity and waste management

## Mitigation measurement

In spite of an unprecedented increase in polymer prices and leather prices in 2004-05, raw material cost as a proportion of the turnover declined by 2.11%.

### Logistics risk

The Company may not be able to get the right material at the right time to the right place. This risk enhances as the Company ventures more and more outside its home ground.

- Set up an integrated merchandising division to deal with efficiency and effectiveness across the supply chain
- Created a 'hub and spoke system' for effective sourcing and distribution
- Set up a network of regional distribution centres for efficient storage and timely delivery of material to channel partners
- Built outsourcing partnerships across the country and strengthened existing partnerships

These initiatives are expected to reduce the per unit logistic costs considerably, improve dependability with an increasing presence across states – from 17 states in 2004-05 to 28 states in 2009-10.

## RISKS LINKED TO PRODUCT INNOVATION

### Product development risk

In a footwear industry marked by shrinking fashion tenures, the inability to innovate designs with speed could result in a loss of mind space and market share.

- The Khadim's outsourcing model helped create a product development family larger than what the Company could have organically created
- Channel partners provide invaluable feedback on emerging trends, enabling a shorter mind-to-market
- The outsourcing model has liberated organisational resources to focus on evolving preferences, productisation and branding
- Khadim's product development team surveys various European and other markets to identify developments in styling and designs and bring them to the Indian consumers at the earliest

The Company has introduced an increasing number of SKUs each year across the last five years.

Risk description	Risk mitigation	Mitigation measurement
<p><b>Risk of violation or misuse of IPR</b></p> <p>Since a large part of product design, development and manufacture is conducted outside the Company's premises, Khadim's designs could be pilfered, compromising its position in the marketplace</p>	<ul style="list-style-type: none"> <li>• Stronger IPR initiative driven by a dedicated team of qualified professionals</li> <li>• Registration of moulds (on the basis of which products are manufactured) with appropriate Indian authorities</li> <li>• Product development directed at making own designs obsolete through the accelerated introduction of new ones</li> </ul>	<p>The Company has successfully contested a number of IPR cases over the last five years</p>

## **RISKS ASSOCIATED WITH THE MARKETING FUNCTION**

<p><b>Distribution risk</b></p> <p>The Company's distribution pipeline may result in a slow throughput or products not occupying relevant shelf space.</p>	<ul style="list-style-type: none"> <li>• Prudent segregation of distribution channel based on product nature</li> <li>• Low cost, high volume products (hawaiis, PVC footwear) distributed through wholesalers and dealers resulting in maximum coverage; value-added products distributed through owned and franchised retail outlets</li> <li>• Systematic initiative to build visibility as a 'value for money' footwear brand in virgin territory</li> <li>• Preference for commissioning owned stores in unrepresented locations, followed by franchised stores</li> </ul>	<p>Right product for the right audience at the right time has resulted in an increasing increment of sales (by volume and value) over the last five years.</p>
<p><b>Coverage risk</b></p> <p>An inadequate geographic coverage could result in creating opportunities for competitors.</p>	<ul style="list-style-type: none"> <li>• Owned and franchised approach effective in covering markets with quickest speed</li> <li>• Coverage of all consuming centres of West Bengal through owned-franchised-remarketing approach</li> <li>• Direct and indirect presence in every Bengal town with a population in excess of 3,00,000</li> <li>• Extension of its successful Eastern India model to South India with 14 retail outlets respectively. Aggressive roll out of retail outlets planned in West and North India</li> </ul>	<p>Khadim's possesses the largest retail footwear network in Eastern India, significantly ahead of its competition; South India accounted for 9.78% of revenues in the first year of operations (2004-05)</p>
<p><b>Geographic risk</b></p> <p>The Company's significant presence in East India could be a risk in the event of inadequate market growth.</p>	<ul style="list-style-type: none"> <li>• East India accounts for the largest proportion of suburban population across any zone in the country, the right demographic composition for a middle-class focused Company like Khadim's</li> <li>• Extension from a significant presence in East India to other zones as well</li> <li>• Nascent but growing global exposure in US, EU and the UAE</li> </ul>	<p>Reduction of a dependence on East India evident from a declining share in the revenue basket – from a 100% revenue source a few years ago to 85% in 2004-05. In addition, the Company's rollout initiatives across other regions; (South, West and North India) is expected to contribute significantly to its topline over the medium term.</p>

### Risk description

#### Franchisee viability risk

A decline in franchisee profitability could lead to franchisee attrition, distribution shrinkage and a staggered corporate growth.

### Risk mitigation

- Channel partner-centric business strategy
- Promotional intensity translating into footfalls for franchisees
- Attractive product range to generate wider interest
- Attractive pricing strategy translating into a high conversion of footfalls into buyers
- Quick SKU replenishment directed at generating an attractive return on the franchisee's invested capital

### Mitigation measurement

Franchisee outlets increased from 70 in 2001-02 to 167 in 2004-05; income from franchised outlets grew from Rs.102.50 mn to Rs. 159.07 mn over the same period, endorsing the viability of the franchised model.

#### Trends risk

The gradual replacement of high street shops by malls as preferred shopping destinations could jeopardise the interest of the Company's significant investment in standalone retail outlets.

- Anticipation of the changing retail format and proactive modification of the marketing strategy to match the changing consumer trend.
- Proactive strategy customised separately for the suburban and urban markets
- Strategy of commissioning super stores in suburban markets and strategy of collaborating with hypermarket chains in urban locations
- Strategy for setting up retail stores in the vicinity of malls to ensure higher footfalls

This will enable the Company to be in places just where their consumers want them over the medium term.

#### Brand visibility risk

An inadequate promotional spending or brand strategy could result in an inadequate share of voice in a cluttered marketplace.

- Investment of Rs. 230.07 mn in promotional spending in the five years leading to 2004-05
- Prudent leverage of the print, hoarding and electronic media
- Focus on creating a consumer pull as opposed to a product push
- Emphasis on superior price-value
- Investment in a different brand for its superstore to prevent any confusion with the Khadim's brand proposition

The Company's topline has grown at a CAGR of 13.52% over the last five years, while its advertisement to sales ratio has fallen from 8.17% to 5.80%.

## **RISKS ASSOCIATED WITH THE FINANCING OF THE BUSINESS**

#### Funding risk

The Company may not be able to mobilise low cost funds

- Consolidation of six group entities into Khadim India Limited to enhance financial muscle and reduce risk perception
- Reduced its long-term debt from Rs. 539.06 mn to Rs. 497.60 mn in 2004-05, improving its capacity to leverage this financial strength over the medium term
- Working in a multi-banking arrangement with four banks

Debt-equity ratio was 0.16 in 2004-05, an adequate room to mobilise additional funds.

### Risk description

#### Receivables risk

In a business where one is marketing leather products to a growing family of franchisees and wholesalers in a competitive marketplace, any slowdown in receivables could upset the Company's working capital cycle and affect profitability.

### Risk mitigation

- Despatches to franchisees are made only against the receipt of the full consideration in advance
- The despatch of non-leather products to wholesalers are being made against a receivables cycle shorter than the industry benchmark
- Wholesaler receivables are subjected to an ageing analysis and ongoing scrutiny, resulting in a quicker recovery
- Fresh material is despatched only following a liquidation of dues beyond a stipulated benchmark
- Adequate security deposit is mobilised from new dealers distributors and franchisees

### Mitigation measurement

The Company's average receivable cycle of only 34.83 days in 2004-05 was among the lowest in the industry.



# Directors' report to the members

The Board of Directors of your Company ("the Board") have the pleasure in presenting the annual report on the business and operations of your Company, together with the audited statement of accounts for the financial year ended 31st March 2005. The Company has undertaken a series of corporate initiatives in the past few months, the details whereof, are laid out in the forthcoming paragraphs.

## Amalgamation of five group companies with the Company

You are aware that, in line with the intent of the Company to become an all-India footwear and retail superstore business house the businesses of the various group companies engaged in footwear and retail business needed to be consolidated.

The Board is pleased to inform you that the scheme of amalgamation of the five group companies, namely Khadim Shoe Private Limited, Khadim

Industries Private Limited, Khadim Holdings Private Limited, Colt Enterprises Private Limited and AAR ESS Land Development Private Limited with the Company, has received the approval of the Hon'ble High Court at Calcutta, vide its order dated 22nd June 2005 ("the Order for Amalgamation") the certified copy of which was received on 19th July 2005 and filed with the Registrar of Companies, West Bengal, on 24th July 2005.

As per the scheme of amalgamation, the amalgamation takes effect from 1st October 2004.

Accordingly, the financial results of your Company relates to the balance sheet as at 31st March 2005 and the profit and loss for the financial year 2004-05 including the financial result of the merged entities arising during the six months i.e. between 1st October 2004 and 31st March 2005. The annual accounts attached with this report have been drawn up in

accordance with the requirements of the Companies Act, 1956, read with the notes thereon.

## Change in status and name

The Board would like to share, with equal pleasure, the fact that the Company has been converted into a public limited company with effect from 24th June 2005. Concurrently, the name of the Company has been changed from Khadim Chain Stores Limited to Khadim India Limited with effect from 26th August 2005 to stress the Company's focus to emerge as an all- India player in the footwear and the superstore business.

## Increase in authorised capital

The authorised share capital of the Company has been increased to Rs. 2500 lakhs from the existing Rs. 500 lakhs to enable it to issue 56,39,308 equity shares to the shareholders of the transferor companies.

## Financial highlights

	<i>In Rs. lacs</i>
	<b>31st March 2005</b>
Sales and other income	7195.20
Profit before taxation	213.52
Profit after taxation	206.64
Proposed dividend	-
Transfer to general reserve	-
Balance brought forward from earlier years	536.05
Balance carried to balance sheet	742.69

## Performance

Since the consolidation of the group companies has taken place with effect from 1st October 2004, a discussion on performance encompasses that of the merged businesses to make the information relevant in the current context. As such the information is not comparable with the operations in the previous accounting period.

## Footwear and accessories

The product off-take of footwear business during the year in terms of pairs was Rs. 59.38 lakhs. The Company has taken adequate steps to enhance the product off-take and expects to take it to approximately 100 lac pairs in the current financial year.

## Procurement and outsourcing

To cater to the fast changing world of fashion, design and choice, your company follows the conventional method of having a mix of "made and bought". This helps serve the market with a wide variety of products without manufacturing them all at your Company's facility, so that there is a lower chance of obsolescence. This is where the procurement and outsourcing function plays a major role.

The procurement process followed by the Company is time tested and has been fine-tuned over the years to yield the best result. The vendors are

treated as an integral part of the Company and are provided with assistance of all kind; be it up-gradation of their manufacturing processes or the sharing of market information with them. This, in turn, helps the outsourcing process in its entirety, thereby adding immense value to the end users of the products.

The Company always endeavours to strengthen its quality control standards of raw materials. Moving backwards, across the supply chain, the Company has set standards with raw material manufacturers to ensure the availability of standard inputs to its vendor base.

Procurement being the backbone of the footwear business, we are planning regional procurement centres in some key footwear hubs so that over and above the volume-based procurement, we can start micro-buying in order to cater to the regional preferences.

## Manufacturing

During the year under review, new manufacturing processes were introduced to cater to the export as well as the domestic market. The installation of an assembly line for the production of 'stuck on' shoes was in the process of implementation on 31 March 2005. This has since been commissioned successfully.

The Ethyl Vinyl Acetate (EVA) injection plant has also been installed with

state-of-the-art technology procured from Taiwan. This plant has started the production of colourful EVA slippers, which will augment the market share of the Company in the "value for money" footwear segment. During this period, various new products have been introduced in the EVA segment apart from the regular addition of new product lines in the PVC segment.

As an integral part of our commitment to deliver quality products, various programmes have been conducted to train workers adequately. Recently, the manufacturing division was awarded the ISO 9000:2001 certificate. This speaks volumes about the quality initiatives of the Company.

With the consolidation of the group companies, the manufacturing activities of the Company are expected to experience a fillip, as the business will be conducted in a much more focussed manner.

## Exports

During the period under review, the export activities of the Company have been flagged off satisfactorily. Our teams have been participating in various trade fairs in foreign countries to get an awareness of the opportunity and markets. A visit to the UAE helped us bag major export orders and reap the benefits, both in terms of value and brand image.

We have also lined up marketing operations in the USA, UAE and EU,



accordingly, shipments of footwear, leather goods and accessories have already commenced as on the date of this report.

The feedback received from overseas businesses and prospective customers indicate a huge opportunity in exports, which, in turn, will result in a global visibility of the "Khadim's" name as a reliable provider of quality footwear and leather products.

## Logistics

During the year, the Company took several measures to streamline its logistics' function to cater to more retail footwear outlets in the country. Services of some leading consultants as well as premier research-based institutions were engaged to review the systems and procedures involved in the product movement, both inbound and outbound, and to suggest solutions to streamline the entire supply chain. The Company is in the process of implementing some of the suggestions arising out of these initiatives.

## Brand

The Directors take pleasure in informing that during the period under review, your Company took a great leap forward in enhancing the visibility of the brand in national as well as global footwear markets. Innovative communication campaigns were launched in the national level in electronic, print, outdoor as well non-conventional media with the aid of some of the leading brand consultants as well as media agencies.

The house brand "Khadim's" was registered with the respective intellectual property rights authorities in India, Sri Lanka, Bhutan and applications for registration of the brand was pending in the United States of America, European Union and United Arab Emirates.

Also among other sub brands, "British Walker", a premium brand for leather footwear directed at the North American markets, was pending registration in the United States of America.

The Company obtained design registration for quite a few unique footwear products developed by it.

## Superstores

In line with the Company's plan to roll out retail formats in the district towns to offer a lifestyle shopping experience to the consumers, the first superstore of the Company styled as Khadim's Khazana was launched in Kanchrapara during the year under review. The superstore performed to the expectations. The consumers reacted enthusiastically to the modern format and Khadim Khazana at Kanchrapara has emerged as a hallmark of reliability and economy. The store created substantial employment, both direct and indirect, in and around the location. The format provides a wide range of products of daily needs in garments, cosmetics, home furnishing, imitation jewellery, shoe, grocery and other segments.

As a part of its retail initiatives, a retail outlet for gold and other jewelleryes

styled as "Sona Khazana" was also introduced under the "shop in shop" concept in the Kanchrapara format. It offered classical and modern designs of gold jewellery with 100% hallmark certified gold.

In addition, a new food court was launched as a part of the Kanchrapara format, which has helped in increasing the footfall.

The Khadim Khazana, Kanchrapara, has just completed one full year of operations clocking a turnover of Rs.1185 lakhs during the first 12 months ended on 17 September 2005. The performance of the format has been steadily improving and it is expected to break even in the near future.

In the coming years we are contemplating to roll out more retail superstores both in the Khazana format and in other formats.

## Future

### Footwear

In line with the company's expansion plan, several own retail outlets are expected to be opened throughout the country in a phased manner over the next few years. This will address the Company's objective of emerging as an Indian footwear brand in the true sense. Recently, in addition to over 200 existing own and franchise retail outlets, the first own retail outlet in Gujarat was been opened at Alkapuri, Vadodara (Baroda). Following the rollout of the Company owned outlets in other parts of India, the network of franchise outlets will also

be expanded throughout India.

#### Superstores

In the superstore segment, the Company has plans to enter the district towns of West Bengal by replicating the model of Khadim Khazana (Kanchrapara).

#### Infrastructure

The Company has acquired a new corporate office in Kankaria Estate on 6, Little Russell Street, Kolkata and is expected to shift there shortly. The Company is also considering the setting up of new regional offices and distribution centres.

#### Human Resources

The Directors have pleasure in informing that your Company, true to its tradition, has excelled in contribution from the young, energetic, talented and highly committed pool of partners in the form of employees.

Recently, some of the best talents from various industry segments have joined our organization with their hands-on experience and knowledge of benchmarked industry best practices.

With the blend of experience, expertise and empowerment, training and development activity has already been undertaken with the potential to unlock great value.

#### Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

(Information as per section 217(1)(e)

of The Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988).

#### Conservation of Energy

During the year under review, your Company took adequate measures to optimize the consumption of electricity. Implementing two capacitor banks of 200 KVR each minimized loss of electricity due to leakage. In addition, all the heavy duty cabling was systematized to minimize any potential loss, keeping under consideration the method of 'Phase Balancing'.

The steps taken by us, especially the implementation of the Phase Balancing method, helped reduce the running cost up to 5% due to a reduction in power consumption.

For the coming year, we are planning to improve measures relating to the conservation of energy.

#### Research and Development

Like all other business, the business carried on by your Company is also dependent on research and development. For this, various sources like related suppliers, market intelligence etc., are relied upon. This will help us to stay ahead of competitors in our product range development. We are also in the process of streamlining the Research & Development Department.

#### Technology Absorption

The Ethyl Vinyl Acetate (EVA) injection plant has been installed along with state-of-the-art technology procured

from Taiwan.

#### Foreign Exchange Earnings and Outgo

(a) Value of import on

CIF basis

Raw material, – NIL

components &

spare parts

Capital Goods – Rs. 70.94

(Last year Rs. nil) lacs

(b) Foreign exchange – NIL  
earnings

(c) Foreign exchange – Rs. 6.72  
outgo lacs

#### Particulars of Employees

Information as per the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, forms a part of this Report and given in Annexure A.

#### Auditors

The Auditors of the Company, M/s. Agarwal Raj K & Associates, Chartered Accountants, retire at the conclusion of the Annual General Meeting and though eligible for re-appointment, have expressed their inability to carry on as such in the current financial year.

Meanwhile, the Company has received a special Notice under section 190 of the Companies Act, 1956, from a shareholder proposing the appointment of M/s D. B. Desai & Co., Chartered Accountants, as auditor for the financial year 2005-2006. Intimation from M/s D. B. Desai & Co., Chartered Accountants,

expressing their desire to be appointed as the Auditor of the Company for the current financial year has also been received. They have confirmed that, if appointed, then such appointment will be within the limit prescribed under the proviso to Section 224 (1B) of the Companies Act, 1956.

### Dividend

The Board is of the opinion that the Company should consolidate its net worth and hence no dividend should be recommended for the year ended 31 March 2005.

### Fixed Deposits

During the year, the Company has neither invited nor accepted any deposits from the public.

### Directors

As the Company has become a public limited company w.e.f. 24 June 2005, the appointment of directors in the *wholetime employment of the Company* needs to be approved by the members of the company. The Board proposes that the following Directors be appointed in whole time employment of the Company in their respective designations in the forthcoming Annual General Meeting.

**Sri Satya Prasad Roy Burman –**  
*Chairman and Whole-time Director*

**Sri Partha Roy Burman –**  
*Whole-time Director*

**Sri Siddhartha Roy Burman –**  
*Managing Director*

The resolutions for seeking your approval to their appointments in the forthcoming AGM is being forwarded to you through appropriate Notice.

### Directors' Responsibility Statement

(Under section 217(2AA) of The Companies Act, 1956)

The Board of Directors confirms that -

1. in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 March, 2005 and of the profit of the Company for the year ended on that date;
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of The Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. the Directors have prepared the annual accounts of the Company on a going concern basis.

### Acknowledgement

The Directors place on record their sincere appreciation for the significant contribution made by the employees, who through their competence, hard work, solidarity, co-operation and support have enabled the Company to consolidate its foothold across the market.

The Directors also take this opportunity to thank the Central and various State Governments and other statutory bodies, vendors, lenders, bankers, financial institutions and the shareholders for their consistent and uninterrupted support.

For and on behalf of the Board

**(Satya Prasad Roy Burman)**  
*Chairman*

Place: Kolkata                      24-A, Rabindra Sarani,  
Date: 19th October,                      Kolkata – 700 073  
2005

## Auditors' Report to the Members of Khadim India Limited

1. We have audited the attached Balance Sheet of Khadim India Ltd. (formerly Khadim Chain Stores Pvt. Ltd.) as at 31st March 2005, and also the Profit & Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These accounts incorporate the accounts of AAR ESS Land Development Pvt. Ltd., Colt Enterprises Pvt. Ltd., Khadim Holdings Pvt. Ltd., Khadim Industries Pvt. Ltd., and Khadim Shoe Pvt. Ltd. for the six month period ending on 31st March, 2005 which have merged with the Company pursuant to the Scheme of Amalgamation approved by the Hon'ble High Court of Calcutta vide its order dated 22nd June 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
  2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
  3. As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditor's Report) Order (Amendment), 2004 ("the said Order") issued by the Central Government of India in terms of Sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
  4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that :
    - i. we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit ;
    - ii. in our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books ;
- iii. the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - iv. in our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the mandatory Accounting Standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956;
  - v. in our opinion and on the basis of written representations received from the directors as on 31st March, 2005, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2005 from being appointed as a director in terms of clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956 ;
  - vi. in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the Balance Sheet, of the state of affairs of the company as at 31st March, 2005 ;
    - (b) in the case of Profit and Loss Account of the profit for the year ended on that date; and
    - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Agarwal Raj K. & Associates**  
Chartered Accountants

**Raj Kumar Agarwal**

Proprietor

Place : Kolkata

Date : 19th October, 2005

Membership No. 52130

## Annexure to Auditors' Report (referred to in para 3 of our report to even date)

- i. (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) These fixed assets have been physically verified by the management at reasonable intervals having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such verification.
- (c) During the year, in our opinion, no substantial part of fixed assets have been disposed off during the year.
- ii. (a) The inventory of the company has been physically verified during the year including material lying with third parties. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanation given to us, the procedures of physical verification of inventory followed by the management were found reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) On the basis of our examination of records of inventory, in our opinion, the company has maintained proper records of inventory and no material discrepancies were noticed on physical verification as compared to book records.
- iii. The company has not given loans / advances to parties listed in the register maintained under Section 301 of the Companies Act, 1956. The Company has received interest free unsecured loans from parties listed in the register maintained under Section 301 of the Companies Act, 1956 which are repayable on demand and the amounts outstanding as on 31-03-05 is Rs. 65.99 lakh.
- iv. There is an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory, fixed assets and for the sale of goods and services. The company makes continuous efforts to correct any weaknesses in internal control procedures
- v. Particulars of contracts and arrangements that need to be entered into a register in pursuance of Section 301 of the Act have been so entered; each of these transactions made pursuant to above have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;
- vi. In our opinion and according to the information and explanation given to us, the company has not accepted deposits from the public in terms of Sections 58A, 58AA or any other relevant provisions of the Companies Act and the rules framed there under.
- vii. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
- viii. According to information and explanation given to us, we are of the opinion that prima facie, the company is

maintaining cost accounts and records as prescribed under Section 209 (1) (d) of the Companies Act, 1956.

- ix. The company is regular in depositing undisputed statutory dues with the appropriate authorities.
- x. The company does not have any accumulated losses at 31st March 2005. It has not incurred cash losses in the financial year ended on that date or in the immediately preceding financial year.
- xi. According to the information and explanations given to us, the company has not made any default in repayment of dues to financial institution or bank.
- xii. The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. The provisions of any special statute as specified under paragraph (xiii) of the said Order are not applicable to the company.
- xiv. According to the information and explanations given to us, the company is not a dealer or trader in securities.
- xv. According to the information and explanations given to us the company has given corporate guarantees for loans taken from scheduled banks by its group concerns, which have since merged with the Company with effect from the appointed date – 1st October, 2004 mentioned in Notes of Accounts. However, the terms and conditions thereof were not prejudicial to the interest of the company.

- xvi. According to the information and explanations given to us, the term loans obtained from banks have been utilised for the purpose for which they have been obtained.
- xvii. Generally, funds raised on short-term basis have not been used for long-term investment.
- xviii. The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
- xix. The company has not made any issue of debentures; hence para (xix) of the said Order is not applicable to the company.
- xx. The company has not raised any money by way of public issue during the period.
- xxi. According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the year

**For Agarwal Raj K. & Associates**  
*Chartered Accountants*

**Raj Kumar Agarwal**  
*Proprietor*

Place : Kolkata  
Date : 19th October, 2005

Membership No. 52130

## Balance Sheet

(Amount in Rupees)

As at 31st March, 2005	Schedules	31.3.2005		31.3.2004	
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' Fund</b>					
Share Capital	A	31,000,000		31,000,000	
Share Capital Pending Allotment	B	56,393,080			
Reserves & Surplus	C	310,523,978	397,917,058	57,943,580	88,943,580
<b>Loan Fund</b>					
Secured Loans	D	298,207,570		51,248,648	
Unsecured Loans		6,599,087	304,806,657	10,101,300	61,349,948
<b>Deferred Tax Liability</b> (Refer Note 9 of Schedule R)			4,533,822		3,444,437
<b>Total</b>			<b>707,257,537</b>		<b>153,737,965</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed Assets</b>					
Gross Block	E	432,685,906		87,476,741	
Less : Depreciation		38,984,399		24,635,063	
Net Block		393,701,507		62,841,678	
Capital Work-in-Progress		30,575,574	424,277,081	14,622,500	77,464,178
<b>Investments</b>	F		2,723,786		3,014,047
<b>Current Assets, Loans &amp; Advances</b>					
<b>Current Assets</b>					
Inventories	G	154,207,684		24,791,753	
Sundry Debtors		108,785,238		1,024,536	
Cash & Bank Balances		96,805,074		29,227,131	
		359,797,996		55,043,420	
<b>Loans &amp; Advances</b>	H	106,787,505		50,283,709	
		466,585,501		105,327,129	
<b>Less : Current Liabilities &amp; Provisions</b>					
Current Liabilities	I	156,081,011		28,979,789	
Provisions		30,247,820		3,087,600	
		186,328,831		32,067,389	
<b>Net Current Assets</b>			280,256,670		73,259,740
<b>Total</b>			<b>707,257,537</b>		<b>153,737,965</b>
<b>Significant Accounting Policies</b>					
<b>Notes on Accounts</b>					
	Q				
	R				

The Schedules referred to above form an integral part of Balance Sheet referred to in our Report of even date.

For **Agarwal Raj K. & Associates**  
Chartered Accountants

For and on Behalf of the Board

**Raj Kumar Agarwal**

Proprietor

Membership No. 52130

Date: 19th October, 2005

Place: Kolkata

**Satya Prasad Roy Burman**

Chairman

**Siddhartha Roy Burman**

Director

**Joydev Sengupta**

Company Secretary

# Profit and Loss Account

(Amount in Rupees)

For the year ended 31st March, 2005	Schedules	31.3.2005	31.3.2004
<b>INCOME</b>			
Sales	J	714,987,588	327,072,528
Other Income	K	4,531,900	3,689,786
<b>Total</b>		<b>719,519,488</b>	<b>330,762,314</b>
<b>EXPENDITURE</b>			
Cost of Sales (Trading)	L	442,285,634	206,980,070
Cost of Sales (Manufacturing)	L	55,815,001	-
Personnel Expenses	M	27,210,927	15,460,389
Administrative Expenses	N	91,665,729	49,857,705
Selling & Distribution Expenses	O	52,914,421	34,837,406
Depreciation		14,498,974	7,923,882
Interest & Finance Charges	P	13,485,358	4,891,494
Loss on Sale of Assets		-	177,262
Assets Written off		291,748	-
<b>Total</b>		<b>698,167,792</b>	<b>320,128,208</b>
<b>Profit Before Tax</b>		21,351,696	10,634,106
Less : Provision for Current Tax		1,978,485	3,087,600
Provision for Deferred Tax		(1,291,115)	1,383,226
Profit After Tax		20,664,326	6,163,280
Add: Previous year Adjustment		-	(22,361)
Income Tax Adjustment		-	(331,937)
		20,664,326	5,808,982
Add : Balance brought forward from previous year		53,604,580	47,795,598
<b>Balance carried to Balance Sheet</b>		<b>74,268,906</b>	<b>53,604,580</b>
Basic & Diluted Earning Per Share		3.49	1.99
(Refer note 12 of Schedule-R)			
<b>Significant Accounting Policies</b>	Q		
<b>Notes on Accounts</b>	R		

The Schedules referred to above form an integral part of Profit and Loss Account referred to in our Report of even date.

For **Agarwal Raj K. & Associates**  
Chartered Accountants

For and on Behalf of the Board

**Raj Kumar Agarwal**  
Proprietor  
Membership No. 52130

**Satya Prasad Roy Burman**  
Chairman

**Siddhartha Roy Burman**  
Director

**Joydev Sengupta**  
Company Secretary

Date: 19th October, 2005  
Place: Kolkata



# Schedules forming part of the Accounts

(Amount in Rupees)

As at 31st March, 2005

31.3.2005

31.3.2004

## Schedule A SHARE CAPITAL

### Authorised Capital

50,00,000 Equity Shares of Rs. 10/- each	50,000,000	50,000,000
--	------------	------------

### Issued, Subscribed & Paid Up

31,00,000 Equity Shares of Rs. 10/- each fully paid up	31,000,000	31,000,000
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(Of the above shares 30,00,000 shares have been issued and allotted as fully paid-up bonus shares by capitalization of General Reserve.)

(Subsequent to the Balance Sheet date, the Authorised Share Capital of the Company has been increased to Rs. 25 crore to enable the Company to issue equity shares to shareholders of Transferor companies)

## Schedule B SHARE CAPITAL PENDING ALLOTMENT

56,39,308 Equity Shares of Rs 10/-each fully paid up to be issued and allotted to the shareholders of the Transferor Companies in terms of the Scheme of Amalgamation approved by the Hon'ble High Court at Calcutta w.e.f 01.10.04.	56,393,080	-
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## Schedule C RESERVE & SURPLUS

General Reserve	4,339,000	4,339,000
Profit & Loss Account	74,268,906	53,604,580
Amalgamation Reserve	231,916,072	-
(Arising out of implementation of Scheme of Amalgamation approved by the Hon'ble High Court at Calcutta, w.e.f 01.10.04)		
<b>Total</b>	<b>310,523,978</b>	<b>57,943,580</b>

## Schedule D LOAN FUND

### SECURED LOANS (Refer Note 3 of Schedule R)

#### Term Loan From Banks

State Bank Of India	27,759,529	28,000,000
Allahabad Bank	22,000,000	-

#### Working Capital Loan

##### Cash Credit

State Bank of India	39,984,334	9,539,064
Allahabad Bank	4,577,308	
UCO Bank	148,840,564	
State Bank of India (FCNR(B) Demand Loan)	-	9,964,700

##### Bank Overdraft

Standard Chartered Bank	21,252,756	3,389,086
State Bank of India	18,122,949	-
ICICI Bank	11,590,446	-

#### Corporate Loan

State Bank of India	1,562,500	-
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#### Car Loans

	2,517,184	355,798
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<b>Total</b>	<b>298,207,570</b>	<b>51,248,648</b>
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### UNSECURED LOANS

From Directors	6,399,087	3,845,790
From Group Companies	-	6,255,510
Others	200,000	
<b>Total</b>	<b>6,599,087</b>	<b>10,101,300</b>

# Schedules forming part of the Accounts

## Schedule E FIXED ASSETS

(Amount in Rupees)

Nature of Assets	GROSS BLOCK				DEPRECIATION / AMORTISATIONS				NET BLOCK	
	As at 01-04-2004	Additions	Withdrawals/ Adjustments	As at 31-03-2005	As at 01-04-2004	For the year	Withdrawals/ Adjustments	As at 31-03-2005	As at 31-03-2005	As at 31-03-2004
Land-Freehold	-	20,479,386	-	20,479,386	-	-	-	-	20,479,386	-
Land-Leasehold	-	51,896,564	-	51,896,564	-	350,812	-	350,812	51,545,752	-
Building-Freehold	27,654,780	139,746,371	-	167,401,151	2,738,382	2,783,114	-	5,521,496	161,879,655	24,916,398
Building-Leasehold	2,816,170	12,669,792	227,250	15,058,712	192,073	499,653	55,385	636,341	14,422,371	2,424,097
Plant & Machinery	41,272	50,330,125	-	50,371,397	-	1,965,430	-	1,965,430	48,405,967	41,272
Computers	5,360,245	9,479,814	-	14,840,059	3,990,765	1,500,055	-	5,490,820	9,349,239	1,369,480
Furniture & Fixtures	43,980,292	49,281,090	214,136	93,047,246	14,156,127	6,239,845	94,253	20,301,719	72,745,527	29,824,165
Office Equipments	4,411,231	6,112,854	-	10,524,085	1,634,386	606,166	-	2,240,552	8,283,533	2,776,845
Trade Marks, Copyrights & Designs	-	1,201,133	-	1,201,133	-	46,985	-	46,985	1,154,148	-
Vehicles	3,412,751	4,278,422	-	7,691,173	1,923,330	506,914	-	2,430,244	5,260,929	1,489,421
Collective Artefacts	-	175,000	-	175,000	-	-	-	-	175,000	-
<b>Total</b>	<b>87,476,741</b>	<b>345,650,551</b>	<b>441,386</b>	<b>432,685,906</b>	<b>24,635,063</b>	<b>14,498,974</b>	<b>149,638</b>	<b>38,984,399</b>	<b>393,701,507</b>	<b>62,841,678</b>
Previous Year	78,693,184	8,795,483	11,926	87,476,741	16,711,181	7,923,882	-	24,635,063	62,841,678	61,982,003
Capital Work-in-Progress (including Capital Advances)									30,575,574	14,622,500
									<b>424,277,081</b>	<b>77,464,178</b>

(Amount in Rupees)

As at 31st March, 2005

31.3.2005

31.3.2004

(Face Value) No. of Units Rs. No. of Units Rs.

## Schedule F INVESTMENT

### UNQUOTED

#### Bonds u/s 54EC

Rural Electricity Corporation Ltd.	10,000	105	1,050,000	105	1,050,000
National Highway Authority of India Ltd.	10,000	39	397,086	39	397,086
National Housing Bank	10,000	36	360,000	36	360,000

### QUOTED

US-64 Bonds of UTI (Tax Free)	100	4,667	466,700	4,667	466,700
UTI A/c MIP 2000			-	47,426	474,261
UTI Bond Fund			-	26,600	266,000
Alliance Equity Fund	10	17,086	450,000	-	-

**2,723,786**

**3,014,047**

Aggregate Book Value of Quoted Investments (Rs.)			916,700		1,206,961
Aggregate Book Value of Unquoted Investments (Rs.)			1,807,086		1,807,086
Market Value of Quoted Investments (Rs.)			1,113,566		1,206,961

# Schedules forming part of the Accounts

As at 31st March, 2005	31.3.2005	31.3.2004
<b>Schedule G CURRENT ASSETS</b>		
<b>Inventories</b>		
Raw Material	13,219,562	-
Work In Progress	5,749,383	-
Finished Goods	135,238,739	24,791,753
	<b>154,207,684</b>	<b>24,791,753</b>
<b>Sundry Debtors (Unsecured Considered Good)</b>		
Debts Outstanding for more than six months	6,388,114	99,671
Other Debts	102,397,124	924,865
	<b>108,785,238</b>	<b>1,024,536</b>
<b>Cash &amp; Bank Balances</b>		
<b>Cash in hand</b>		
Cash in hand	5,619,764	1,512,179
Cheques / Drafts in hand	136,017	250,468
	(A) <b>5,755,781</b>	<b>1,762,647</b>
<b>Bank Balances</b>		
<b>Balances with Scheduled Bank</b>		
In Current Accounts	6,503,998	2,286,016
In Fixed Deposit Accounts	84,545,295	25,178,468
	(B) <b>91,049,293</b>	<b>27,464,484</b>
	(A+B) <b>96,805,074</b>	<b>29,227,131</b>

<b>Schedule H LOANS &amp; ADVANCES (Unsecured Considered Good)</b>		
Advances recoverable in cash or in kind or for value to be received	31,435,648	11,291,845
Interest accrued but not due on Fixed Deposits	1,213,978	271,436
Security Deposits	33,980,799	35,756,824
Advance Income Tax including T.D.S.	40,157,080	2,858,417
Advances to Group Companies & Directors	-	105,187
	<b>106,787,505</b>	<b>50,283,709</b>

<b>Schedules I CURRENT LIABILITIES &amp; PROVISIONS</b>		
<b>Current Liabilities</b>		
<b>Sundry creditors</b>		
For Goods	107,260,627	14,999,314
For Expenses	19,039,361	9,451,524
For Capital Goods	3,364,026	19,690
	129,664,014	24,470,528
Other Liabilities	26,210,056	4,509,261
Interest on loans accrued but not due	206,941	-
	<b>156,081,011</b>	<b>28,979,789</b>
<b>Provisions</b>		
Provision for Income Tax	29,205,059	3,087,600
Provision for Gratuity	996,088	-
Provision for Leave Encashment	46,673	-
	<b>30,247,820</b>	<b>3,087,600</b>

# Schedules forming part of the Accounts

For the year ended 31st March, 2005	31.3.2005	31.3.2004
<b>Schedule J SALES</b>		
Footwear, Leather & Other Accessories	689,895,710	353,517,642
At Super Store-Khadim Khazana, Kanchrapara	48,610,517	-
Gold Jewellery at Sona Khazana, Kanchrapara	4,695,748	-
	743,201,975	353,517,642
Less : Excise Duty on Footwear	28,214,387	26,445,114
<b>Total</b>	<b>714,987,588</b>	<b>327,072,528</b>

<b>Schedule K OTHER INCOME</b>		
Royalty	275,091	-
Interest Income	2,990,040	3,124,402
Miscellaneous Income	1,103,622	171,310
Profit from Sale of Investments	163,147	-
Profit from Sale of Flats	-	394,074
	<b>4,531,900</b>	<b>3,689,786</b>

<b>Schedule L COST OF SALES (Trading)</b>		
<b>A) Footwear</b>		
<b>Opening Stock</b>		
Footwear	22,155,426	16,869,529
Leather & Other Accessories	1,690,718	938,339
	23,846,144	17,807,868
Less: Inter-company profit pursuant to amalgamation	88,668	-
Add: Stocks taken over pursuant to amalgamation		
Footwear	23,218,904	-
Leather & Other Accessories	401,279	-
	23,620,183	-
Add: Purchases		
Footwear (Including in transit- Rs. 10,78,756/- P.Y.- NIL)	411,863,446	198,078,624
Leather & Other Accessories (Including in transit- Rs. 84,408/- P.Y-NIL)	12,692,339	5,979,004
	424,555,785	204,057,628
Less: Closing Stock		
Footwear	83,528,208	22,155,426
Leather & Other Accessories	3,052,631	1,690,718
	86,580,839	23,846,144
	<b>385,352,605</b>	<b>198,019,352</b>
Add: Cost of Packing	10,614,841	8,236,961
Carriage Inward	1,731,505	723,757
	(A) <b>397,698,951</b>	<b>206,980,070</b>
<b>B) Khadim Khazana - Kanchrapara</b>		
<b>Opening Stock</b>	-	-
Add: Purchases	57,845,374	-
	57,845,374	-
Less: Closing Stock	18,234,454	-
	39,610,920	-
Add: Carriage Inward	219,375	-
Cost of Packing	449,334	-
Brokerage for Purchase	3,546	-
	(B) <b>40,283,175</b>	-

For the year ended 31st March, 2005

31.3.2005

31.3.2004

Schedule 1 - Cost of Sales			
<b>C) Sona Khazana at Kanchrapara</b>			
<b>Opening Stock</b>		-	-
Add: Purchases		9,079,409	-
Hallmarking Charges		61,358	-
Jobworker Charges		203,835	-
		9,344,602	-
Less: Closing Stock		5,078,891	-
		4,265,711	-
Add: Cost of Packing		37,797	-
	(C)	4,303,508	-
<b>Total</b>	<b>(A+B+C)</b>	<b>442,285,634</b>	<b>206,980,070</b>
<b>Cost of Manufacturing</b>			
<b>Raw Material Consumed</b>			
Stocks taken over pursuant to amalgamation		14,603,123	-
Add: Purchases		41,263,678	-
		55,866,801	-
Less: Closing Stock		13,219,562	-
	(a)	<b>42,647,239</b>	-
<b>Packing Material Consumed</b>			
Stocks taken over pursuant to amalgamation		2,690,394	-
Add: Purchases		7,871,916	-
		10,562,310	-
Less: Closing Stock		1,330,828	-
	(b)	<b>9,231,482</b>	-
Add: Direct Expenses			-
Wages		236,724	-
Cutting, Stitching, Printing etc.		6,272,839	-
	(c)	<b>6,509,563</b>	-
Prime Cost (a+b+c)	(d)	<b>58,388,284</b>	-
<b>Factory Overhead</b>			
Carriage Inward & Freight Charges		543,933	-
Consumables Store's		241,038	-
Factory Expenses		89,299	-
Power & Fuel		2,391,471	-
Loading & Unloading		818,132	-
ESI (Employer's Contribution)		10,295	-
Bonus		75,634	-
Product Development Expenses		240,892	-
Repairs - Plant & Machinery		283,103	-
Repairs - Others		214,552	-
Export Expenses		2,085,320	-
	(e)	<b>6,993,669</b>	-
<b>Sub Total</b>	<b>(d+e)=(f)</b>	<b>65,381,953</b>	-
<b>Work in Progress</b>			
Stocks taken over pursuant to amalgamation		10,983,419	-
Less: Closing Stock		5,749,383	-
(Increase)/Decrease in Work in Progress	(g)	<b>5,234,036</b>	-
Production Cost	<b>(f+g)=h</b>	<b>70,615,989</b>	-
<b>Finished Goods</b>			
Stocks taken over pursuant to amalgamation		4,268,964	-
Less: Closing Stock		19,069,952	-
(Increase)/Decrease in Finished Goods	(i)	<b>(14,800,988)</b>	-
<b>Cost Of Goods Sold</b>	<b>(h+i)=j</b>	<b>55,815,001</b>	-

(Amount in Rupees)

For the year ended 31st March, 2005	31.3.2005	31.3.2004
<b>Salaries, Wages &amp; Bonus</b>		
Salaries	16,917,264	9,971,137
Directors Remuneration	6,976,448	4,319,880
<b>Contribution to Provident Fund, Gratuity &amp; Other Funds</b>		
Gratuity	996,088	-
ESI	423,498	235,586
Family Pension	482,563	298,335
Contribution to PF & EDLI Administrative Charges	478,693	194,808
<b>Workmen &amp; Staff Welfare Expenses</b>		
Staff Welfare	889,207	415,634
Discounts allowed to staff	47,166	25,009
	<b>27,210,927</b>	<b>15,460,389</b>

<b>Schedule N ADMINISTRATIVE EXPENSES</b>		
Rent	7,720,016	5,525,660
Insurance	478,494	859,358
Rates & Taxes	42,547,253	28,395,209
Electricity & Fuel Charges	7,752,647	4,482,682
Telephone Charges	2,450,961	1,308,198
Books & Periodicals	104,546	8,536
Printing & Stationery	2,867,983	793,895
Travelling & Conveyance	3,291,233	1,070,409
Membership & Subscription Charges	431,548	227,724
Postage	878,231	271,416
Repairs-Building	513,857	802,549
Repairs-Plant & Machinery	1,128,567	1,123,115
Repairs-Others	3,227,626	1,085,567
Vehicle Expenses	927,090	360,550
Payment to Auditors		
- Internal Auditor	543,067	493,290
- Audit Fees	62,263	28,000
- Certification Charges	-	7,500
Computer Expenses	148,750	269,557
Donation	145,122	25,000
Security Hire Charges	4,365,725	846,122
Office Expenses	787,489	422,864
General Expenses	538,833	150,195
Pollution Clearance Charges	1,250	-
ISO 9000/2000 Certification Charges	181,068	-
Handling Charges	146,023	-
Bank Charges	1,676,798	110,145
Professional, Consultancy & Retainership Charges	8,709,023	1,190,164
Legal Expenses	29,116	-
Sundry Balances Written Off	11,150	-
	<b>91,665,729</b>	<b>49,857,705</b>

# Schedules forming part of the Accounts

For the year ended 31st March, 2005

31.3.2005

31.3.2004

## Schedule O SELLING & DISTRIBUTION EXPENSES

Advertisement, Marketing and Sales Promotion	37,299,429	16,548,063
Commission - Retail	6,581,685	8,752,080
Carriage for Retails	3,871,438	3,514,797
Royalty for Brands	2,496,948	5,302,765
Carriage Outward	785,970	-
Warehouse Expenses	682,429	161,706
Commission/Discount on Wholesale Sale	663,851	-
Service Charges for Credit Card	532,671	557,995
	<b>52,914,421</b>	<b>34,837,406</b>

## Schedule P INTEREST & FINANCE CHARGES

Interest on Overdraft	5,237,579	236,910
Interest on Term Loan	5,003,433	4,064,307
Interest on Cash Credit	2,383,740	247,557
Interest on Demand Loan	564,920	137,134
Other Interest	256,838	20,576
Finance Charges	38,848	57,976
Interest on Excise Duty	-	127,034
	<b>13,485,358</b>	<b>4,891,494</b>

## Schedule Q SIGNIFICANT ACCOUNTING POLICIES

### 1. Basis of Accounting

The financial statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles in India and in accordance with the presentational requirements of the Companies Act, 1956.

### 2. Fixed Assets

- Fixed Assets are stated at cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses related to acquisition and installation.
- Stamp duty, registration charges and improvements on property acquired by way of lease, wherever applicable, are capitalized.

### 3. Accounting for Intangibles

Trademarks, Designs, Copyrights and other intellectual properties represent Intangible Assets. The Intangible Assets have been recognized in accordance with the Accounting Standard 26, i.e. Accounting for Intangible Assets issued by The Institute of Chartered Accountants of India ("ICAI").

### 4. Depreciation/Amortisation

- Cost incurred for acquiring Leased assets are written off during the period of lease.
- Depreciation, on fixed assets acquired on amalgamation of AAR ESS Land Development Pvt. Ltd., Colt Enterprises Pvt. Ltd., Khadim Holdings Pvt. Ltd., Khadim Industries Pvt. Ltd. and Khadim Shoe Pvt. Ltd. with the Company with effect from 1 October 2004 and also in respect of new businesses started in the current financial year and additions thereto, is provided at the rates under Straight Line Method ("SLM"), prescribed in Schedule XIV to the Companies Act, 1956.
- Depreciation, on existing fixed assets other than above and additions thereto is continued to be provided at the rates under Written Down Value Method ("WDV"), prescribed in Schedule XIV to the Companies Act, 1956. However, the Company intends to review this policy and may consider charging depreciation on SLM basis on all assets from the next financial year.

# Schedules forming part of the Accounts

## Schedule Q SIGNIFICANT ACCOUNTING POLICIES (Contd.)

### 5. Inventories

Inventories have been valued at cost or net realizable value, whichever is lower as per AS-2 pronounced by ICAI.

### 6. Investments

All long-term investments are valued at cost and provision for diminution in value thereof is made wherever such diminution is not temporary.

### 7. Borrowing Costs

Borrowing costs attributable to the acquisition or construction of qualifying assets (i.e., an asset that takes substantial period of time to get ready for intended use), if any, are capitalized as part of the costs of such assets up to the date such assets are ready for their intended use. Other interest including on loans and overdrafts taken for normal business operation has been recognised as an expense in the period in which they are incurred.

### 8. Revenue Recognition

- a) Revenue, in case of wholesale sale, is recognized at the point of despatch of materials from warehouses / godowns.
- b) In case of retail sale, the same is recognized at the point of counter sale.
- c) Sales are stated exclusive of excise duty and inclusive of sales tax & other charges realized.
- d) All other incomes are accounted for on accrual basis.

### 9. Expenditure

Expenses are accounted for on accrual basis and provision is made for all known losses and liabilities.

### 10. Retirement Benefits

Company's contribution to Provident and Pension Fund are charged to Profit & Loss Account. The provision on account of gratuity liability and in respect of leave encashment is based on actuarial valuation at the year end.

### 11. Foreign Currency Transactions

- a) Transactions in Foreign currency, other than those covered by forward contracts, are initially recorded at the exchange rate at which the transaction is carried out.
- b) Foreign currency assets and liabilities, other than those covered by forward contracts, as on the Balance Sheet date are converted at the year end exchange rates and loss or gain arising thereon, is adjusted in the carrying amount of fixed assets or charged to Profit & Loss Account, as the case may be.

### 12. Taxes on Income

- a) Current tax is determined as the amount of tax payable in respect of taxable income for the period.
- b) Deferred Tax is recognised, subject to consideration of prudence, on timing differences, representing the difference between the taxable income / (loss) and the accounting income / (loss) that originated in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets and liabilities are measured using tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax asset is recognized and carried forward only to the extent that there is a certainty that the assets will be adjusted in future.

### 13. Impairment of Asset

Impairment losses, if any, are recognized in accordance with the Accounting Standard – 28 issued in this regard by ICAI.

### 14. Provisions, Contingent liabilities and Contingent assets

- a) Provisions are recognized in respect of obligations where, based on the evidence available, their existence at the Balance Sheet date is considered probable.
- b) Contingent liabilities are shown by way of Notes on Accounts in respect of obligations where, based on the evidence available, their existence at the Balance Sheet date is considered not probable.
- c) Contingent assets are not recognized in the accounts.



## 1. Amalgamation of AAR ESS Land Development Pvt. Ltd. (AELDPL), Colt Enterprises Pvt. Ltd. (CEPL), Khadim Holdings Pvt. Ltd. (KHPL), Khadim Industries Pvt. Ltd. (KIPL) and Khadim Shoe Pvt. Ltd. (KSPL) with the Company:

- a) The financial statements laid out herein represent the consolidated accounts for the financial year ended 31 March 2005, pursuant to an Order of the Hon'ble High Court at Calcutta, dated 22 June 2005 ("the Order"), approving the Scheme of Amalgamation of AAR ESS Land Development Private Limited, Colt Enterprises Private Limited, Khadim Holdings Private Limited, Khadim Industries Private Limited and Khadim Shoe Private Limited (collectively "the Transferor Companies") with Khadim Chain Stores Private Limited ("the Transferee Company"), the Appointed Date whereof is 1 October 2004. The certified copy of the Order was filed with the Registrar of Companies West Bengal, on 26 July 2005.
- b) All the companies i.e. Transferor & Transferee companies are engaged in common business activities relating to footwear and leather accessories.
- c) The amalgamation has been accounted for under the "Purchase" method as prescribed by Accounting Standard 14 – Accounting for Amalgamation, issued by the Institute of Chartered Accountants of India ("ICAI").
- d) With the effectuation of the Scheme of Amalgamation, a difference between the value of net assets taken over and the purchase consideration amounting to Rs. 2319.16 lakh arising out of amalgamation has been credited to Amalgamation (Capital) Reserve.
- e) The purchase consideration, being the value of 56,39,308 equity shares of Rs. 10/- each, fully paid up, to be issued to the shareholders of transferor companies, without payment of any cash, pending allotment, has been shown under the head "Share Capital Pending Allotment" and the balance amount of Rs. 70 being the value of fractional shares to be settled in cash. These equity shares have since been issued and allotted to equity shareholders of Transferor Companies.
- f) Appropriate steps are being taken for recording the name of the Company, wherever applicable, in respect of the leasehold and freehold lands, buildings, residential flats, licenses, agreements, land documents etc. standing in the name of the Transferor Companies.
- g) In terms of the Scheme, all permanent employees engaged in or relating to the Transferor Companies have been transferred to the Company.
- h) During the period from 01-10-2004 to 31-03-2005, as the Transferor Companies carried on the existing business in "Trust" on behalf of the Company, all the vouchers, documents etc. for that period are in the name of the Transferor Companies.
- i) In view of the aforesaid amalgamation with effect from 1 October 2004, the figures for the current year are not comparable to those of the previous year.

## 2. Status of Company

The Company was converted into a public limited company on 24 June 2005 to become Khadim Chain Stores Limited.

Thereafter, with effect from 26 August 2005, Khadim Chain Stores Limited was renamed as Khadim India Limited.

As Khadim Chain Stores Private Limited was a private limited company as on 31 March 2005, accordingly, the financial statements have been drawn up as per disclosure requirements applicable to a Private Limited Company.

## 3. Secured Loans

- a) Cash Credit Facility with State Bank of India, Allahabad Bank and UCO Bank are secured by hypothecation of stocks and book debts of corresponding divisions.
- b) Term Loans from State Bank of India and Allahabad Bank are secured by way of first charge on the fixed assets of the corresponding divisions acquired from that loans.
- c) Bank overdraft facilities with State Bank of India and Standard Chartered Bank are secured against term deposits lying with the said banks.
- d) Bank Overdraft from ICICI Bank refers to Drop Line Over draft facility against securitization of credit card receivables.
- e) Car loans availed from Banks are secured by way of hypothecation of the vehicles financed by it.
- f) Prior to amalgamation, Transferor Companies and the Company have given/taken certain corporate guarantees /

# Schedules forming part of the Accounts

## Schedules R Notes on Accounts (Contd.)

bonds/ collateral securities for obtaining credit facilities from banks. After amalgamation the company is taking steps to get these released from banks.

### 4. Advances

- a) An amount of Rs. 225 Lakhs is shown as Capital Advance being the advance paid by the company to Kolkata Metropolitan Development Authority (KMDA) towards the lease premium in respect of a land measuring 45 cottahs off the Eastern Metropolitan By-pass, Kolkata for a period of 99 years. The KMDA has given permissive possession on 17 June 2005 for the Land. The Company expects to get the Lease Deed registered in its name shortly.
- b) An amount of Rs. 4.73 lakhs is included in 'loans and advances' being the advance paid by Khadim Industries Private Limited ("the Transferor Company") being the 1st installment towards the right over of land measuring 100 cottahs for the proposed Rubber Park under the aegis of All India Rubber Industries Association ("AIRIA").

5. The names of small scale industries undertaking to whom the company owes a sum exceeding Rs. 1.00 Lakh for more than 30 days as at the close of the year are as follows (to the extent such parties have been identified from the available documents/information):- 1) Gem Polytech Industries Pvt. Limited 2) Sabitri Udyog

6. The Inventory of finished goods does not include the excise duty on dutiable goods amounting to Rs. 24.35 lakh and hence the same has not been debited to Profit & Loss Account.

### 7. Contingent Liabilities

Contingent liabilities not provided for in respect of:

Claims against the Company not acknowledged as debts (Rs. lakhs)

	2004-05	2003-04
i. Sales Tax Demand – under appeal	142.93	–
ii. T.D.S Demand – under appeal	15.80	–
iii. Income Tax Demand – under appeal	28.33	–
iv. Excise Duty Demand – under appeal	3.88	–

### 8. Disclosure pursuant to AS – 17 on 'Segment Reporting'

As more than 90% of the Company's turnover, profits, total assets etc. are attributable to footwear business, there is no requirement of segmental reporting as per AS-17 issued by the Institute of Chartered Accountants of India.

### 9. Deferred Tax

(Rs lakh)

	2004-05	2003-04
Deferred Tax Liability (net)		
Depreciation on Fixed Assets	45.34	34.44

**Note:** Deferred tax liability of Rs. 17.81 lakh taken over from Transferor companies was transferred to deferred tax liability of the Company resulting in total deferred tax liability of Rs. 58.25 lakh after amalgamation. As the deferred tax liability as on 31-03-05 is Rs. 45.34 lakh, the balance of Rs. 12.91 lakh has been written back to profit & loss account.

### 10. Earning Per Share

Basic and diluted

Particulars		2004-05
Profit attributable to Equity Shareholders (Rs. lakhs)	(a)	206.64
Number of Shares outstanding during the year 2004-05	(b)	59.19
Nominal Value of Equity Shares (Rs.)		10/-
Basic Earnings per share	(a/b)	3.49

**Note:** The earnings of the company includes six months' earnings of the five Transferor companies for the period 01-10-04 to 31-03-05 now merged with the Company with effect from 01-10-04. The number of shares has been arrived at by adding shares pending to be allotted pursuant to amalgamation (weighted for six months) with the number of shares of the Company.

**11. Additional information pursuant to the provisions of paragraphs 3 & 4 of Part – II of Schedule VI to the Companies Act, 1956:**

**A) Quantitative Information:**

i) Licensed capacity, Installed Capacity, Production:

<b>Products</b>	<b>Licensed Capacity as on 31-3-05</b>	<b>Installed Capacity (per annum) as on 31-3-05</b>	<b>Actual Production during (1-10-04 to 31-3-05)</b>
PVC Sandals/ Slippers (Pairs)	N.A	22,80,000	5,10,930
Direct Injection Shoes (Pairs)	N.A	11,85,000	2,17,171
EVA (Pairs)	N.A	10,50,000	2,12,760

**Note:** The above represents capacity and production of the manufacturing facility acquired on amalgamation of Khadim Industries Private Limited with the company.

ii) Opening Stock, Sales and Closing Stock (Manufacturing)

**(Product: PVC Sandals / Slippers)**

<b>Item</b>	<b>FY 2004-2005</b>	
	<b>Quantity (In pairs)</b>	<b>Amount (Rs. lakhs)</b>
Acquired on Amalgamation	25,457	14.10
Sales	1,52,967	132.69
Closing Stock	1,16,200	82.26

**(Product : Direct Injection Shoes)**

<b>Item</b>	<b>FY 2004-2005</b>	
	<b>Quantity (in pairs)</b>	<b>Amount (Rs. lakhs)</b>
Acquired on Amalgamation	13,194	11.74
Sales	555	0.75
Closing Stock	69,052	85.27

**(Product : EVA)**

<b>Item</b>	<b>FY 2004-2005</b>	
	<b>Quantity (In pairs)</b>	<b>Amount (Rs. lakhs)</b>
Acquired on amalgamation	35,342	16.86
Sales	24,660	20.26
Closing Stock	39,537	18.46

iii) Purchase, Sales & Closing Stock of Footwear (Trading):

<b>Item</b>	<b>2004-2005</b>		<b>2003-2004</b>	
	<b>Quantity (In pairs)</b>	<b>Amount (Rs. lakhs)</b>	<b>Quantity (In pairs)</b>	<b>Amount (Rs. lakhs)</b>
<b>Amount</b>				
Opening Stock (including in- transit & acquired on amalgamation)	4,10,515	456.46	2,04,030	150.46
Purchases *	52,88,088	4118.63	18,26,254	1980.81
Sales (Gross)	56,87,682	6572.85	18,49,425	3180.16
Closing Stock (including in- transit)	6,22,807	835.28	1,80,859	221.55

\* excluding interdivisional transfers.

**Note:** Sales includes Excise Duty & Sales Tax etc.

# Profit and Loss Account

## Schedule R NOTES ON ACCOUNTS (Contd.)

### B) Raw Material Consumed

Item	Unit	Consumption (Qty.)	Consumption (value) Rs. lakhs
PVC Compound	Kgs	760,509	373.13
Fabrics	Mtrs.	16,168	20.21
Canvas & Textiles	Mtrs.	6,339	11.41
PVC & PU Clothes	Mtrs.	7,817	12.89
Insole Lining	Mtrs.	376	0.34
D.D. Lining	Mtrs.	1,559	1.64
Others			6.85
<b>Total</b>			<b>426.47</b>

### C) Foreign Exchange Earnings & Outgo

Particulars	(Rs. Lakhs)
Value of import on CIF basis	
Raw material, components & spare parts	Nil
Capital Goods (including Moulds) (Last year Rs. Nil)	70.94
Foreign exchange Earning	Nil
Foreign exchange outgo	6.71

12. Previous years figures have been regrouped /rearranged wherever considered necessary.

The Schedules referred to above form an integral part of Balance Sheet & Profit and Loss Account referred to in our Report of even date.

For **Agarwal Raj K. & Associates**  
Chartered Accountants

For and on Behalf of the Board

**Raj Kumar Agarwal**  
Proprietor  
Membership No. 52130

**Satya Prasad Roy Burman**  
Chairman

**Siddhartha Roy Burman**  
Director

**Joydev Sengupta**  
Company Secretary

Date: 19th October, 2005

Place: Kolkata

# Cash Flow Statement

For the year ended 31st March, 2005	31.3.2005	31.3.2004
<b>A. Cash Flows from Operating Activities</b>		
Net Profit Before Taxation		21,351,696
<b>Adjustments for</b>		
Depreciation	14,498,974	
Assets written off	291,748	
Sundry balances written off	11,150	
Interest accrued but not due on fixed deposits	(942,543)	
Interest on Investments	(183,975)	
Interest others	(94,869)	
Interest paid	5,864,038	
Profit on sale of investments	(163,147)	19,281,376
Operating profit before working capital changes		40,633,072
<b>Adjustment for</b>		
Decrease in trade receivables	49,449,446	
Increase in inventories	(66,641,042)	
Increase in loans and advances	3,311,697	
Increase in current liabilities	97,726,749	83,846,849
Cash generated from operations		124,479,921
Less: Direct taxes paid		16,524,197
<b>Net Cash from Operating Activities [A]</b>		<b>107,955,724</b>
<b>B. Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(90,398,286)	
Increase in capital work-in-progress	(15,953,074)	
Cash proceeds from sale of investments	903,407	
Interest on Investments	183,975	
<b>Net Cash from Investing Activities [B]</b>		<b>(105,263,977)</b>
<b>C. Cash Flows from Financing Activities</b>		
Interest paid	(5,657,097)	
Secured loans	(4,178,573)	
Unsecured loans	13,128,915	
Net Cash from Financing Activities [C]		3,293,245
Net Increase In Cash/ Cash Equivalents [A]+[B]+[C]		5,984,993
Add : Cash and Cash Equivalent at the beginning of the period [D]		29227131
Cash and Cash Equivalent at the end of the period [E]		35212124

## Cash Flow Statement (Contd.)

For the year ended 31st March, 2005

31.3.2005

31.3.2004

### Notes:

- 1) The above cash flow statement has been prepared under the "Indirect Method".
- 2) Figures in bracket represent cash outflow.
- 3) Cash and cash equivalents at the end of the year consist of:

	Opening (Rs.)	Closing (Rs.)
Cash in hand	1,512,179	5,619,764
Cheques in hand	250,468	136,017
Balance with scheduled banks	2,286,016	6,503,998
Fixed deposits	25,178,468	84,545,295
	29,227,131	96,805,074
Less: Acquired on Amalgamation	-	-
Fixed deposits	51,220,369	
Cash & bank balances	10,372,581	61,592,950
	<b>29,227,131</b>	<b>35,212,124</b>

This is the Cash Flow Statement referred to in our report of even date.

For **Agarwal Raj K. & Associates**

*Chartered Accountants*

For and on Behalf of the Board

**Raj Kumar Agarwal**

*Proprietor*

Membership No. 52130

Date: 19th October, 2005

Place: Kolkata

**Satya Prasad Roy Burman**

*Chairman*

**Siddhartha Roy Burman**

*Director*

**Joydev Sengupta**

*Company Secretary*

# Balance Sheet & Company's General business Profile

## I. Registration Details

Registration No. 

2	1	-	3	4	3	3	7
---	---	---	---	---	---	---	---

  
 Balance Sheet Date 

3	1	0	3	2	0	0	5
---	---	---	---	---	---	---	---

State Code 

2	1
---	---

## II. Capital Raised during the year (Amount in Rs. '000)

Public Issue  

N	I	L
---	---	---

  
 Bonus Issue  

N	I	L
---	---	---

Right Issue  

N	I	L
---	---	---

  
 Private Placement  

N	I	L
---	---	---

## III. Position of Mobilization and deployment of Funds (Amount in Rs. '000)

Total Assets  

	7	0	7	2	5	8
--	---	---	---	---	---	---

Total Liabilities  

	7	0	7	2	5	8
--	---	---	---	---	---	---

### Sources of Funds

Paid-up Capital  

	8	7	3	9	3
--	---	---	---	---	---

Reserves & Surplus  

	3	1	0	5	2	4
--	---	---	---	---	---	---

Secured Loans  

	2	9	8	2	0	8
--	---	---	---	---	---	---

Unsecured Loans  

			6	5	9	9
--	--	--	---	---	---	---

Deferred Tax Liabilities  

			4	5	3	4
--	--	--	---	---	---	---

### Application of Funds

Net Fixed Assets  
 (Including CWIP & Capital Advances)  

	4	2	4	2	7	7
--	---	---	---	---	---	---

Investments  

			2	7	2	4
--	--	--	---	---	---	---

Net current Assets  

	2	8	0	2	5	7
--	---	---	---	---	---	---

Misc. Expenditure  

				N	I	L
--	--	--	--	---	---	---

Accumulated Losses  

				N	I	L
--	--	--	--	---	---	---

## IV. Performance of Company (Amount in Rs. '000)

Turnover (Including Other Income)  

	7	1	9	5	1	9
--	---	---	---	---	---	---

Profit before Tax  

		2	1	3	5	2
--	--	---	---	---	---	---

Earning per Share (in Rs.)  

			3		4	9
--	--	--	---	--	---	---

Total Expenditure  

	6	9	8	1	6	7
--	---	---	---	---	---	---

Profit after Tax  

		2	0	6	6	4
--	--	---	---	---	---	---

## V. Generic names of principal products of the company

Item Code No. (ITC Code) 

6	4	0	1	1	0	9	0
---	---	---	---	---	---	---	---

  
 Product Description 

F	O	O	T	W	E	A	R
---	---	---	---	---	---	---	---

For **Agarwal Raj K. & Associates**  
 Chartered Accountants

For and on Behalf of the Board

**Raj Kumar Agarwal**  
 Proprietor  
 Membership No. 52130

**Satya Prasad Roy Burman**  
 Chairman

**Siddhartha Roy Burman**  
 Director

**Joydev Sengupta**  
 Company Secretary

Date: 19th October, 2005  
 Place: Kolkata

# Corporate information

## Board of directors

Satya Prasad Roy Burman

Partha Roy Burman

Siddhartha Roy Burman

Namita Roy Burman

## Registered office

24A, Rabindra Sarani, 2nd Floor

Kolkata – 700 073

Tel : +91 33 2237 0501, 2236 6063/4639/2318, 2237

8220/0806/5226

Fax : +91 33 2237 0087

E-mail: [mailus@khadims.com](mailto:mailus@khadims.com)

Website: [www.khadims.com](http://www.khadims.com)

## Manufacturing facilities

### **PVC / Stuck on Footwear Unit**

S-26, & P-31, Kasba Industrial

Estate, Phase III

Kolkata – 700 107

### **EVA unit**

P-43 & 43A, Kasba Industrial

Estate, Phase III

Kolkata – 700 107

## Auditors

Agarwal Raj K. & Associates

## Bankers

Allahabad Bank

Bharat Overseas Bank

ICICI Bank

Standard Chartered Bank

State Bank of India

UCO Bank



Don't tell me the sky is the limit,  
there are footprints on the moon!

*- Anonymous*

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