August 22, 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 Friday, August 16, 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 ended June 30, 2024.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For **Khadim India Limited**

ABHIJIT DAN
Digitally signed by ABHIJIT DAN
Date: 2024.08.22 15:41:39 +05'30'

Company Secretary & Head- Legal
ICSI Membership No. A21358

Encl: As above

"Khadim India Limited

Q1 FY '25 Earnings Conference Call"

August 16, 2024

MANAGEMENT: **MR. RITTICK ROY BURMAN – WHOLE-TIME DIRECTOR – KHADIM INDIA LIMITED**
MR. INDRAJIT CHAUDHURI– CHIEF FINANCIAL OFFICER – KHADIM INDIA LIMITED

MODERATOR: **MS. MASOOM RATERIA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 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 star then zero on your touchtone 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 the Q1 FY '25 Earnings Call of Khadim India Limited. To discuss our results, we have with us from the management, Mr. Rittick Roy Burman, Whole-Time Director; Mr. Indrajit Chaudhuri, the CFO. They'll take you through the results and the 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 the belief, 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 risk and uncertainty that are difficult to predict.

I now hand over the call to the management for opening remarks. Over to you, sir.

Rittick Roy Burman: Good evening, everyone. On behalf of Khadim India Limited, I am pleased to welcome you all to this conference call to discuss our Q1 FY '25 results. We greatly appreciate your time and interest in our company's performance.

I trust that everyone has had the chance to review the financial results and investor presentation which have been made available on the Stock Exchange. During the recent fiscal period, our company encountered significant challenges that impacted our financial results. Inflationary pressures have strained our cost structure while shifting consumer spending patterns have affected the demand for our products this quarter.

Additionally, the uncertainty and disruptions associated with the election cycle have weakened consumer confidence and spending, putting further pressure on our sales. Furthermore, an unexpected and severe heat wave adversely affected demand for our core footwear products, particularly in several regions across the country. Despite these challenges, we remain committed to overcoming them through strategic cost management, supply chain optimization, and targeted marketing initiatives aiming at driving recovery in the upcoming quarters.

We successfully maintained our margins, which stood at 47.1% for the quarter, marking an increase of 220 basis points. Looking ahead, we anticipate further improvement in our margins as key raw material prices soften. Retail sales accounted for 56.8% of our revenue in Q1 FY '25. During the quarter, we added a total of 20 stores, bringing our total store count to 878 as of Q1 FY '25. This includes 228 company-owned COO stores and 650 stores under the franchisee model.

Our distribution business contributed 33.4% to revenue in Q1 FY '25. Our distribution network now includes 755 distributors as of the quarter ended June 2024. Our retail and distribution businesses have a presence in 27 states and 5 union territories as of FY '24. We are on track with our de-merger process and have successfully obtained shareholders' approval for the same.

We are awaiting some necessary approvals from the regulatory authorities and we hope to complete this de-merger process by end of this financial year. We remain confident in our long-term strategy to return to growth and deliver value to our shareholders. We believe in the strength of our brand, the loyalty of our customers and the growth potential within the footwear market.

Now moving on to Q1 FY '25 financial highlights.

Quarterly performance: On quarterly performance, revenue from operations for Q1 FY '25 was at INR153.9 crores as against INR158.0 crores same period last year, down by 2.6% year on year. Gross margin for the quarter stood at 47.1% up by 220 basis points year on year as higher contribution from retail led to favourable product sales. The EBITDA for the quarter stood at INR17.4 crores registering a degrowth of 4.8% year on year. Operating EBITDA margin for the quarter stood at 11.3% down by 30 basis points year-on-year. The net profit for the quarter stood at INR0.7 crores down by 60.2% year-on-year. PAT margins for the quarter stood at 0.4% down by 60 basis points year on year.

With this I end my speech and open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Deepan Narayanan from Trustline PMS.

Deepan Narayanan: Good evening everyone and thanks a lot for the opportunity. So firstly, we have seen some sharp drop in retail demand last quarter. But do we see the footfall improving in Q2 and how do we see the festival season demand coming up in Q3?

Indrajit Chaudhuri: What we have seen in the month of July, it was more or less the same. But in August with this Independence Day celebration, there was a demand for footwear. And in the last week, there was a footfall and the sales was also good.

And since this year the puja is in the first week of October, so the demand will rise in the month of September and in Diwali in month of October. So we think that after this muted sales for the first quarter, we will have a good demand for the festive season.

Deepan Narayanan: And why the distribution margins dropped at lower levels to 0.8% from that 4.5%?

Indrajit Chaudhuri: In the EBITDA level?

Deepan Narayanan: Yes.

Indrajit Chaudhuri: Distribution sales was not as regard to last quarter, the sales was less compared to last quarter this year. And there was a margin improvement in distribution in the gross margin. But the expenses and there was a lot of correction that has been done in this quarter. So that has led to the drop in the margin.

Deepan Narayanan: Okay, because even last quarter, we have talked about we have taken a lot of correction in the product categories, which are not margin accretive. So are we expecting margins in distribution coming back to the older levels?

Indrajit Chaudhuri: Yes, if you see the gross margin, it has improved. But there are some costs, there are some schemes that we have to pass on to the distributors that we have done in the first quarter. In the second quarter, with the improvement in sales compared to the second quarter of last year, I hope that EBITDA margin will be at the same point to what we have achieved.

Deepan Narayanan: Okay. And since this other segment contribution has more than doubled to 9.8%, so it was mainly to institutional sales and what kind of margins was that?

Indrajit Chaudhuri: There were no institutional sales. There were some B2B sales to Dmart, but the margin is low there. Margin is comparatively around 8% to 9% in the B2B sales. But that contributes directly to our EBITDA. And also there were some sales of the older materials, so that has increased the sales. But we are increasing our B2B sales channel. We are talking with a lot of these players where we can improve. We can have some sales through other channels also.

Deepan Narayanan: Okay. And the sub-brand contribution has reduced by 200 bps to 57%. So have we reached optimal levels of sub-brands or this is one-off quarter for us?

Indrajit Chaudhuri: I think this is one-off quarter because the demand was very much muted. And in the lower segment, Khadim has sold more. And in the franchisee also, we have seen especially in the BOs, the mother brand has sold more. But in the festive time, I think the sub-brand contribution will be higher.

Deepan Narayanan: Okay. And how has been the performance of sports and athleisure segment? What kind of contribution it has brought this quarter?

Indrajit Chaudhuri: Sports, we have seen a growth of around 5% to 6% has been sports sale. And athleisure, we have just launched -- athleisure means garments. We have just launched in the Independence Day week. And it's a good response we are seeing.

Moderator: The next question is from the line of Akhil Parekh from B&K Securities. Please go ahead.

Akhil Parekh: Sir, clarity on sports shoes, you said 5% to 6% was the growth during the quarter. Is that right?

Rittick Roy Burman: Yes. The total contribution is around 20% of the total sales. Growth was there, especially in the women's footwear is doing very well for us. Women's footwear and the men's footwear is also lesser growth is there. But women and kids are having more growth in this thing in sports category. And athleisure wear products we have just recently launched. And let's see what happens. But it should do decently.

Akhil Parekh: 20% of the total sales or the total retail sales?

Rittick Roy Burman: Total retail and EBO sales. Franchisee and retail sales.

Akhil Parekh: Okay. So is that the reason why gross margins are improving or is it just purely because of the raw materials prices have softened…?

Indrajit Chaudhuri: It's a mixture of both the things.

Akhil Parekh: Okay. And do we expect the kind of gross margins what we have done now are more sustainable in nature, both at the retail and the distribution level?

Indrajit Chaudhuri: Distribution level, it is sustainable. But in the retail level, we have done analysis of the feedback from the customer. And where we have seen that specifically in the lower price point in the mother brand, the prices that the customer who has gone out of the shop has shown some reservation in MRP. So maybe we have to take some correction in the MRP for the Khadim brand. But that will be done after the festive season. In the next spring-summer season, we will try to reduce some of the MRP in the mother brand.

Akhil Parekh: Okay. In the past, you had alluded that the only sustainable EBITDA margins for retail would be somewhere around 17% to 19%. Now we are closer to the demerger thing. So we would have some visibility, right? What kind of EBITDA margins one should expect from the MRP?

Indrajit Chaudhuri: This quarter, we have -- in retail, we have done EBITDA margin of 16.37%.

Akhil Parekh: Correct.

Indrajit Chaudhuri: So we are more or less on track on that.

Akhil Parekh: On track for 17% to 19%.

Indrajit Chaudhuri: Once the sales improve, the margin will be far more better than what we are now having.

Akhil Parekh: Second on the demand front, right, in the past, a few quarters back, you had said retail business, we aspire to grow by 10%- 12%, which will be led by store expansion, SSG and ASP. I understand the macro situation is extremely challenging. It's not just for Khadim, but across the brands. We are seeing a pressure on the sales. But do we have some confidence that at least for second half we can grow, say, at least high single digits, if not double digits for the retail business?

Indrajit Chaudhuri: So we are in track for the expansion. We have already opened stores. But what has happened is that in the SSG, we are de-growing because of macroeconomic factors. But I think in the festive quarter, single digit growth will be there. And we expect that after the economy has remained muted for so many months, we can see some demand during the festive season.

Akhil Parekh: So would it be fair assessment to say that the current challenges, what we have are not company specific, but more environmental? Would that be a correct interpretation?

Indrajit Chaudhuri: See, company level, there are a lot of corrections that needs to be there, but now the major challenge is the macroeconomic factor. The correction that we have taken especially in the distribution business. Retail business also, we are launching new products.

We are doing where there is gap. We are introducing products. We are taking, uh, we have done that customer feedback survey. We are taking some necessary correction on that also. But the demand is very challenging environment that you can see from the other players' results also. Hope that if the macroeconomic thing change, we will have a good financial numbers.

Akhil Parekh: Sure. Sure. And there's two more questions. One is we had some receivables pending from the Punjab government. Have you recovered them completely?

Indrajit Chaudhari: No. We have not recovered that yet, but we are in a, in a good chance of recovering within this financial year.

Akhil Parekh: In FY25?

Indrajit Chaudhari: Yes.

Akhil Parekh: And what will be the quantum for it?

Indrajit Chaudhari: It's around INR32 crores.

Akhil Parekh: Okay. And last one, the demerger process, I think it's, it's again a bit delayed, right? Like even last to last quarter, we had highlighted that we should be done by September. But now in the opening remarks, we are saying that it would be done by end of FY25. So any specific reason?

Indrajit Chaudhari: No, no, we have received the shareholder's approval. So now it's in the final stage, but it's, it's dependent on the court procedure NCLT. So we can have the de-merger in the third quarter, maybe in the month of November or December.

Akhil Parekh: Okay. That's all from my side and best of luck. Thank you.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Hi, thanks for the opportunity. My first question is just the demand side when you're talking about the macro environment being not supportive in Q1. The question is that what is your sense whether you are losing market share or all the other players are impacted by the same and you are either holding on to your market share or you are winning over them?

Indrajit Chaudhari: So in this context, I can tell that we are holding our market share, whatever sale we have done, we are more or less in the same region. But what we are seeing that the footfall that used to be there in our store that has reduced because there are a lot of challenges that we have faced in the first quarter that everybody has faced. And there are some correction that was needed that we have done in last year and this year we are already doing.

We have done a survey with the customer feedback also and the necessary correction we are doing. So we cannot say that we are losing market share. But when there is a festive like Independence Day, in the last week of Independence Day, we have got good sales numbers.

So whenever there is a footfall in the market, we are getting the sales. The challenge has come that the footfall has reduced and also there are challenges from the e-commerce players. There are a lot of stores, big stores having footwear segment. That challenge has come but market has also evolved. So taking together, our market share has not improved. But we have not fallen in the market share.

We are still in the business. We used to sell 1 crore pair in retail. We are now selling around 75 lakh pair and we will definitely achieve the 1 crore if there are macroeconomic changes. We are doing our sales during the festive period. Whatever targets we are having during the festive period, we are doing it. So that shows that the brand is still very vibrant for the customer.

But when there is no festive or there is no weekends, the normal days, the footfall is down. We try to make up that also by giving new products, offering a good price so that the volume also increases. So these three factors we are taking into consideration and hope that the thing improves and our sales also increase.

VP Rajesh: That's quite helpful. And what was your average order value in Q1 and how was it trending compared to let's say Q4 or Q1 last year?

Indrajit Chaudhari: What? ASP?

VP Rajesh: No, average order value.

Indrajit Chaudhari: Average order value?

Rittick Roy Burman: Order value for what? For franchisee?

VP Rajesh: No, for the retail business. You know, what was your ABV? To just get a sense that if the customer is coming in, is he or she buying a higher price?

Indrajit Chaudhari: ABV. Average bill value. It will be in the range of 900 to 1000.

VP Rajesh: And how was it trending compared to Q4 versus Q1 last year?

Indrajit Chaudhari: It was the same last year. In the same range, 900, 920. It was like that. Now it was around 940, 945.

Rittick Roy Burman: One area where we have seen a good traction is like we have this, we have got company owned outlets, then we have got exclusive branded outlets, which is franchisees. And amongst the franchisees, there is another wing, which is called branded outlets. So these are like mainly in the tier four, very smaller markets.

In those areas, we had around five to six months back, we had given some products which were competitive in terms of price. So in that, when we are tracking that sales now, so it is showing a decent amount of growth. It's showing a good growth.

The problem with that BO style of businesses, there were a lot of, because the prices had increased a lot over the last three, four years, so a lot of stores became inactive, but whichever remained active, and now that we are tracking the sales of these branded outlets, their sales have improved quite a bit. So, you know, like Indrajit was saying, by offering new products, both in sub brands and the mother brands, new designs, a new competitive pricing, I believe that if the market scenario remains good, I think we can grow. Growth shouldn't be a challenge then.

VP Rajesh: . Right. That's quite helpful. My other question was that in terms of your store count, you know, how many of them would be store level, EBITDA level profitable versus losing money at the end of Q1?

Indrajit Chaudhari: End of Q1 doesn't show a correct picture because the Q1 sales are a little on the downside. So if you compare the, if you see the last year's EBITDA level, we have done around store level EBITDA of 22% to 23%, and where most of the stores are EBITDA positive and which stores are not EBITDA positive, we take a call of shutting the store. So last year we have taken a call of shutting two stores and out of that one we have closed and another the landlord agreed to the rental that we have offered. So we continued that store.

VP Rajesh: Right. So you're saying out of your almost 900 stores only two stores were…

Indrajit Chaudhuri: Our COCO. Out of the 240 stores that we had, two stores were EBITDA negative. So that store, we took a call of shutting one store and one the landlord reduced the rent. So we are continuing that store because of a lesser cost.

VP Rajesh: And what is your sense on the EBO stores or your franchise stores?

Indrajit Chaudhuri: If the EBO are not profitable, they come with their problem. But we -- whatever problem they come we try to sort it out and try to keep the store open. And if there is problem with the EBO he is not continuing, then we have come out with a model where we take on the store, only the stock, we take the stock and give the EBO a commission because they are not able to properly run the business as per the company norms.

VP Rajesh: Okay. And so how many such EBOs were decommissioned last year?

Indrajit Chaudhuri: Last year, this activity we have started in this financial year. So we have already approached three franchises which have a good location, but were not able to do correct business. One in Tezpur, one we have done in our Kolkata and other we are sorting out the issue in the northern part of the West Bengal. So this model what we have invented is that we are taking the good location of the EBO and carrying the model on a commission basis with the EBO.

VP Rajesh: Got it. And just last question on for your Q2, given the commentary you mentioned in your opening remarks, what kind of growth do you expect year-over-year there?

Indrajit Chaudhuri: In the financial year means when we budgeted this financial year, we have expected a growth of around 10% to 12% in retail. But first quarter there was no growth, it was de-growth. So maybe this year we may land up in around 6% to 7% growth by doing a good festive year and the third quarter also believes to be a good quarter.

So we are doing our expansion whatever expansion strategy we have done, we are on it. We are opening the stores. So I think we will be closing this financial year with a growth of around 7% to 8%.

Moderator: Thank you. The next question is from the line of Raneet. An individual Investor. Please go ahead.

Raneet: So basically my first question is, I'm curious about the number of inactive stores that we are right now not operating or under the 800 number. So because in the DHRP, it is mentioned that around 155 out of 685 stores then were inactive. So is that the same -- is the ratio still continue today or how is the situation?

Indrajit Chaudhuri: So out of that inactive, so we have closed down lots of stores in that list. Now I think the inactive stores would be how much? Just a minute. We have 136 inactive stores.

Raneet: But these inactive stores are included in the overall 800 number, right?

Indrajit Chaudhuri: No, these inactive stores in DRHP also they are not included in the overall numbers.

Raneet: Okay, understood. So I'm curious about the omnichannel strategies we are employing because Metro and Bata have been focusing aggressively on creating omnichannel approach. What could be the reason and are we also pursuing the same aggressiveness or what is the situation with our omnichannel strategy?

Indrajit Chaudhuri: In all our COCO stores we have omnichannels and we are doing it in a good way. In the franchises also we are trying to sort out the issues. So there would be the cost that involves in the omnichannel. So maybe after the festive we can run in the top 200 stores, omnichannel models in that store also.

Raneet: Understood. One more thing is regarding the retail outlets first. Same store sales and volume growth and sales growth like in most of these footwear stores, there is usually a plateau of sales, right? So what is usually the sales number of mature stores that the sales growth is muted and what is the volume growth that usually happens in these stores?

Indrajit Chaudhuri: Generally, now the trend is that in the same store we are not seeing any volume growth or a sales growth. There is a degrowth around 5% to 6% in the value. So previously before COVID, the same store growth was in the range of 4% to 5% SSG growth, but now we are seeing a SSG degrowth. So that's the reason why the sales is not improving. Once the SSG is back in track, I think the growth level will be around 8% to 9% in a financial year.

Raneet: Understood. So one more thing is about the introduction of apparel into our product range. Usually apparel have high inventory costs and like management is very difficult with dead stock and everything and is footwear also similar or as in introducing into apparel would be easier because in footwear like how is the inventory situation regarding the apparel and footwear thing?

Indrajit Chaudhuri: Apparel is a lesser problem than footwear. In footwear, there are sizes of six, seven sizes are involved, but in apparel we are keeping only three sizes. So I don't think that would be too much constraint for us. But we are taking apparel in a very small way. We are testing it out in our store, in the big store. In small store, we don't have space to have the apparel and maybe if it clicks, we will keep on the apparel in our store and with the cost remaining the same if we sell a good amount, it will increase the store level EBITDA. So mainly for improving the store level EBITDA we have introduced this apparel and keeping at a competitive price compared to our competitors.

Raneet: And so what is the margin range for this? Is it higher than the footwear segment or is it going to be lower?

Indrajit Chaudhuri: It is lower than the footwear segment.

Raneet: Understood. So what are the sales expected during this year like we must have budgeted some kind of sales to have some kind of inventory knowing that to forecast for the year, right? What is that sales number?

Indrajit Chaudhuri: We have taken it in a very small way. Around 50 lakhs of inventory we have taken for this introduction and we have launched it in around 40 to 45 stores. So we want to check how the sales stands out in this thing. Then only we will make an expansion in this atleisure thing.

Raneet: Okay, got it. One more thing about the footfall. So how is it usually, like what is the footfall to conversion ratio? When 10 customers enter, how many complete the purchase? When they enter, how many purchase more than the average order value?

Indrajit Chaudhuri: Now the conversion ratio is high because compared to last, when pre-COVID it was around 40% but now it's around 65% to 70%.

Raneet: What is the reason for the increase in conversion?

Indrajit Chaudhuri: Reason for increase in conversion is the lower number of footfall.

Rittick Roy Burman: Assured buyers are coming.

Indrajit Chaudhuri: Assured buyers are coming. So the footfall, the conversion has increased.

Raneet: Got it. And one more thing, like with the demand and the market situation being a little weak, how is the unorganized sector going to play out in terms of the overall market competition? Because when we're growing, when the market was growing, we thought branded is going to take off better at higher rate than the unorganized sector.

So how does the situation remain or how is it with the competitive forces increased? The competition more with an unorganized sector because of the market conditions because they have lower price product. How is the situation?

Indrajit Chaudhuri: So with the BIS introduction in footwear, we definitely see that the organized sector will improve but it has not yet been... BIS has not been implemented in a full-fledged manner. So once it is implemented and China import has gone down, I think in years to come, the impact of organized retailer will be higher compared to unorganized. But unorganized challenge will be there. But with this implementation by the government, it will be better for the organized sector to do the business.

Raneet: I understood that in the long term basis. I'm more curious about the short term the next coming year, let's say. So is unorganized going to play a bigger competition than it played, let's say, last few years ago?

Indrajit Chaudhuri: Unorganized will be... Unorganized has already played... There is a competition from the unorganized sector in the distribution business.

But in the retail business, the pressure of unorganized sector is a little bit lesser. But it will remain in the short term. But with the steps that has been taken by the government, I think in the long run, it will reduce.

Raneet: Got it. And one more thing...

Moderator: Join the queue for the follow-up question. Thank you. The next question is from the line of Deepan Narayanan from Trustline PMS. Please go ahead.

Deepan Narayanan: Thanks a lot for the opportunity again. Sir, you talked about this B2B kind of sales. So is this outright sales to B2B or this unsold inventory can come back to us?

Indrajit Chaudhuri: No. It is sold to the B2B. It is not any SOR model.

Deepan Narayanan: Okay. And how do you see the opportunity there? Now we are entered with DMART. So are we seeing more such opportunities? And how are you planning to scale this up?

Indrajit Chaudhuri: We are trying to improve. But with the good payment terms and with no return policy that's a challenge. But we are taking this that we will sell only to players who are good paymaster and with no return policy. Maybe in manufacturing defect, we will return but not on a SOR basis. So that will be a challenge. But we are taking this challenge and only grow this business in this model only.

Deepan Narayanan: Okay. And margins, what we are targeting in this business is like 8% to 9% kind of margin, right? EBITDA margin.

Indrajit Chaudhuri: Yes.

Deepan Narayanan: Okay. And also in the retail business. So how do you see these franchisee inquiries happening as compared to pre-pandemic levels? Are we still seeing the franchisee interest levels dire?

Indrajit Chaudhuri: See, franchisee interest level after the pre-pandemic with the cost of franchisee going up, it is a little lesser. But we have opened last year also we have opened around 70 to 75 franchisee. This year also we have targeted for that.

So we are trying scouting franchisee. There are lots of new areas that are coming up. And with our model of franchisee now, some new models with FRM model that we have introduced in the northern and western segment. So there are some inquiry are there. And in the eastern part, we still have inquiry, but not at the same level that we have seen in the pre-pandemic levels.

Deepan Narayanan: Okay. Thanks a lot, sir. All the best.

Moderator: Thank you. The next question is from the line of Akhil Parekh from B&K Securities, please go ahead.

Akhil Parekh: Hi, thanks for the opportunity. Just one clarification on BIS. What are the timelines for implementation? Or is it already implemented? And is this implementation, should we see boost for domestic brands at the lower end of segment or at the higher end of segment?

Rittick Roy Burman: So BIS is especially for the smaller suppliers. The government still has given an extension till the end of this year. I mean, the normal year not financial year. So after that, let's see what the government says for the smaller suppliers whose turnover is less, INR50 crores and below. So many suppliers, many of our suppliers in that range. And whoever is the medium scale suppliers who have a turnover above INR50 crores they are already supplying us with the BIS marked products.

So the team is fully ready for -- we have actually trained our micro suppliers also. And once the government says that then we'll start for that also. And what was the second question? I forgot. What is the second question?

Akhil Parekh: No, that was the only question. And from an import perspective, will we get more Chinese imports at the lower end or more at the higher end?

Rittick Roy Burman: Import, higher end imports will be there.

Indrajit Chaudhuri: There are lots of means in lower end the government don't want to do the import in the lower end.

Rittick Roy Burman: Government doesn't want you to import something which is, I mean below $3 or something. I'm just the number is not fixed yet but they don't want you to import lower value products. So the higher value products can be imported. `That's what it seems like. It can be imported actually from the next from now also you can import. So that is one good thing.

Akhil Parekh: Okay. So what I understand is basically the lower end of footwear should benefit out of this whole exercise.

Rittick Roy Burman: Yes.

Akhil Parekh: That's all. Thank you.

Moderator: Thank you. The next follow-up question is from the line of Praneet an individual investor. Please go ahead.

Praneet: Thanks for the another opportunity. So I'm curious about our increasing our brand, number of brands. So basically we created a, instead of creating sub-brands to improve the brand by introducing the products, right? Are you going to continue doing that or are we going to take a break on that?

Rittick Roy Burman: Sub-brands, we are continuing to improve our, improve our sub-brands.

Indrajit Chaudhuri: Means we are improving the designs of the sub-brands because as I have already told the, we will reduce the margin in the Khadim brand, but in sub-brands we'll keep the margin intact and we'll provide new designs, good quality product in the sub-brands.

Praneet: So are we going to increase the number of brands or are we just going to keep the number of brands constant?

Indrajit Chaudhuri: Sub-brands will be at the same, what we have done. Maybe in the British Walker, we will come out with a website for the British Walker shoes.

Praneet: Okay. Got it. So how much, sales do we do for British Walkers?

Indrajit Chaudhuri: **Around** 6% to 7% of the sales comes from British Walkers.

Praneet: Understood. So in terms of, like you previously mentioned that the franchisee cost has gone up after COVID. So what is one of the main primary reasons of it going up? After that, like, why don't we just reduce the cost so that we increase our, further increase our retail presence, like, so more franchises might take it? Or is there, does the elasticity not remain with that…

Indrajit Chaudhuri: Can you come back to the question? I mean, your voice is cracking.

Praneet: So I'm asking about, you told that the franchisee cost of taking a franchisee has increased after COVID. So we've got expensive franchises to take a Khadim franchise. So I'm curious, why don't we throw the price back lower again so that more franchises might be?

Indrajit Chaudhuri: No, I am not. I am telling the operation cost of the franchisee has increased.

Rittick Roy Burman: Because the sales have reduced, that's why the cost has increased. Cost as a percentage has increased.

Indrajit Chaudhuri: And also with the inflation coming in, the cost of rentals, the salaries, the other costs has increased. So whatever margin they were generating, operating margin. So now that margin has become a challenge because one side the cost has increased and other side the value of sales has reduced.

Praneet: Got it. Understood. So how many of these franchises are unprofitable, do you know, on your level? Or how is it?

Indrajit Chaudhuri: See, we don't have their P&L account. Whichever franchise is having problem, they come to us. And we try to sort out their issue by doing some marketing activities. Or I have told in some franchises, we have converted the franchisee into an FRM. So these type of things are there. And where, I think there are some closures because of non-profitability.

Praneet: Understood. So you provide the support as much as you can to franchises?

Indrajit Chaudhuri: Yes.

Praneet: Okay. And one more last question regarding the de-merger fact. So how are they going to split up the manpower in terms of top management for both de-merged companies? Are you going to -- is the management going to wear both the hats, running both the companies? Or are you going to onboard more people and reduce people and gather more? How is it going to be?

Indrajit Chaudhuri: No, specifically, the manufacturing and the distribution sales people will go to the resulting entity. And the management will look at both the companies. So there will be no new introduction in that company at the management level.

Praneet: So is the employee cost going to remain the same? So might the employee cost reduce for this company, the Khadim, which is in the retail segment? Or is it still going to remain the same as a percentage?

Indrajit Chaudhuri: Percentage, it will remain the same because the retail -- but the thing is that the distribution employee cost is a little bit on the lower side compared to the retail. The manpower cost is higher in retail. So the percentage-wise cost will remain the same. But the manpower that are dedicated to the distribution will go there.

Praneet: Understood. So how much more investment are we planning on doing in the distribution side? Because right now, I think our growth has been subdued and we want to onboard more distributors. So what's the credit cycle like with distributors?

Indrajit Chaudhuri: Distributors' credit cycle is around 45 days. And we are trying to squeeze as much money in the distribution business. And we are not going in giving more credit to the distributors in achieving the sales. Whatever sales we are achieving is with our own credit terms. And the working capital, we want to improve the working capital cycle in distribution business.

And with good products and at a competitive price, we are giving lesser distributors because giving more places for them to work so that the undercutting of prices doesn't happen in the market level.

Praneet: Understood. So we're not going to infuse further capital into the distribution business, right? Or are we going to infuse further capital?

Indrajit Chaudhuri: Generally, we are only having investment in moulds. Moulds development is an ongoing process. And in case if we require some machines, we purchase that. But no infrastructure or any improvement type of cost in distribution.

Praneet: So but because it's a manufacturing endeavour, so what is the maintenance capital going to look like for the distribution business?

Indrajit Chaudhuri: Around INR4 crores to INR5 crores.

Praneet: Okay, understood. And like one more last thing is, I think we've been rebranding our old stores, right? To improve like the branches and everything. How is that endeavour going? Are we changing our stores?

Indrajit Chaudhuri: No, we have planned to renovate around 20 stores. Already we have around 7 to 8 stores already renovated. And we are in the plan. That plan is on.

Praneet: So are we seeing any immediate uptick with the renovations or is it the same?

Indrajit Chaudhuri: We have seen some immediate uptake in that after the renovation. But it's a very small time. We have to check around 4 to 5 months to see the overall impact of renovation.

Rittick Roy Burman: Yes, in the subsequent quarters, we'll be able to give you a more clear picture, but there is a good effect.

Praneet: So, and one last question regarding the Company owned Company Operated stores. So are we planning on actively increasing the number of COCO stores or we're going to remain at the same level?

Indrajit Chaudhuri: We have planned for opening of 25 stores. We are in that plan. We've already opened around 8 to 9 stores. So by this year end, we'll be opening 25 new stores.

Praneet: Understood. So that's it from me. Thank you so much for your patience. Answering all the questions.

Moderator: In the interest of time, this was the last question for today's conference call. I would now hand the conference over to Ms. Masoom Rateria for closing comments. Ma'am, please go ahead.

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

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