# Karnika Industries



**Operator:** Ladies and gentlemen, good day and welcome to Karnika Industries Ltd. Q2 and H1 FY27 earnings conference call hosted by Go India Advisors.

As a reminder, all participant lines will be in 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 the operator by pressing star and then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Snehal Gogia from Go India Advisors. Thank you, and over to you, ma'am.

**Snehal Gogia – Go India Advisors:** Thank you. Good afternoon, everyone. It is my pleasure to welcome you on behalf of Karnika Industries Ltd. Thank you for joining us today for the Q2 and H1 FY27 earnings conference call. This call is being hosted by Go India Advisors.

Please note that today's discussion may include certain forward-looking statements. Therefore, they must be viewed in conjunction with the risks that the company faces.

Today, we are joined by Mr. Niranjan Mundhra, Managing Director, and Mr. Kishan Karnani, Chief Financial Officer.

I now invite Mr. Mundhra to present the company's business outlook and performance, after which we will open the floor for the Q&A session. Thank you, and over to you, sir.

**Niranjan Mundhra – Managing Director:** Thank you. Good evening, everyone, and a warm welcome to our shareholders, investors, analysts, and well-wishers. On behalf of Karnika Industries Ltd., thank you for joining us for our Q2 and H1 FY27 earnings conference call.

We are delighted to share a proud milestone in our journey, with the company eligible for migration to the main board effective October 13, 2026, subject to completion of the applicable regulatory and procedural requirements. We sincerely thank our investors and well-wishers for their continued trust, confidence, and support.

This milestone is particularly special, as Q2 FY27 also marked our highest-ever quarterly revenue, EBITDA, and PAT, while H1 FY27 recorded our highest-ever half-yearly revenue, EBITDA, and PAT, reflecting the scale of our business and the progress we are making towards our long-term growth objectives.

Over the past 15 years, Karnika has evolved from a sourcing and supply-led business into an integrated kidswear platform spanning sourcing, manufacturing, brands, exports, institutional supplies, and distribution. Today, we serve children in the 0 to 14 age group, with a presence across 28 states, 500-plus distribution partners, 2,500-plus customers, and 500-plus SKUs.

India's kidswear market presents a significant opportunity. Despite rising disposable incomes, growing brand awareness, and the shift towards organized retail and digital commerce, the market remains highly fragmented. We believe this creates headroom for organized players with strong sourcing, manufacturing, and distribution capabilities.

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Our strategy is to leverage these strengths to build a scaled, integrated, and consumer-focused kidswear platform. Historically, our business has been predominantly B2B, providing scale through sourcing, manufacturing, institutional supplies, and distribution. We are now complementing this foundation with a stronger B2C presence. B2B provides scale and distribution reach, while B2C creates opportunities to strengthen consumer connect, build brand visibility, and diversify our routes to market.

Our established supply chain provides a foundation for this expansion. Kidzcity is an important part of this strategy, bringing consumer connect, retail, and omnichannel capabilities that complement Karnika's strength in sourcing, manufacturing, and distribution. Our objective is to combine these capabilities to expand market access and build a stronger presence across the kidswear value chain.

We are progressing through shop-in-shop counters, kiosks, and digital channels. During H1 FY27, we had 85-plus shop-in-shop counters across our network. We currently operate one kiosk and are targeting 50-55 kiosks at airport and premium high-street locations. Alongside this, we are—and deep distribution in Tier 2 and Tier 3 markets.

These initiatives are aimed at widening consumer access, strengthening distribution, and creating additional growth channels, while ensuring that expansion is supported by disciplined execution.

Our customer relationships remain an important foundation for growth. During H1 FY27, we saw healthy orders from customers and retail chains, including Style Bazaar, FirstCry, City Kart, and Hopscotch. Going forward, we will focus on deepening existing relationships, broadening our customer base, and expanding our product offering to address evolving market demand.

As we scale, the quality of growth, cash generation, and balance sheet discipline remain as important as revenue growth. Working capital days improved to 143 days in H1 FY27 from 178 days in FY26, while our debt-to-equity ratio stands at 0.6x. We will continue to focus on inventory and receivables management, operating efficiencies, and prudent capital allocation to ensure that business expansion translates into sustainable earnings without placing undue pressure on the balance sheet.

Looking ahead, management has guided towards 30% to 35% CAGR in revenue and profit before tax through FY28, while maintaining an EBITDA margin range of 17% to 20%. Delivering on these objectives will require us to scale our core B2B business, develop the B2C platform, expand distribution, and strengthen consumer connect, while maintaining cost discipline and capital efficiency. Our focus is to build a more profitable, resilient, and financially disciplined business.

We believe our established operating platform, expanding customer relationships, and evolving distribution strategy provide a foundation for the next phase of growth. Our priority will be to execute consistently, convert growth into earnings, and deploy capital responsibly.

I would like to thank our employees, customers, suppliers, distributors, channel partners, and shareholders for their continued support and confidence in Karnika Industries. With that, I will hand over to our CFO for a brief overview of our Q2 and H1 FY27 financial performance. Thank you.

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**Kishan Karnani – CFO:** Thank you. A very warm afternoon to everyone. Karnika has delivered strong revenue and earnings growth in Q2 and H1 FY27.

Q2 FY27 revenue from operations grew by 52.3% year-on-year to Rs. 106 crore. Our EBITDA margin increased by 38.1% to Rs. 20 crore, while the EBITDA margin moderated to 18.8% from 20.7%, primarily due to higher yarn prices, dyeing-related chemical costs, and processing charges. We are strengthening our operational leverage, and our PAT grew by 51.5% to Rs. 14 crore, while PAT margins remained broadly stable at 13.4% versus 13.5% in Q2 FY26.

H1 FY27 revenue increased by 74.2% to Rs. 180 crore, while EBITDA grew by 68.1% to Rs. 33 crore. EBITDA margins stood at 18.2% versus 18.9% in H1 FY26. Our PAT increased by 88.3% to approximately Rs. 23 crore, while PAT margins improved to 13% from 12.1%, up by 94.94 bps.

Our focus remains on managing costs, improving operational efficiencies, and maintaining disciplined financial management to support sustainable and profitable growth.

Thank you, everyone. Now I will hand over this call to the moderator for the Q&A session. Thank you, everyone.

**Operator:** Thank you so much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Our first question comes from the line of Gurneet Singh with Counter Cyclical. Please go ahead.

**Gurneet Singh – Counter Cyclical:** Hi, sir. Thank you for this opportunity. I would like to understand what percentage of our sales is from our own brand versus white labeling for other brands.

**Kishan Karnani – CFO:** 98% of our sales is from our own brand, and 2% is from white labeling.

**Gurneet Singh – Counter Cyclical:** Understood. Could you help us understand the different channels through which we sell? I believe the presentation mentioned B2B sales. How much of our sales is through distributors? How much is through MBOs? How many stores do we have for our exclusive brands? And under what brand name do we sell our clothes?

**Kishan Karnani – CFO:** Let me explain this. First, in our parent company, Karnika Industries Ltd., we sell under the brand name Karnika itself. Our primary domain in this company is B2B sales. The model for these sales is that we sell to some of the large buying houses, and from there they sell our goods across India. So, basically, our billings are in the name of some of the large buying houses, and from there they sell across India.

Our second company, which was acquired by Karnika, was primarily acquired for retail channels and a consumer-based concept. That is the B2C channel under the name Kidzcity. In that channel, we have three revenue models. One is shop-in-shop counters, of which we currently have 85 outlets. From there, we sell directly to consumers. Second, we have an aggregation business for online retail

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brands such as Style Bazaar and Hopscotch, for which we operate the aggregation model. Third, we undertake B2B sales under other brands in that segment.

These are the four different models through which we sell through Karnika and Kidzcity.

**Gurneet Singh – Counter Cyclical:** Understood. Can you give us a breakdown of revenue by each model? For the Karnika brand, when you say B2B, you mean that—

**Gurneet Singh – Counter Cyclical:** For example, FirstCry buys from us and stocks the products in its stores. Can you help explain exactly what B2B sales means?

**Management:** In B2B brands, we sell under Karnika. We have categories for the age group of 0 to 14 years. There are around eight brands registered in our own name. The major name is Karnika, followed by the age group. We have different names such as Karnika Cool, Karnika Guys, Karnika Ring, Karnika Geez, Karnika Cube, and so on. Each brand represents its size group and price tag.

We sell these own brands through buying houses to wholesalers across India. From there, wholesalers sell to retailers or MBOs, as they choose.

Karnika's H1 revenue is around 140 crore, which is primarily from B2B. Of this revenue, 98% is under our own brand name, while 2% is from white labeling. For example, Vishal, V-Mart, Styli, and Hopscotch are some of the primary buyers to whom we sell through white labeling.

Now coming to the Kidzcity model, shop-in-shop is our major component, where we sell through our kiosk model. These kiosks are operational in Spencer's, Rozana, Chennai Silks, and some of the large family stores in the Bihar and Odisha regions. For example, Nagarmal and Chunnilal are some of the well-known names in the Bihar region that have four, five, or six retail outlets, where the kids' counter is managed by Kidzcity.

The second operational model is the SIS model. The third is aggregation. Under aggregation, Hopscotch buys 80% of its Kolkata goods from Kidzcity itself. We are the sole aggregator for them for Kolkata goods. For example, if Hopscotch comes to Kolkata and wants to buy any brand from Kolkata, it buys from us because we are its sole aggregator.

Similarly, we undertake aggregation work for different brands. For example, Styli, which is the primary brand of Lulu, Landmark Group, and we are now working with Bansari and others.

The third activity we undertake in Kidzcity is corporate sales, which includes both white labeling and sales under our own brand name, Ozas. We undertake some white-labeling work for FirstCry, Style Bazaar, V-Mart, and Vishal. These are the basic revenue components.

**Operator:** Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one.

Our next question comes from the line of Disha with Sapphire Capital. Please go ahead.

**Disha – Sapphire Capital:** Hello. Am I audible, sir?

**Management:** Hello. Yes, you are audible.

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**Disha – Sapphire Capital:** I have a couple of questions. First, our margins have moderated somewhat year-on-year because of raw material prices. I want to understand how you have seen the raw material pressure, since we have seen cotton prices rise sharply. What is the current situation in terms of our sourcing, and what sort of margins should we expect for the entire year, FY27?

**Management:** Margins will remain almost at the same level as what we achieved in H1, because cotton prices have now, I believe, normalized. Whatever increase has taken place in cotton prices is expected to remain stable for the next half and thereafter.

**Disha – Sapphire Capital:** So, we expect prices to remain stable.

**Management:** These are now almost stable prices. Prices have already increased, and we do not see any slowdown in prices in the third or fourth quarter.

**Disha – Sapphire Capital:** On these raw material prices, how much of the increase are we able to pass on to the consumer?

**Management:** If there is an increase in the first quarter, we definitely take the initial impact of the increase. In the second quarter, we have already passed on whatever cost we incurred. On a quarter-on-quarter basis, if anything increases recently in the first quarter, we have to take the initial impact, and in the next quarter, because prices stabilize in the pan-India market, we will pass this on to the consumer.

**Disha – Sapphire Capital:** We therefore expect margins to be in the 18% to 19% range for the entire year?

**Management:** The EBITDA margin would be between 17% and 20%.

**Disha – Sapphire Capital:** We recorded very good growth in the second quarter. What have been the drivers of this growth, and what sort of overall growth are you forecasting for this year?

**Management:** There are basically two growth drivers for us. From the point of view of Karnika, we have started white labeling. Earlier, we did not undertake white labeling. Now we are open to white labeling. For some of the large corporates, we sell under Karnika's own brand name because, when we entered into tie-ups with them, we learned that if we undertake white labeling for them, they also simultaneously buy products under our own brand name. Last quarter, this was a major strategic opportunity for us because, during the Puja period, they had a buying window available. Therefore, we sold to them under our own brand name and also started white labeling.

The second growth driver is our B2C channel, Kidzcity, which is performing exceptionally well. We are increasing our direct consumer base under the Kidzcity brand, the number of shop-in-shop counters is increasing, and the aggregation model is also gaining significant traction.

**Disha – Sapphire Capital:** For Q2, how much was the contribution from Kidzcity?

**Management:** 140 crore is from Karnika and 40 crore is from Kidzcity. Consolidated revenue for H1 is around 180 crore.

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**Disha – Sapphire Capital:** What is the overall number you are expecting from Kidzcity for this year and next year?

**Management:** For the current year, we are targeting between 80 crore and 100 crore, and we hope to achieve that target. Next year, we are targeting approximately 180 crore to 200 crore.

**Disha – Sapphire Capital:** What sort of margins are we making in this business?

**Management:** PAT margins would be between 10% and 13%.

**Disha – Sapphire Capital:** That is for Kidzcity. For our own business, Karnika, what sort of number are we looking at for this year?

**Management:** Karnika is also doing well because 60% of the goods that we sell through Kidzcity are from the Karnika portion itself, which will grow. In addition, we are undertaking white labeling, and there is a significant opportunity to improve Karnika's B2B share as well.

**Disha – Sapphire Capital:** What sort of store additions are we undertaking this year? What sort of capex are we undertaking this year?

**Management:** From the point of view of Karnika, capex will not be significant because we already introduced our capex-compliant setup last year, which we have already taken up. Therefore, from Karnika's point of view, we are not expecting much capex to be incurred. From Kidzcity's point of view, we will definitely incur some capex for shop-in-shop counters and for the new models that we are planning to launch soon.

**Disha – Sapphire Capital:** Can you give us a number?

**Management:** For the shop-in-shop model, we are spending around Rs. 2 lakh to Rs. 3 lakh per store on capex. We are also planning to introduce one of the new models by the end of this quarter or by the end of this year. For that, we will need approximately Rs. 10 lakh to Rs. 15 lakh in capex for this EBO.

**Disha – Sapphire Capital:** That is all from my side. Thank you. I will join the queue.

**Management:** Thank you.

**Operator:** Thank you. Our next question comes from the line of Ashish Soni with {? NM Capital ?}. Please go ahead.

**Ashish Soni – {? NM Capital ?}:** Sir, how much capex and inventory do you require for your EBO and SIS stores? You said Rs. 2 lakh to Rs. 3 lakh, but what about inventory? How much inventory do you carry, and who are our competitors in this space?

**Management:** Yes, sir. First, for the shop-in-shop model, capex is around Rs. 2 lakh to Rs. 3 lakh per SIS model, and store-level inventory would be around 1,000 pieces, costing approximately Rs. 3 lakh to Rs. 5 lakh. However, we also have to maintain WIP for the channel that we are producing for.

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Regarding the new model that we are planning for the end of this calendar year or possibly the end of the financial year, Brands of Brand is a concept that we intend to launch. In that case, we will require inventory of approximately Rs. 10 lakh to Rs. 15 lakh, and capex would also be around Rs. 10 lakh to Rs. 15 lakh.

**Ashish Soni – {? NM Capital ?}:** Who are our competitors in this space? Are there any particular names? Also, at what price ranges do you sell your own brand, and what is the average selling price?

**Management:** For shop-in-shop, our pricing is between Rs. 199 and Rs. 499, which we sell through our SIS model. Among the core competitors in this segment, particularly in shop-in-shop, there is a brand called Mini Klub, which operates in shop-in-shop. For the EBO model, there is a brand called Doremi, which operates under the EBO concept. They are opening their own stores and are not present in the SIS model.

**Ashish Soni – {? NM Capital ?}:** In the opening commentary, you said you want to open stores in airports as well. Is the capex you mentioned related to that, or—

**Management:** This is the model we are planning to set up. We are planning to launch the Brands of Brand concept, under which we will open stores in high-street malls or airport lobbies. We want to have registered characters, garments, and accessories in that domain. This is a concept of its kind, which India does not currently have.

**Ashish Soni – {? NM Capital ?}:** Will you be targeting all the metros, or are you also looking at Tier 2 and Tier 3 locations? I am trying to understand where you are positioning this and what price range you are considering. You also mentioned accessories, so could you give us a broad overview?

**Management:** For the Brands of Brand concept, our initial target is Tier 1 and Tier 2. For shop-in-shop, we are targeting Tier 2, Tier 3, and Tier 4 because our price band is aligned accordingly. In the shop-in-shop concept, we are offering products at an MRP of Rs. 199 to Rs. 499, while the MRP for Brands of Brand would be between Rs. 799 and Rs. 1,499. Accordingly, this price band is for Tier 1 and Tier 2. For the shop-in-shop concept, our MRP positioning is for Tier 2 and Tier 3.

**Ashish Soni – {? NM Capital ?}:** You also mentioned accessories. What sort of accessories—

**Management:** Accessories definitely offer good margins. If we look at the Brands of Brand concept, and if we place accessories such as bottles, purses, or hairbands along with the garments, our margins will be significantly higher.

**Ashish Soni – {? NM Capital ?}:** Are you planning to sell accessories only under Brands of Brand, or are you already selling them in your current stores?

**Management:** No, this is only for Brands of Brand.

**Ashish Soni – {? NM Capital ?}:** SIS and EBO?

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**Management:** We are not doing that in SIS. In SIS, we are purely focused on garments, which is cost-efficient for an MRP of Rs. 199 to Rs. 499.

**Ashish Soni – {? NM Capital ?}:** Since Brands of Brand is a new concept, how much will you spend on branding and marketing over the next 2-3 years?

**Management:** The brand itself has its own customer base. If someone buys a T-shirt with a panda or Disney character on it, that character itself provides the branding.

Second, regarding what we are planning to launch at airports, the financial economics may not be suitable for us initially, because the airport stores may only reach break-even after some time and may not be profitable for us. Our profit will come from high-street shopping malls or online business. Once the customer sees the product at an airport, they may recall that they saw it there and then find it at a nearby mall or online. Therefore, our profitable segment will be malls and online, while the airports will provide visibility.

**Ashish Soni – {? NM Capital ?}:** In that case, can you tell us about the break-even? How many airports are you planning to open stores in? You are saying that the airports may not break even, while malls and online will be profitable. What is the thought process?

**Management:** They will break even. They will break even because rental costs are much higher there. If we cover those rental costs, we will reach break-even at the airports, but we will also get very good visibility and branding for our products there. That is why we are starting from there. This is our initial target. We may be wrong, and the airports may also become profitable for us.

Currently, there is no outlet at an airport offering value-for-money children's garments. You either get top-notch premium brands there, whose price bracket starts at almost Rs. 4,000 to Rs. 8,000. There are currently no outlets open in this price bracket. Therefore, we may be able to generate sales from there as well, and we have assessed this. Even if we sell 15 pieces per day from each kiosk, we will be profitable in that segment.

**Ashish Soni – {? NM Capital ?}:** Okay. But in which airports are you thinking of opening—

**Ashish Soni – {? NM Capital ?}:** Which airports are you currently considering? Is there any plan in place?

**Management:** We are already in discussions with three airports and are trying to obtain space. We are in discussions with Delhi Airport through GMR, and with Kolkata Airport because we are based in Kolkata.

**Ashish Soni – {? NM Capital ?}:** Understood.

**Management:** We are also in discussions regarding some Tier 2 locations, such as Lucknow Airport. We are currently planning for three airports.

**Ashish Soni – {? NM Capital ?}:** Will you open these 50 stores over the next 2 years, or will it take longer?

**Management:** We are planning to do that between financial years FY27 and FY28.

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**Ashish Soni – {? NM Capital ?}:** Are you referring broadly to all 50 kiosks and 50 EBOs?

**Management:** Yes.

**Ashish Soni – {? NM Capital ?}:** What is your plan up to FY29? You said that you are targeting 30% to 35% growth through FY28, but what is your growth plan from FY29 onwards?

**Management:** For Kidzcity, we are targeting revenue of Rs. 500 crore by FY29-30. We are internally working with a target of approximately 1,000 SIS shop-in-shop counters. By FY29-30, we are also targeting approximately 300 to 400 outlets through EBOs and the airport and high-street shopping mall kiosk model.

**Ashish Soni – {? NM Capital ?}:** All the best for the future, sir. Thank you.

**Management:** All right, sir. Thank you so much.

**Operator:** Thank you. Our next question comes from the line of Saransh Gupta with SAM Investments. Please go ahead.

**Saransh Gupta – SAM Investments:** Hi. Am I audible?

**Operator:** You are audible, sir. Please go ahead.

**Saransh Gupta – SAM Investments:** Thank you for the opportunity. Hi, Mr. Karnani and team. I wanted to understand something first. You highlighted that the shift from unorganized to organized kidswear is a key opportunity.

**Management:** Right.

**Saransh Gupta – SAM Investments:** The market is still fragmented and very price-sensitive.

**Management:** Right.

**Saransh Gupta – SAM Investments:** How do we plan to differentiate ourselves from the regional players or established brands that are present in the market?

**Management:** First of all, if I talk about established brands in kidswear today, you will not see any very large kidswear brand that operates its own in-house operations. Even FirstCry and Hopscotch are aggregators. They source from factories like us. None of them has its own operational channel through which it can source its own fabric, undertake its own designing, produce in its own in-house factories, and then sell the goods.

That is our biggest edge and our biggest advantage. We can bring products to market at a cost and with a level of product-cost efficiency that is much better than that of the so-called kidswear brands currently present. This is our biggest advantage. We can achieve significant scale in manufacturing and establish our own brand.

**Saransh Gupta – SAM Investments:** Would our focus in kidswear be domestic, or are we also looking at exports and setting up stores outside India?

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**Management:** No. Currently, we are focusing 100% on the domestic market.

**Saransh Gupta – SAM Investments:** What is the usual average inventory requirement for a store? When can we break even?

**Management:** If I look at a shop-in-shop, it will pay back to us in 9 to 12 months. We reach break-even within 9 to 12 months.

**Saransh Gupta – SAM Investments:** By the end of FY28, how many stores are we planning to set up?

**Management:** As I mentioned, by the end of FY29-30, we are planning approximately 1,000 shop-in-shop kiosks and approximately 300 to 400 airport and brand outlets.

**Saransh Gupta – SAM Investments:** All of them will be for airports, right?

**Management:** Sorry?

**Saransh Gupta – SAM Investments:** Will all 50 stores be based at airports, or are we also looking at other locations?

**Management:** No. Some of them will be at airports, but the majority will be in high-street shops, high-street malls, and high-end malls.

**Saransh Gupta – SAM Investments:** I believe the economics for mall stores will differ from those for airport stores.

**Management:** Sorry, could you repeat that?

**Saransh Gupta – SAM Investments:** I believe the economics for stores in malls are different from those for stores at airports.

**Management:** Yes, definitely. Currently, rental costs at airports are almost 4 to 6 times higher or more. Second, regarding footfall, we presume that the mall already has footfall because the primary purpose of visiting a mall is to buy goods. Customers and consumers who come to the mall are mentally prepared to find goods there and purchase them.

At an airport, visibility is much better because you spend 1.5 to 2 hours there. If something comes into your line of sight, you can recall it later. As I mentioned, our products will also be available online and in all the high-end malls, from where we will generate revenue.

We are also working on the following: if a customer buys something at Kolkata Airport and wants to exchange it at an outlet in Mumbai, the customer will be able to do so. We have already started developing the technology for this, and I believe we are expected to complete it by February or March.

**Saransh Gupta – SAM Investments:** Just one last question. What kind of revenues are we looking at from the EBO segment?

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**Management:** Per EBO store, we are targeting Rs. 50 lakh per year. If we achieve that, we will have a margin of around 13% to 14%.

**Saransh Gupta – SAM Investments:** Is this across both types of outlets?

**Management:** Yes, this is consolidated across our airport and mall revenue.

**Saransh Gupta – SAM Investments:** Understood, sir. Thank you very much, and all the best.

**Operator:** Thank you. Anyone who wishes to ask a question may press star and one. Our next question comes from the line of Puneet Singh with Counter Cyclical. Please go ahead.

**Puneet Singh – Counter Cyclical:** Hi, sir. As a follow-up to my previous questions, for our Karnika brand, what percentage of sales is to B2B?

**Management:** 98% of sales under our brand is B2B, and 2% is white labeling.

**Puneet Singh – Counter Cyclical:** Can you explain what B2B exactly means? Does it mean that distributors buy from us and then our products are placed in—

**Management:** It is a purely traditional way of doing business. We sell to some of the large buying houses, which we call commission agents or traders here. These are large buying houses, each with an individual turnover of approximately Rs. 500 crore to Rs. 5,000 crore.

We bill these respective buying houses and sell to them. From there, they sell to wholesalers across India. For example, one buying house here, called Gem Gem, is quite well known in the garment trade. Karnika will bill Gem Gem, and Gem Gem will bill wholesalers, such as Jindal Garments in the Delhi market. Gem Gem will bill Jindal Garments, and Jindal Garments will sell to retailers within a 100-square-foot or 100-kilometer radius. End consumers will purchase the goods from the retailers. This is the purely traditional way of doing business. This is Karnika's core domain, which we continue to operate in.

**Puneet Singh – Counter Cyclical:** These are local shops in the local market?

**Management:** Definitely. Wherever there is a local market, we send our goods to the shops near that local market, and that is Karnika's consumer base.

**Puneet Singh – Counter Cyclical:** In Kidzcity, do we sell under the Kidzcity brand name, or do we also sell the Karnika brand?

**Management:** In Kidzcity, we sell under the Kidzcity name for shop-in-shop. For B2B, we operate under the name of {? Didos ?}.

**Puneet Singh – Counter Cyclical:** What are the payment terms in this B2B business, and what kind of growth are we looking at in this B2B segment? Or is growth primarily focused on Kidzcity?

**Management:** One of the major challenges in the B2B garment trade is working capital, because the payment cycle in B2B is approximately 3 to 4 months. We are trying to reduce it to 90 to 100 days, but it is still above or approximately 4 months.

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In our product mix, we are also including white labeling for large corporates such as V-Mart, Vishal, and V2, which are value retail chains with which we are currently entering into tie-ups. Their payment terms are somewhat better. They generally pay us within 60 to 75 days. By entering into these tie-ups and consolidating them with our traditional business, we plan to reduce the debtor cycle to around 90 to 100 days.

**Puneet Singh – Counter Cyclical:** What are the inventory returns in this business?

**Management:** Inventory returns are less than 1% because these are fast-moving items and we make only value-for-money products. Even in the B2B Karnika brand, our WSP is between Rs. 150 and Rs. 500. We are essentially catering to the mass market, so generally we do not receive returns.

**Puneet Singh – Counter Cyclical:** The 30% to 35% growth we are expecting will mainly be driven by Kidz—

**Management:** Kidzcity.

**Puneet Singh – Counter Cyclical:** Kidzcity?

**Management:** Yes. Karnika will gradually grow at its standard year-on-year growth of 20% to 25%, which it is achieving, and Kidzcity will be the major driving factor for us.

**Puneet Singh – Counter Cyclical:** What is the working capital cycle for Kidzcity?

**Management:** Sorry?

**Puneet Singh – Counter Cyclical:** What is the working capital cycle for Kidzcity?

**Management:** It is almost the same as Karnika's because there are no debtors here and we realize cash, but the inventory channel will be much higher in this case. We have to produce the goods and then sell them ourselves through the end stores. Until sales revenue is generated, the inventory cycle becomes longer for us.

There is no debtor cycle here; instead, the inventory cycle becomes longer. In Karnika, the inventory cycle is somewhat shorter, but the debtor cycle becomes longer.

**Puneet Singh – Counter Cyclical:** So, the working capital intensity will remain the same going forward?

**Management:** Right, sir. The major requirement for the garment business is working capital.

**Puneet Singh – Counter Cyclical:** How many EBOs do you currently have for Kidzcity?

**Management:** We have only one EBO, which is in Pune.

**Puneet Singh – Counter Cyclical:** Do you plan to open your EBOs only at airports, like the kiosks you mentioned, or do you also plan to—

**Management:** I have already spoken about this. We are planning for airports and high-end malls.

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**Puneet Singh – Counter Cyclical:** Okay.

**Management:** The EBO concept is for the Brands of Brand concept, while our value-for-money products, with an MRP of Rs. 199 to Rs. 499, will be offered through the SIS model. We are targeting Tier 2 and Tier 3 locations for the SIS model.

**Puneet Singh – Counter Cyclical:** How does our brand compare with a company called Poplon United, which I believe is a listed company in the same space, or with FirstCry?

**Management:** As I explained, FirstCry outsources from factories like us. We also provide FirstCry with 4 or 5 of its brands through white labeling. However, in Karnika, we source our own fabric, undertake the entire process ourselves, and manufacture the goods. Therefore, we can provide them with products at much better rates and with better economics. We want to grow our business profitably rather than focusing only on mass expenditure, marketing, or similar activities.

**Puneet Singh – Counter Cyclical:** Understood, sir. Thank you very much. I will join the queue again.

**Management:** All right, sir. Thank you.

**Operator:** Thank you. Our next question comes from the line of Mr. Jeswani with YouFirst Capital. Please go ahead.

**Komal Jeswani – YouFirst Capital:** Thank you for taking my question. Congratulations on a good set of numbers. In how many states in India are our products currently present?

**Management:** We operate across India, covering 28 states. We do not sell directly to wholesalers. We sell through some of our large buying houses, and they sell across India.

**Komal Jeswani – YouFirst Capital:** Do we have any regional bifurcation, such as East or another zone?

**Management:** Region-wise, there are two billing methods. One is bill-to-ship-to, and the other is where they take the goods in their own names for their own warehouses and sell from there. When they bring the goods to their own premises and sell from there, we do not have that data. Since their billing is through local agents and local buying houses, that sale appears as West Bengal sales for us. However, wherever they undertake bill-to-ship-to sales, we can identify the region. Our maximum sales are 55% in—

**Management:** The 55% will be in North, East, and North India, while 45% will be in Central and South India.

**Komal Jeswani – YouFirst Capital:** North and Central have the maximum sales?

**Management:** Right.

**Komal Jeswani – YouFirst Capital:** We do not have much presence in South India?

**Management:** We have approximately 45% in Central and South India and approximately 55% in the North and Western regions.

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**Komal Jeswani – YouFirst Capital:** We are present in almost all regions, then. Is this for our own brand, or also for the wholesalers you mentioned?

**Management:** We are doing this only through B2B. Karnika is operating only through B2B sales to wholesalers.

**Komal Jeswani – YouFirst Capital:** What about our own Kidzcity brand?

**Management:** Even in B2B, we sell under our own brand name, Karnika. Kidzcity is our B2C brand, under which we sell directly to consumers.

**Komal Jeswani – YouFirst Capital:** Which region contributes the maximum sales?

**Management:** For shop-in-shop, we currently have a presence in West Bengal, Odisha, Jharkhand—

**Komal Jeswani – YouFirst Capital:** Okay.

**Management:** —and Bihar.

**Komal Jeswani – YouFirst Capital:** Mostly East India?

**Management:** Yes, mostly Eastern India. We are now planning to expand into Central India, including the Madhya Pradesh belt. We are planning to roll that out.

**Komal Jeswani – YouFirst Capital:** You gradually want to expand across India?

**Management:** Yes, we are expanding region by region so that our operational efficiency will be much easier to manage.

**Komal Jeswani – YouFirst Capital:** Correct. Fine, thank you very much, and all the best.

**Management:** Thank you.

**Operator:** Thank you. Our next question comes from the line of Ashish Soni with Anand Capital. Please go ahead.

**Ashish Soni – Anand Capital:** If we undertake this level of expansion, what will happen to debt? Will we maintain debt at the current level or raise more debt? What is your plan?

**Management:** No, sir, we do not want debt to grow significantly. We want to continue with the existing debt. If we require another round of funding for expansion, we will opt for a preferential allotment or equity, depending on what our professionals advise.

**Ashish Soni – Anand Capital:** When do you plan to do this? In which year?

**Management:** It will depend on how and when the requirement for capital arises. At present, our operations are being funded by our own sources, retained earnings, and profits. If we see an opportunity for immediate large-scale expansion, which would primarily be required for the Brands of Brand concept and would require a healthy capital infusion, we will prepare the complete plan. Once the funds are infused, the requirement will arise accordingly.

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**Ashish Soni – Anand Capital:** Do we have our own manufacturing capability for this expansion, or will we also need to expand manufacturing?

**Management:** Manufacturing is not a challenge because we undertake the core processes in-house. We can expand those processes from our existing setup without incurring significant capex. Wherever capex is required, we undertake those processes through job work. Therefore, we will not require significant capex.

**Ashish Soni – Anand Capital:** Will we manufacture the accessories ourselves, or will we outsource them?

**Management:** They will be outsourced because they cannot be produced in our own manufacturing setup.

**Ashish Soni – Anand Capital:** You mentioned that we undertake white labeling for FirstCry. Are there any particular brands that we can check in stores to identify the products we sell through white labeling?

**Management:** You will not see my brand in white labeling because the customers apply their own branding. If you want to see our brand in B2B, you can visit Hopscotch, where you will find products such as Karnika Care and Karnika Kid. We also have our own Kidzcity online website, where you can purchase any product and verify its quality.

**Ashish Soni – Anand Capital:** Do you know which particular brands FirstCry uses?

**Management:** We work with Mark & Mia. We also work with Ed-a-Mamma and Disney. They have around 10 to 12 products, and we primarily work with these three.

**Ashish Soni – Anand Capital:** Do you have any marketing plans? Since you are planning to expand significantly, you said it will be built through your efforts, but you will still need to spend on marketing to build your brand. How much would that cost over the next 1 or 2 years?

**Management:** If we undertake the Brands of Brand concept, we are already incurring expenditure on minimum guarantees. If I take a license for any character, it results in a significant expenditure. For example, if I take a license for Disney for 1 year, the minimum guarantee alone is around Rs. 50 lakh to Rs. 80 lakh. Similarly, if we take any registered character on a licensing basis, that itself represents a significant cost. This cost is currently a driving factor because if you advertise the character anywhere, including online or on social media, it automatically creates a brand.

As you mentioned, Disney is also a brand on FirstCry, producing goods only with registered characters, and it has a limited number of SKUs. They do not maintain a large number of SKUs. Our concept will not be limited to Disney. It will also include Marvel, Disney, Panda, and other characters that are currently popular. We will develop these different characters and, over the long term, we also want to develop our own Indian character so that we can build its branding.

**Ashish Soni – Anand Capital:** How many brands are you considering for licensing at present?

**Management:** We have projected approximately 12 brands. And—

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**Ashish Soni – Anand Capital:** Twelve brands would mean an expenditure of almost Rs. 10 crore per year.

**Management:** That is the minimum guarantee. The minimum guarantee would be around Rs. 6 crore to Rs. 8 crore.

**Ashish Soni – Anand Capital:** For building your own brand, will you develop characters separately in addition to these licensed brands?

**Management:** If all the operations run through our stores and the outlets are profitable, we can start our own branding alongside them by creating a character and building the brand around it.

**Ashish Soni – Anand Capital:** Understood. Thank you, sir, and all the best.

**Management:** Thank you so much, sir.

**Operator:** Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one.

As there are no further questions from the participants, I would like to turn the conference over to management for the closing comments. Thank you, and over to you, team.

**Management:** Thank you, everyone, for listening and patiently understanding what we are doing, and for being patient with our journey. Hopefully, we will achieve the next milestones with all your support. Thank you so much.

**Operator:** Thank you, team. Ladies and gentlemen, on behalf of Go India Advisors, that concludes today's call. Thank you for joining us, and you may now disconnect the lines.

**Management:** Thank you, boss.

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