November 16, 2024

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

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

Dear Sir / Madam,

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

Sub: Outcome of Investor Meet

This is with reference to Investor Meet held on Tuesday, November 12, 2024.

Pursuant to the provisions of Regulation 30 of the Listing Regulations, we enclose herewith the concall transcript of the said Meeting w.r.t. Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended September 30, 2024.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

ABHIJIT DAN Digitally signed by ABHIJIT DAN
Date: 2024.11.16 12:54:21
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Group Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above

“Khadim India Limited

Q2 & H1 FY ’25 Earnings Conference Call”

November 12, 2024

MANAGEMENT:	MR. RITTICK ROY BURMAN – WHOLE-TIME DIRECTOR – KHADIM INDIA LIMITED MR. INDRAJIT CHAUDHURI – GROUP CHIEF FINANCIAL OFFICER – KHADIM INDIA LIMITED
MODERATOR:	MS. MASOOM RATERIA – ORIENT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY '25 Earnings Conference Call of Khadim India Limited, hosted by Orient Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Masoom Rateria from Orient Capital. Thank you, and over to you, ma'am.

Masoom Rateria: Thank you very much. Good evening, everyone, and welcome to Q2 and H1 FY '25 earnings concall of Khadim India Limited. To discuss the results, we have with us from the management, Mr. Rittick Roy Burman, Whole-Time Director; Mr. Indrajit Chaudhuri, Group CFO, who will take you through the results and business performance, after which we can begin the Q&A session.

Before we begin the conference, I would like to mention that this conference contains some forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on date of this call. The actual results may differ materially. These statements are not guaranteeing the future performance of the company and involve risks and uncertainties that are difficult to predict. I now hand over the call to Rittick Sir. Over to you, Sir.

Rittick Roy Burman: Hello. Good evening, everyone. On behalf of Khadim India Limited, I'm pleased to welcome you all to this conference call to discuss quarter 2 and half year FY '25 results. We greatly appreciate your time and interest in our company's performance. I trust that everyone had the chance to review the financial results and investor presentation, which have been made available on the stock exchange.

This quarter posed several challenges, particularly during our critical Puja sales period, which was disrupted for 10 to 15 days due to a social crisis. On the other hand, the industry remains challenged by inflationary pressures that are straining its cost structure while changing consumer spending habits have impacted demand this quarter. Furthermore, demand usually associated with the festive season has partially shifted to Q3 this financial year.

Despite these challenges, we achieved a revenue of INR 160.6 crores, a growth of 2.2% year-on-year. Our net profit after tax for the quarter stood at INR 2.4 crores, reflecting an impressive year-on-year increase of 31.7%. This growth underscores the resilience of our business model and our commitment to navigating through difficult market conditions.

At the industry level, the organized footwear sector in India is well positioned to achieve mid-teen growth in the medium term. This growth will be fuelled by continuous income increases and the gradual shift towards organized retail channels. Specifically, segments such as women's footwear, premium footwear, sports, and athleisure are expected to experience significant growth supported by an expanding presence of brand outlets.

Talking about our operational performance, I'm excited to announce that we have entered into a strategic partnership with Underlinen Fashion House, which serves as the exclusive licensee and master distributor for Puma socks and other Puma products in India. This collaboration is a significant milestone for us as it enables Khadim to enhance our retail footprint by offering Puma products, through our extensive network of outlets across the country. We believe this partnership will not only broaden our product offering, but also strengthen our brand positioning in the competitive retail landscape.

Additionally, I'm pleased to share that we have successfully completed the testing phase of our new athleisure line. We are gearing up for its commercialization, which we expect to launch shortly. The athleisure segment is experiencing robust growth, and we are excited to tap into this trend with innovative and stylish offerings that cater to the evolving preferences of our customers.

Now moving on to our financial performance. On a quarterly basis, we reported revenue from operations of INR 160.58 crores, up by 2.2% year-on-year. Gross margin for the quarter was at 48.3%, up by 360 basis points year-on-year. Our EBITDA stood at INR19.3 crores, reflecting a year-on-year growth of 9.4%. EBITDA margin stood at 12%. The profit after tax for the quarter was INR 2.4 crores, marking a substantial year on year increase of 31.7%. PAT margins stood at 1.5% for the quarter.

On a half yearly basis, we reported a revenue of INR 314.5 crores, a decline of 0.2% year-on-year. Gross margin stood at 47.7% in H1 FY '25. EBITDA stood at INR 36.7 crores, up by 2.2% year-on-year. Margins stood at 11.7% in H1 FY '25. Profit after tax in H1 FY '25 stood at INR 3 crores, a degrowth of 12.3% year-on-year. Margin stood at 1%.

Our retail sales accounted for 61.4% of our revenue in H1 FY '25. In H1 FY '25, we added 42 stores, bringing our total store count to 891.his includes 235 COO stores, company-owned outlet stores and 656 stores under the franchisee model. Our distribution business contributed 32.7% to revenue in half year FY '25. Our distribution network now includes 764 distributors as of the quarter ended September 2024. Our retail and distribution business have a presence in 27 states and 5 union territories as of half year FY '25.

With this, I conclude my speech and open the forum for questions.

Moderator: Thank you very much. The first question is from the line of Deepan Narayanan from Trustline Holdings. Please go ahead.

Deepan Narayanan: Thanks a lot for the opportunity and congratulations for a good set of numbers given the current market conditions. So firstly, what has led to strong distribution segment performance, 24% revenue growth and 650 bps increase in gross margin. So, what are the key drivers here?

Indrajit Chaudhuri: First of all, the product that we are now producing have found demand in the market, especially the PU products which we previously did not used to have, the production was low, but now we are producing around 10,000 cartons in a month. So that has increased our sales. Last year also, we have seen there was a degrowth in distribution business due to -- there are a lot of MRPs and all this. So now the channel has cleared. We are finding the demand has grown up. And in the PU and the EVA segment, there is quite a lot of demand and from where we have generated margins also.

Deepan Narayanan: Okay. So, do we expect high single digit kind of margin for distribution segment next year?

Indrajit Chaudhuri: See, first of all, we want to make it a breakeven company where there is no loss. So, we are driving for that. And we have to increase the sale and one foremost thing for making it a breakeven is to increase the sales. So, we are trying to do that, and hope this year, we'll have a growth of around 15% to 17% in the distribution segment.

Deepan Narayanan: Okay. And what kind of volume growth and realization growth we had in retail and distribution for this quarter?

Rittick Roy Burman: So, during this festive season, what we saw is that the volume growth has been at par. And in the retail business, as we have -- I mentioned in the speech also that there was a little bit of a social crisis that was happening in our city. So, because of that, the sales got a bit affected towards the start of the festive season in September. But overall, despite having all these issues also the business we were able to do as it was same as last year.

Indrajit Chaudhuri: In distribution, there was a volume growth of around 22% and ASP growth of around 1%.

Deepan Narayanan: In retail, did we have any ASP increase during last quarter?

Indrajit Chaudhuri: No. In retail, it was flat.

Deepan Narayanan: Okay. Okay. And what has been footfalls and order value for festive season for Q3 now?

Indrajit Chaudhuri: Q3, October, there was sale in our COCO, but in EBO whatever sales that we have done because in EBO it happens in the second quarter only. So that has happened. And now we are in the third quarter in November and December, we are hopeful of having a good wedding season and winter sale also.

Deepan Narayanan: Okay. And what kind of the top line additions and margins do we expect from this Puma tie-up?

Indrajit Chaudhuri: Puma tie-up, only tie-up has been made for the socks part. So, we are experiencing some turnover from that segment because in socks we earlier used to have Jockey. So now we have put in Puma. There will be some increment in value, but I don't think that will be large enough to increase the sale.

Deepan Narayanan: **Okay.** And what has been the status of demerger plans?

Indrajit Chaudhuri: Demerger, the final order is expected to come on 29th of November. So once the order comes, then there will be some formalities with ROC. So may be from 1st February, we will see the effective date for demerger.

Deepan Narayanan: Okay. And what is the store addition plans for H2 and next year?

Indrajit Chaudhuri: We have a plan of opening around 25 retail outlets. So already, I think we have opened around 15 retail outlet, and balance we'll try to open in the third quarter. And suppose if you close at 20-21, we'll not open any new retail outlet during the fourth quarter because it does not give enough sale for the financial year, then we'll pass it on to the next year. And in franchisee, we have opened around 25 to 26 franchisees. May be we'll close around 40 to 45.

Deepan Narayanan: Okay. And I think this during H1, the franchisee contribution has improved. This is because the growth has come from franchisee or COCO has underperformed.

Indrajit Chaudhuri: No. first quarter, there was underperformance in both the segments. In the second quarter, franchisee improved because of primary sales for the festive has happened. So, COCO will improve in the third quarter in the October month. But from the first quarter, the second quarter sales have improved.

Deepan Narayanan: Okay. Okay. And lastly, despite having increase in gross margins in retail segment, we have seen EBITDA margins, there is a drop. So, what are the reasons?

Indrajit Chaudhuri: One of the reasons is that in this year, we have increased the personnel expenses, especially in the retail CCA. We have made an increment of around 3,000 to 3,500 per employee where the salary of the salesmen were lagging. So, there was increase in the personnel expenses. Also, during the festive time, some advertisement has been done, which is booked in September. For that reason, despite the EBITDA margin has grown but not to that extent.

Moderator: The next question is from the line of Chirag Shah from White Pine.

Chirag Shah: First question is on non-BIS inventories. If you have a view what's happening in the industry, where it is, how much of the performance pressure is because of discounting or discounted sales of non-BIS stock?

Rittick Roy Burman: Non-BIS, sorry.

Indrajit Chaudhuri: Non-BIS stock, that we have time.

Rittick Roy Burman: Okay. We have time still till next July. And we have -- our vendors are ready with all the requirements for implementing the BIS in the products. So, we'll be -- we have already started printing on those products where there is -- like those vendors who are above INR 200 crores of turnover, they are already printing the BIS. The micro and small vendors, there is still some more time left before it's compulsory. So, we will start doing that as soon as that is applicable.

Chirag Shah: Okay. What I was referring is at industry level also what we understand some of your peer sets have resorted to a faster clearance of non-BIS stock that was with them. Have you experienced that kind of scenario in your key operating areas? Question one. And what kind of stock you are holding on? Would you have to resort to that kind of activity to clear the BIS and non-BIS stock?

Indrajit Chaudhuri: See, we already -- whatever stock that we have, we are having some EOS season where they will be cleared. And we have time till 31st July. So, after that, we have to put it in their website, the uncleared stock that would be lying there. So, I think by that time, giving discount and putting them in the EOSS, we'll be able to sell the non-BIS stock.

Chirag Shah: Can you just quantify what kind of inventory of non-BIS you carry? Why I'm asking is, is it better to clear it out to investors in terms of communication of the potential impact that could come across. Some of your peer sets have started doing that. That's why I'm just -- if not then in next quarter, you can just indicate how to look at this point.

Rittick Roy Burman: Yes. See, we are trying to put discounts and liquidate the stocks, but you should also find out from the peers there is also a, what do you call that, there is a leeway from the government, where like whatever non-BIS stock is already in the distribution channels or like the other channels like retail channels, they will not come and hold us liable for that. I may be wrong with how many years, but it's a good about 2, 3 years or it could be a lifetime also, that I'll get back later.

But there is a leeway like that. Whatever non-BIS is already in the system, that you are not like -- you won't face the problem, any problem because the manufacturing date will be on the product, would be printed -- the manufacturing date that would be in the product would be before the BIS implementation applicable date. Do you understand?

Chirag Shah: Yes. Secondly, between PU, PVC -- and utilization levels, and how do you see that going forward?

Rittick Roy Burman: In the factory?

Chirag Shah: Yes.

Indrajit Chaudhuri: Now we are seeing that PU is more in demand compared to PVC. PVC has become a seasonal product. During the rainy season, the demand increases. But other than rainy season, the demand is muted, and we are using the PVC machine for making school shoes and all these things.

Chirag Shah: Okay. But on an annualized basis, what will be your utilization because that is a better way to look at because of seasonality then?

Indrajit Chaudhuri: PVC, we are utilizing around 60% to 65%, but PU we are utilizing around 90%.

Chirag Shah: So there seems to be an improvement in PVC utilization also if I'm not wrong. Is it the right thing from whatever 50% - 55% return, would it be right to make an assumption that PVC utilization improvement should help with EBITDA margin level also or not real?

Indrajit Chaudhuri: Yes, because we are also making school shoes through the PVC machine. And if the school demand is high, we'll make more utilization of the PVC machine.

Chirag Shah: In the past, you have been indicating how to -- so you are trying to figure out how -- what more product addition can be done on the PVC side to improve the utilization. Have you been able to figure out a plan around that and the product to increase utilization and when we will be able to...

Indrajit Chaudhuri: The option for PVC is making school shoes other than the basic PVC chappals. So, we are already doing that. And we are trying to take more orders from the school segment so that we can also utilize the PVC machine to produce more school shoes. Other article machines are there through where we are making our -- the strap for the hawai chappals, where also the utilization of the PVC machine is done. PVC straps for hawai chappals.

Chirag Shah: Okay. Okay. And any guidance that you would like to share, indicative guidance on revenue or volume growth and margins for this year and next year?

Indrajit Chaudhuri: Distribution, as I have told around 14% - 15% from last year, we are expecting a growth. In retail, may be we will close -- because the first quarter, we were down but may be in the third and fourth quarter, I'd say -- we may have a flattish retail or may be a slight 2% to 3% growth in retail division. Because the first quarter of retail was really very down.

Chirag Shah: Okay. And just last question, gross margin. So, any specific thing to call out for the strong gross margin performance or -- and is it sustainable or there is any specific one-off in that?

Indrajit Chaudhuri: No, it is because the COCO sale was high, so the margin improved and also the premium segment sale was high during the festive time. But as we have told in the last concall also, we will be reducing the MRP from the fourth quarter for our basic Khadim product. So may be the gross margin may come down a little bit from what is happening right now.

Chirag Shah: Okay. Sir, just in fact Khadim is more about PU products, right?

Indrajit Chaudhuri: The Khadim is both PU, PVC, EVA, everything.

Chirag Shah: Okay. But larger contributor would be EVA and those kind of product, correct, Khadim?

Rittick Roy Burman: You're asking in retail or distribution?

Chirag Shah: At aggregate level in the Khadim brand.

Indrajit Chaudhuri: Khadim brand, it is a combination of all that.

Rittick Roy Burman: Mainly chappals and all these things. Chappal is a big contributor then shoes.

Chirag Shah: PU, PVC, both is there, correct?

Indrajit Chaudhuri: Yes.

Chirag Shah: Okay. Because you are looking to reduce prices to gain volumes. That's why I'm trying to understand that.

Indrajit Chaudhuri: Yes. it is around 40% of the retail sales comes from our Khadim brand. So there, we will be reducing the margin.

Chirag Shah: Okay. It will help you to aid volumes, right? So, EBITDA impact shouldn't be there. That is how one should be, or it should be a positive impact that how one should look at.

Indrajit Chaudhuri: Yes.

Moderator: The next question is from the line of Darshil Shah from ABC Capital.

Darshil Shah: My first question is regarding the partnership with the Underlinen Fashion House. So, can you discuss the expected synergies from this collaboration? And how will this partnership specifically influence your brand positioning and the competitive edge you have in the market?

Indrajit Chaudhuri: It's a partnership for our socks segment because we sell accessories from our footwear store. So, it's a partnership to bring in customers so that when they come for buying Puma socks, they can take a Pro sports shoe or Athleisure that we have launched. So, for this type of strategic reasons, we have made this partnership. And it will not be that it will drive lots of sale. But it's a new thing that we have launched. We have to wait for the results for this launch of this Puma socks.

Darshil Shah: Okay. Another follow-up would be in light of the growing trend towards online shopping, how is Khadim leveraging its digital platforms to enhance sales and brand engagement? Are there any specific online marketing strategies you are employing to reach a broader audience?

Indrajit Chaudhuri: Yes, there are lots of marketing activity that we do in the online segment. We are present in Flipkart, Amazon, and other online platforms, where we are doing this target marketing and also influencer marketing. And also, we are trying to make a tie-up with quick comm. We may be in some days; 15 to 20 days we will be available in Zepto.

Moderator: The next question is from the line of Sahil Vora from M&S Associates.

Sahil Vora: I have a couple of questions. So, looking ahead, what are your revenue and profit projections for the next quarter, particularly with the anticipated seasonal demand during the festive period? What factors do you believe will most significantly influence your performance in Q3 FY '25?

Indrajit Chaudhuri: It seems this year, the festive was partly in the second quarter and partly it will be in third quarter because our franchisee sales we have done in the second quarter. In third quarter, the COO, our company-owned outlet sales will come. And the sales that we are expecting of the wedding that didn't happen in the first quarter, but in third quarter there are lots of wedding days, in the eastern part of the country. So, we expect retail sales what we have achieved last year.

Last year, the festive was totally in the third quarter because Durga Puja was in the fourth week of October. So, we'll try to achieve that numbers. In distribution, there will be a growth of around 15%, and we expect growth in our profitability also.

Sahil Vora: Okay. And sir, in the context of increasing competition in the organized footwear sector, what specific strategies is Khadim India implementing to differentiate itself from the competitors? And how do you exactly plan to leverage your strengths to capture a larger market share in premium and athleisure segments?

Indrajit Chaudhuri: See, as we have discussed in our Khadim brand, we are trying to reduce the MRP. So that will take a hit in the margin, but we expect that the volume will increase. And as a result, the overall value of the company increases. From there, we will try to generate more sales, and more sales will give more EBITDA. And also in the premium segment, we are coming up with lots of design.

This year in the autumn/winter we have come up with around 400 designs. In next year, SS '25 we will be coming with around 300-odd designs, both in the athleisure segment. And we have also implemented ready-made garments and test marketing that, we are successful. Now we're going for the commercialization of the product. So, all this will help us to increase the sales.

We are also looking for lots of avenue where we can generate more sales, be it B2B, be it CSD or institutional sales. So overall, these all factors and with the retail in India, as we have seen, there is a muted demand. We are trying to generate more demand, come up with some good advertisement. And with prices going down, we expect that in the next year, we'll be having a good business and also the market scenario also remains good. So, all this will generate more revenue.

Moderator: The next question is from the line of Simar, an individual investor.

Simar: Sir, on the outright sales, when you talked about your distribution, you talked about the 14% to 15% increase. Can you just also talk about your SOR policy with them and also with the franchisee or if you have any?

Indrajit Chaudhuri: We don't have any SOR policy. We sell the product to our distributors. In case of franchisee, we sell the product to the franchisee, but we have now come up with a new concept of FOCO model where the franchisee owned but operated by the company, where we give the stock to the franchisees. And franchisee receives a commission on that. So, there is no SOR type of model in our concept. May be in the future, if you want to go in large format retail, we can exploit the SOR model.

Simar: Sure. That's really helpful. And also, last time, I believe you talked about the British Walkers sales being around 6% to 7%. Is that number right? And how far do you see this number increasing going forward?

Indrajit Chaudhuri: See British Walkers would be around 10% of the total sales. What we have done, we are trying to launch British Walkers website where we will be dealing the British Walkers with Khadim brand. And if we are successful in the website and seeing the online sale, we will then generate off-line presence of British Walkers.

Simar: What sort of margins do you enjoy in this brand, can you just specify about this brand?

Indrajit Chaudhuri: Around 58% to 60%.

Simar: That's in gross margin. Okay, got it.

Indrajit Chaudhuri: Yes.

Simar: And sir, you also talked about your investments in moulds. What sort of increase in margins do we foresee like probably not -- probably in the upcoming quarters and FY '26 going forward as well?

Indrajit Chaudhuri: Margins in which segment?

Simar: In the total segment of footwear, since you mentioned that you're already investing in moulds, as you said.

Indrajit Chaudhuri: Moulds mainly, the manufacturing segment, we do the distribution business. So, at present, the distribution segment is making a loss, and there will be a demerger of the distribution business into a separate company. In FY '26, we expect that the distribution business will be a breakeven company. And in retail, we expect an EBITDA margin of around 17%.

Moderator: The next question is from the line of Devang Mehta an individual investor.

Devang Mehta: So, I have a couple of questions. First is, can you provide the details on your criteria for selecting the new store location? And what is your strategy for optimizing the store productivity in a competitive retail landscape?

Indrajit Chaudhuri: The selection, generally, we now are opening stores in the Eastern part of the country. Generally, in Eastern part, we are densely populated, but there are new opportunities coming in different markets and new catchment areas are also developing. So, we generally open where there is lots of footfall.

And in case in some area where we have one shop, it's performing well, and there is an opportunity of opening another store that also we generally do. And store level profitability, we see whether the -- what is the expected sales that we can generate from a particular area, and we do ROI planning of the retail. And in the Eastern part, generally, it breaks even in 12 months.

Devang Mehta: Okay sir got it. And sir, second question is, as we continue to face the market challenges, so what is your long-term strategy for maintaining sustainable growth? And how do you plan to balance the growth of premium products with the need of operational efficiency and cost management?

Indrajit Chaudhuri: See as I have already mentioned that in the Khadim brand, we would be reducing the MRP so that in the long-term prospect, we want to increase the volume. And once the volume increases, there would be a value increase also. In the premium segment, we'll try to provide new designs, new products to the market at a reasonable price. The margin, we will try to give the same type of margin that we have generated and also come up with new stores, new store ambience so that we can generate more revenue in the retail segment and thereby increase the EBITDA of the retail store.

Moderator: The next question is from the line of Sahil Vora from M&S Associates.

Sahil Vora: With the completion of the testing phase for your new athleisure line, can you provide insights into the unique features of these products that differentiate them from the existing offerings in the market? And also, what are your sales forecast for this segment for the next -- over the next year? And how do you plan to market these products to maximize reach?

Indrajit Chaudhuri: Our USP in this product is the price. The price that we have given to this athleisure segment, that is itself a very good eye catcher for the customer. We expect to generate around INR 15 crores to INR 20 crores of sales in the next financial year, and we will sell it through our own COCO outlet and through our franchise. Now we have only launched in around 30 to 40 stores. We'll try to launch at around 200 stores in our COCO and also in 200 franchisees.

Sahil Vora: Okay. And sir, are we expecting any such new offerings in the coming months?

Indrajit Chaudhuri: Yes. We already whatever test marketing we have launched, all the products have been sold, generally 90% has been sold. So, we are now coming up with our main commercialization of this project, and we will try to first introduce in around 100 stores, and then we'll catch up with more stores and increase the sales.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Ms. Masoom Rateria for the closing comments.

Masoom Rateria: Thanks. Thank you, everyone, for joining us on the call today. I would also like to thank the management for sparing time on addressing the questions today. We are Orient Capital, the Investor Relation to Khadim India Limited, for any queries, please feel free to reach out to us. Thank you.

Rittick Roy Burman: Thank you.

Indrajit Chaudhuri: Thank you.

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

Disclaimer: The Company has tried its best to prepare the exact word-to-word transcript of the proceedings of the Earnings' call. However, this may not be the exact replication of the same.