



“Indo Count Industries Limited Q2 and H1 FY22 Earnings Conference Call”

October 27th, 2021

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q2 FY22 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to **Mr. K.R Lalpuria – Executive Director and CEO of Indo Count Industries Limited**. Thank you and over to you Sir!

K.R Lalpuria: Thank you. Good afternoon and a very warm welcome to all of you to Indo Count Industries Q2 and H1 FY22 earnings call. I hope you and your families are keeping safe and healthy. I have with me Mr. Muralidharan, our CFO, and Strategic Growth Advisors, our Investor Relation Advisor. I am happy to connect with you all once again to discuss the Q2 and H1 FY22 performance.

Let me first explain the industry and business scenario in Q2 and H1 FY22 and the way forward.

We continue to see momentum in our markets, especially the USA. This momentum is across big-box retailers, omnichannel distribution platforms and is on the back of a lot of structural and sustainable changes in the marketplace witnessed over the last 18 months.



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The normalcy in economic activity following increased vaccination around the world is also increasing the confidence of retailers and the entire supply chain.

What is making India gain from this is, our inherent strength in being a cotton textile manufacturer with technical skills to deliver innovative products. The China+1 theme is further accentuating this growth and we now believe that the Government of India's effort on various treaty and FTA agreements will help us further to move ahead and be a reliable and credible supplier to the global textile market in the world.

I must mention the government's clear thrust is not only to support the textile sector but also to see its exponential growth. The government has targeted to increase textile exports three times from the present export value of \$33 billion to \$100 billion of textile exports over the next few years.

The government is all set to take advantage of a global market shift where China is currently ruling the market. Indian home textile industry has been witnessing positive trends due to increased demand towards health, hygiene, and wellness products in the marketplace.

We believe India will continue to benefit from its position as the world's largest producer of raw cotton and a net exporter. This is also visible in OTEXA and other statistical data where India's share in the US as compared to China has improved.

Talking about the industry challenges over the past few months, the industry has been witnessing headwinds related to increase in overall input costs, rising freight cost, unavailability of shipping containers, and



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longer transit duration whereby increasing the load on working capital requirements.

With humble pride, I am happy to announce that we have been able to navigate through these challenges and deliver our highest ever half-yearly revenue and EBITDA. We are confident to achieve revenue of Rs.3200 Crores plus for the year and sustain an EBITDA margin of 18% to 20%.

Having entered the largest sub-segment of fashion, utility, institutional bedding in 2016, we have continued to make all-around efforts in terms of innovation, service, delivery, and capacity to grow our brand equity in this segment. Our performance continues to remain on track for the fashion, utility, institutional side of this business.

We are making a lot of efforts on digital marketing, e-commerce, developing health and hygiene products, and other innovative ways to reach out to our customers and thereby strengthening our relationship with them. We continue to remain laser-focused on increasing our share in the e-commerce and branded business both locally and globally.

On our domestic brands, 'Boutique Living' an aspirational brand and 'Layers' our value-driven brand is being very well accepted in the marketplace. Our focus to capture a larger pie in the growing Indian textile market looks very promising.

We are focusing on brand promotion in the US, UK, Middle East, and India through ten active brands. We believe with innovation and technological capabilities along with license brands, patents, trademarks this will further strengthen our brand offerings to our customers.



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Now a few updates from my side; the additional Brownfield capacity of 18 million meters is on track and the same will operationalize by Q4 FY22. This will increase our total annual capacity to 108 million meters.

I am happy to inform you that during the quarter, Indo Count has been awarded the prestigious Mahatma Award 2021 for doing excellent work in CSR.

We are focused on creating a strong springboard for our long-term strategic priorities. Our order book continues to remain healthy, and we continue to remain optimistic. With our performance and capacity in place, both as a country and company, we should achieve new milestones in the years to come.

Before I move to the financial performance, I would like to sum up by saying that our strategy revolves around being customer-centric in our approach which allows us to create innovative products, move up the value chain with our customers thereby gaining market share. This is also an outcome of the past many years effort on improving the business mix and moving up the value chain to higher-priced segments as wells product innovative-led segments.

Furthermore, it is heartening to see that our customers continued belief in our capability which makes us confident of sustained growth in times to come.

Now let me share with you our financial performance.

Total income Rs.767 Crores in Q2 FY22 versus Rs.724 Crores in Q2 FY21 a growth of 6% on a Y-o-Y basis. Total income Rs.1,476 Crores in H1 FY22 versus Rs.1,060 Crores in H1 FY21 a growth of 39% on a Y-o-Y basis. Kindly



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note H1 FY22 total income excludes the RoSCTL benefit of Rs.49.99 Crores for the period of January 1, 2021 to March 31, 2021.

EBITDA: EBITDA of Rs.139 Crores in Q2 FY22 versus Rs.127 Crores in Q2 FY21 a growth of 10% on a Y-o-Y basis. EBITDA margin stood at 18.2% in Q2 FY22 versus 17.5% in Q2 FY21 an increase of 64 BPS on a Y-o-Y basis.

For H1 FY22 EBITDA of Rs.267 Crores versus Rs.166 Crores in H1 FY21, a growth of 61% on a Y-o-Y basis. H1 FY21 EBITDA margin stood at 18.1% in Q2 FY22 versus 15.6% in H1 FY21 an increase of 245 bps on a Y-o-Y basis. Kindly note H1 FY22 EBITDA margin excludes RoSCTL benefits of Rs.49.99 Crores for the period of January 1, 2021, to March 31, 2021.

Now PAT: Rs.85 Crores in Q2 FY22 versus Rs.81 Crores in Q2 FY21. PAT margin at 11.1% in Q2 FY22 versus 11.2% for Q2 FY21, Rs.202 Crores in H1 FY22 versus Rs.99 Crores in H1 FY21, a growth of 105% on a Y-o-Y basis. PAT margin at 13.7% in H1 FY22 versus 9.3% for H1 FY21.

Now, this is all from my side and I open the floor for the question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mihir Shah from Momentum Advisors. Please go ahead.

Mihir Shah: Congratulations Sir on the very good performance. It is good to see the revenue guidance of about Rs.3200 Crores plus and margin guidance of about 18% to 20%. Sir, I understand that we must have passed on some increase in the input prices to the consumers. I just wanted to understand how much of these price increases have already been passed on in the



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first half of this year and going ahead how much further price increases we can expect more to be passed on?

K.R Lalpuria: The realization overall has increased. It is a combination between the product mix as well as the price increase which we have received from the customers. So we are still engaged with our customers and we see that there will be more price increase which we will receive from them in the next two quarters and ahead of that. We do not have a fixed number for that, but yes we have received a price increase from our customers.

Mihir Shah: So in the second half can we expect some more increasing prices to be passed on?

K.R Lalpuria: Yes, we are engaged with the customer on a continuous basis because the situation is volatile as various inputs costs are increasing. And we are continuously engaged with them to see how we can pass on higher cost to them.

Mihir Shah: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam AMC. Please go ahead.

Jiten Doshi: Good afternoon Mr. Lalpuria. First of all many, many congratulations that despite a very difficult environment the company has been able to demonstrate such a good margin and also I think your guidance reaffirms the growth trajectory for the company. But if I now just go to your guidance and look at the upper end of your guidance this means that you are looking to deliver 50 million meters in the second half and if you talk of a 18% to 20% margin and if I go to the upper end of your margin band



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effectively you need to do about close to 21% to 21.5% margin to meet the upper end of the band guidance, is that correct?

K.R Lalpuria:

Yes, we have given revenue guidance of over Rs.3200 Crores. and volume guidance of 85 million meters to 90 million meters. Of course, the challenges are there as we move ahead but we have got a healthy order book position, along with good customer base and a very strong product profile wherein our customers are very much satisfied. Also, we are investing into the supply chain side and product innovation continuously as a company and we are quite optimistic and confident that we should be able to meet out our guidance going forward.

Jiten Doshi:

We are very enthused looking at your performance and despite such a challenging environment you have been able to report these kinds of margins; if there are any drops in commodity prices will that mean that margins can expand in the future?

K.R Lalpuria:

Yes definitely. This is an evolving situation in our business. We definitely need to work jointly the business plan with our customers. So, in this evolving situation of course we always strive to see how our margin growth is there and how we can sell but at the end of the day, the consumer pays the price, and the market share is decided upon by the prices at a later stage. I think we are also positive on this front. As we move ahead, we see that if supply chain and other issues are settled, India as a country and we as a company are very well positioned in the marketplace. We feel that we should be able to get a better margin profile going forward as we are focusing on various other strategies for B2C, D2C, e-commerce, and the domestic brand outlay, etc. Our entire focus going forward will be on value creation as we need to absorb the costs also; so we are quite confident on this front.



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Jiten Doshi:

Sure, but Mr. Lalpuria you mentioned that the Commerce Minister has set out a target to go from 33 billion to a 100 billion in exports in the next couple of years and I am sure that your target is to do better than industry and better than what the ministers have said so I think that you will be looking at a capacity requirement of minimum 250 million meters so this 108 is like a trailer; when will we see the main movie because we believe that you will run out of capacity in the next one year itself the way the demand is growing so would you be looking at a Greenfield; are you exploring any further capacity expansion through our Greenfield project in a new location?

K.R Lalpuria:

See as a company, we have various plans and strategies and as we move ahead. If you observe you will notice that we started with 36 million meters and today, we have grown to 108 million meters in the last one decade. As a company we have grown this business continuously with a good CAGR and we hope that we will continue it. As I mentioned like India being positioned strongly as a textile hub with adequate raw material, traditional labor force, and competitiveness and a performance which has proved in the near past, we feel quite confident that the government is right on deciding about projecting Indian textile export target of \$100 billion.

Just to tell you that the total global textile market is \$840 billion even a 1% shift is \$8.4 billion will make a difference. Today China is 34% and India is just at 4%, so that is the gap which looks promising to fill in; so we have a great journey ahead as a company. We are fundamentally very well established as a key player in the home textile area. We are recognized globally in 54 countries, and we are making all efforts to see that how we can grow our business going forward and scale to new capacities and achieve new milestones.



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- Jiten Doshi:** But Mr. Lalpuria what was very pleasing was despite the shortfall of about 10% in your volumes for exports still you have reported this margin which means you have booked all the cost in the elements or cost element has already come in the result and you have not realized the value of the same is that correct?
- K.R Lalpuria:** Yes, you are correct, because we have shipped the goods and it is in transit and as we all know that the ships do not get a berth due to port congestion and that is why we were unable to book the sales.
- Jiten Doshi:** You mean if this was already shipped your results would have been far better?
- K.R Lalpuria:** Yes, to a certain extent.
- Jiten Doshi:** Wonderful. Wishing you all the very best and wish you a very Happy Diwali and all the very best and keep continuing to make this progress and please do think on a Greenfield capacity of at least another 100 million the way your company is growing. Thank you.
- K.R Lalpuria:** Of course, we will take your advice. Thank you very much and wish you a Happy Diwali as well.
- Moderator:** Thank you. The next question is from the line of Bharat Chheda from ICICI Securities. Please go ahead.
- Bharat Chheda:** Thanks for taking my question. Sir, I had a question about our realization. There has been a cost increase like yarn prices going up so is there a scope for our realization to move up from here?
- K.R Lalpuria:** As I mentioned the realization is a combination of various factors and as a company, we have been focusing on value addition and various other



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strategies to increase our footprint on the fashion bedding, domestic brand outplay, etc. So we as a company are quite innovative in presenting the market new products where we get a better acknowledgment on the price level and we play out on the mid to high level as well as the premium level.

We have patented products and our brand outplay is very well accepted now among the retailers. So the margin increase is a combination of all these various strategies within the last three, four years. Also, we are scaling up our distribution channels to e-commerce, and to other Omni channels to see how we can serve the customer very well. So, overall the margin as I mentioned earlier is a combination of the product mix and focus on the value addition as well as service to the customer to our level best.

Bharat Chheda: My worry is from the perspective like global retailers themselves are facing a lot of margin pressure. like if you look at this Bed Bath & Beyond, they have revised the guidance lower because of higher imports cost so would not they be telling us to curtail our margins or something is there some pressure on that from the major retailers front sir for us.

K.R Lalpuria: Challenges are there of course as you rightly said on the raw material side, on the logistic side but we as a company are trying to navigate through it and we are successful in presenting the same to our customers so that they can acknowledge it and have a better price in their market place; and as to what you said about Bed Bath & Beyond, I think they are doing fairly well. They have launched various brands, they have done repositioning of themselves in the marketplace and they are a strong retailer with good cash on the books, so as a company they have done pretty well.



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You cannot evaluate retailer like Bed Bath & Beyond in one or two quarters, this is a specialty retailer and as the market is moving on the health, hygiene, wellness segment, so the company is taking strides to see how they can increase their footprint into this particular product category. As we move forward, of course, the challenges are there and we will keep you updated from time to time but as a company, we see that we will try to face them well as and when it comes and we will tide it over.

Bharat Chheda: Sir my point is our realization is close to Rs.375 now and it has gone up significantly from last few quarters so is this sustainable and any further cost we will be able to pass it on in the current scenario because all these questions are related to that so would we be able to pass any further price input cost hike because we are already at a good realization level?

K.R Lalpuria: Well, of course as I mentioned we are engaged with the customer. They know that the cotton commodity worldwide has moved up and everybody is facing issues on the cost side on the various inputs whether it is paper or packaging or biochemical or cotton but yes we are engaged with our customers and we are confident that we will be able to convince them over the price rise as well as to move ahead on our guidance as what we have provided to sustain it at 18% to 20%.

Bharat Chheda: Thanks for the opportunity, Sir. Thanks for answering the questions. Thank you.

Moderator: Thank you. The next question is from the line of Kapil Jagasia from Edelweiss. Please go ahead.

Kapil Jagasia: Congratulations on a steady set of numbers. Sir my first question is your realization per meter has gone up by around 25% on a Y-o-Y basis. what would be the breakup of some price hike or product mix improvement? I



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just wanted to know like fashion bedding, institutions and all these beddings would be contributing how much to the revenues now?

K.R Lalpuria:

We had reported that these three segments contribute almost 16% and now annually we will provide you the number but it is inching up on the increased revenue as this business has also increased for us and where we can derive value. And as I mentioned earlier whenever you have additional cost you try to absorb in the product cost and you try to sell a better product to the customer and the marketplace.

So, with the help of various tools like branding, distribution, and increasing our service level we have been able to come around with the customer to see that we get a proper price increase as well as we move up the value chain and by providing additional service levels, we can increase our realization and maximize it. As I mentioned it is a combination of various factors which is helping us derive this additional revenue, additional margin.

Kapil Jagasia:

Sir you have been guiding volume and also revenue this quarter so it would be really helpful if you can guide us through your operating margins for this particular year and also for FY2023 if possible, like what margin should we built-in?

K.R Lalpuria:

We have already provided that; we have continued with our guidance of 85 to 90 million meters and the margin guidance also we have provided that we will be able to sustain 18% to 20%.

Kapil Jagasia:

For this particular year and also for next year we will be implementing that and Sir just the last question from my side, I would like to know your thoughts on the PLI and textile parks schemes announced by the



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government like how much these announcements can help the textile industry growth just your thoughts on it?

K.R Lalpuria:

The whole objective of the government as I mentioned is focus on the textile sector and to see how they can grab this opportunity of having much better market share in the overall global textile trade. The overall global textile trade is also moving at 3% so if it is \$ 840 billion and even as I mentioned China is having 34% of this as market share and India is just having 4% there is a big gap to capture, and the government sees it as a big opportunity there.

India as a country is well-positioned with raw material and it is traditionally a textile hub and producer, so the focus of the government in this PLI scheme is to recognize MMF sector and technical textiles and support how they can scale up their presence in the world global textile trade; as to the textile park, it is offering a plug and play atmosphere wherein a lot of MSME and other exporters can take advantage and participate in the overall textile growth and even in our economy.

So, these are positive steps from the government side to see how the overall textile trade can be helpful for development and growth across all fiber categories, whether it is MMF or technical textile or cotton textile etc. So, this is a positive step by the government.

Kapil Jagasia:

That is great. Thank you for answering all the questions, Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Sajal Gupta from FE Securities. Please go ahead.

Sajal Gupta:

Congratulations for posting such a great performance in such difficult times, really appreciate your team efforts, very commendable. Lalpuria Ji



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my question to you is that as I will not be reiterating to most of the questions which have been asked by the other people. So my one of the questions is how do you see the demand outflow for the next three to four years in the business?

K.R Lalpuria:

Home has become the center stage as we all know because of the culture which has developed we were working from home and the homebody economy as we all mentioned has come to the center stage of our life and lifestyle. The home textile consumption has grown across the board and we see the momentum continuing in the next three-four years as people are spending more time at home; they have realized that they should upgrade their homes for a better living and that is the way of life going forward so we feel that this momentum will continue and since India is well-positioned in the textile hub, it should get the maximum benefit as there is a China+1 strategy playing out. The brands and retailers do not want to focus on a single geography and would like to de-risk their supply chain; so going forward the momentum will continue, we will see uptick in demand from India as India is well-positioned and we as a company will also achieve new milestones in this textile segment.

Sajal Gupta:

Tell me one thing like the government is signing the FTAs right now and there was a question that was asked by one of the gentlemen that when do you see that increasing your capacity to 250 million? Or let me put it this way when can we see that the company achieving a 180 million meters sales? By which year can you see your sales achieving that number?

K.R Lalpuria:

As I mentioned earlier you know we started with 36 million initially and today we are at 108 million so as a company we have continuously grown. We have a steady growth of almost 15% CAGR so that is how we look at it. We look upon different opportunities to see that how we can grow



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exponentially rather than incrementally, and India also is positioning itself to grow from \$ 32 billion currently to \$ 100 billion, so we will also share the pie and definitely we keep aspiration of coming to that 180 million number, which everybody is asking but definitely as a company we do aspire with that, and we are well-positioned as a home textile manufacturer. We are in this textile trade for the last three decades and we started with raw materials like spinning so we have the experience, we have the expertise we have the recognition, we have the performance, and we have the competitiveness so I think we can achieve those numbers going forward.

Sajal Gupta: I agree. However, the reason I am asking for that 180 million is once the FTAs gets signed with different countries in coming six, seven months, it will open up a new area for you or new countries for you to start exporting. So, If you would meet your capacity expansion much before you hit those numbers so this quantity should we have very sooner than later?

K.R Lalpuria: The board do recognize this fact that as a company we are growing and they do recognize the fact that we need larger capacities and we had been working upon various options and Greenfield investment is one of the options; so at the proper time, the board will take appropriate decision to see that we service our customers with all our capabilities and capacities. We have the desired funds within the company to invest in our growth and we are quite confident that whenever we are required to meet this incremental and exponential growth, the company will put it best foot forward to increase the capacity to this level, why not.

Sajal Gupta: That is all from my side and thank you very much and wish all the best to the management and the company to achieve more new heights. Thank you so much.



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Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: I think your results came as a pleasant surprise. However, the market does not seem to have appreciated the real story behind our growth, profitability, etc. Sir, I just wanted to know just the numerical information if you can provide, we had Rs.73 Crores of other income in the first half so can you give a broad breakup of what that it comprises of?

K.R Lalpuria: See the other income is part of our business income. Around Rs.57.5 Crores is our forex income, and the rest is our interest income.

Hasmukh Gala: Sir how many export incentives have been approved?

K.R Lalpuria: We are able to realize only around 7.5% to 8% in the overall revenues and it varies because whenever you ship different product categories the rates are different; for example for pillows there is different rate 5% on the fabric, it is 4% on certain other product categories, and then we sell this scrip also we realize 92% of the value so if you consider overall it should range anywhere between 7.5% to 8%.

Hasmukh Gala: Sir another thing I have noticed is that our other expenses have increased substantially is there any particular reason?

K.R Lalpuria: I think if you look at it on a Y-o-Y basis it is on a similar line. The overall increase might be due to logistic and freight costs, other than that I do not think there is any increase in the other expenses and if you compare on a Y-o-Y basis it is more or less the same.

Hasmukh Gala: But in terms of percentage to sales it has increased from 27% to 29% so I was just wondering can there be any one-off item?



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- K.R Lalpuria:** The logistic cost which I mentioned has increased substantially so that will be impacting the overall other expenses otherwise I think we are fine.
- Hasmukh Gala:** Sir last question we take about your order book pending position, can you give us a color as to how many months of revenue visibility do we have?
- K.R Lalpuria:** The order book is always like we have 5 to 6 months visibility on the business and that's where it provides us the necessary boost to provide you guidance of Rs.3200 Crores and that is where we are coming from.
- Hasmukh Gala:** Sir how much Capex we will incur in H2/ second half?
- K.R Lalpuria:** See overall Capex like will be completed by Q4 FY22 which is around Rs.200 Crores.
- K.R Lalpuria:** There might be some escalation due to the cost input increase, but we are on track and as we speak, This Capex is a work in progress, and we should be able to give you better guidance and numbers in our third quarter.
- Hasmukh Gala:** In the first half as we did only Rs.40 Crores so I was just wondering that whether we will be spending even with the entire Rs.160 Crores in the second half.
- K.R Lalpuria:** Around Rs.60 Crores we have already spent, and the rest is in pipeline.
- Hasmukh Gala:** Okay, which will be getting reflected, in the value of Gross Fixed asset or the capital work in progress; might be land in the advance to capital vendors, right?
- K.R Lalpuria:** Yes.



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Hasmukh Gala: I will not repeat all the questions which have already been asked. I wish you all the best and Happy Diwali to you all at Indo Count, Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Vikram Vilas Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Sir, you have talked about the supply chain issues but just to make it slightly more clear how much increase is there in lead time compared to earlier and now and in terms of the cost also if you can give some sense about how much impact it is in their cost in terms of the product cost or whatever number you can share and impact on the inventory level or working capital and how long it can continue this impact on a company? and as a country are we seeing any impact between China and India because of supply chain issues where Chinese players could maybe at an advantageous stage or in the supply chain or something if you can give your highlight I think that would be helpful?

K.R Lalpuria: As I mentioned earlier the supply chain issue is continuing and the cost factors are also evolving around it. With some vendors we have a contract with some we do not have, there are various issues like not getting the containers or the containers taking longer duration, or we miss out the frequency of the ships so various factors are impacting and we cannot just calculate the impact on a particular cost center. We all know that the input cost across the board whether it is cotton or yarn or gray fabric or dyes chemical or packing material have gone up quite substantially, so it is an evolving situation.

But you can see from our Q2 presentation is that almost 4% our gross margin has been impacted when we compare on a Q1FY22 basis. so that you may summarize the impact so far. Going forward as we mentioned



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that we are trying to navigate this with a better product mix engaging with the customers to see that how we can pass on and get the price rise and we have certain measures to see how we can make a better product and sell in a better market with a better price realization. Our entire focus is into how we can take these challenges and as a company now we can adapt to these challenges and move forward.

China is having a major market share but the cost in China has moved up. We also observed that the issue regarding the Xinjiang area where the cotton coming from this area is banned and the China+1 strategy in the minds of the brands and retailers to shift their sourcing to other Asian countries. Since India is well-positioned as a textile raw material producer and has been a good supplier in the past and it is not just a labor arbitrage like Vietnam and Bangladesh. I think we as a country stand to gain much of the market share due to competitiveness which China may lose. They are also trying to face similar challenges over there so, if it gets resolved with them it will get resolved for us as well in time to come.

We think that this supply chain issue will continue for some time but at some point in time in near future, they need to diminish. With that note, I would like to say we will keep navigating through these challenges and we will always try to see how we can maximize our revenues our margins, and our volumes going forward.

Vikram Suryavanshi: When we get an order from the USA, our responsibility is to deliver goods. Is still Indian ports forms the majority of customers & we need to deliver it to their warehouse in the USA. So to what extent do we look at the supply chain on our own and how customers look at it?

K.R Lalpuria: Almost 70% of what we sell is on a FOB basis. So, only 30% is on CIF and C&F basis, which we will need to manage ourselves, but yes, since we are



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together in this problem with the customers, we have to see how we accommodate to complete our joint business plan and to see how we help them protect their market share and how we protect our market share going forward. So it is two ways, planning of the business, which we are all doing and I can tell you that the customer is also putting the best foot forward to see how they can tide over this problem because this is a quite unprecedented situation in which we are. So, it is one-off situation, which we all have to face, and let us all hope that this will subside in the future. So, this is what the situation is.

Vikram Suryavanshi: Last question earlier how many days normally is taking for products to reach the USA and how much currently is taking time compared to earlier normal time?

K.R Lalpuria: Normally the shipping frequency to the US port East Coast was around 20 days and for clearance etc., and for reaching it to the customer warehouse for another five to seven days. So, it used to take 25 days almost to reach the customers distribution centers or the warehouse, but in today's situation it is taking more than 45 to 60 days so this is what is alarming and that is the reason the goods which we have shipped have not reached; we have shipped some of the goods in the month of even August. So, that is where the timeline is.

Vikram Suryavanshi: Thank you, Sir. That was really helpful.

Moderator: Thank you. The next question is from the line of Kirti Dalvi from Enam AMC. Please go ahead.

Kirti Dalvi: Good afternoon, Sir. Congratulations on good operating performance. Sir, couple of questions from my side; first if I see your first-half performance in terms of volumes and realizations, our realizations have improved in



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dollar terms as well. So, despite currency has been depreciating on the first half if one compares, still, our realization in dollar and rupee has improved, so when you are guiding for some 90 million meters with that kind of realization so Rs.3200 Crores revenues seems to be a quite a lower number for me to assume even say in the second half also quite lower realization.

Say, you have done roughly around say Rs.400 per meter kind of realization even if one considers 10% discount to that still you will be able to cross Rs.3200 Crores easily assuming 90 million meters. So, just wanted to understand am I missing something in this?

K.R Lalpuria:

We have given the guidance despite all these challenges. There are lots of uncertainties around the supply chain, in the input costs and various other factors impacting the businesses but looking at the order book position and our business currently what we have in hand, we have given guidance. There is always an aspiration to do much better and increase that target by almost 5%-10% going forward. we have hedged our forex position very well and with a good policy in place and we are quite hopeful to better it as you mentioned.

Kirti Dalvi:

Because even if one assumes some product mix changes, ideally the realization should sustain roughly around \$5 per meter in dollar realization also because sequentially also your realization has improved, despite currency being where it is. If one sees there is a currency depreciation which has happened on a half-yearly basis versus last year's half-year. So, I have considered that impact also. So that is where my question was.

K.R Lalpuria:

You are right in making an assessment like that but we all need to see how the market pans out. You know like you have a holiday season in



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front of you so how the retail sales are, how their pipeline is, whether it has improved or not, what is the availability on the cotton front, as the cotton prices have gone up, how the absorption of prices in the market places is, how do we oversee the logistics challenges, and the availability of containers, all those various factors are there, so we have given guidance to the best of our knowledge as of now and maybe in the Q3 we will have better visibility where we can update you further.

Kirti Dalvi:

Sir second question on the raw material front, I do understand probably we must be having the lower cost inventory compared to the current prices of the cotton, and probably this price hike will get reflected next year, so when you are guiding say 18% to 20% kind of sustainable margins even for next year, our realizations will improve to a certain extent because we will pass on some hike to our customers. So, can one assume that even in the current raw material scenario we will be able to maintain these margins for FY2023 as well?

K.R Lalpuria:

We are trying. We have already given a sustainable margin guidance of 18% to 20% depending upon how much we have hedged on the raw material side and we have already mentioned the various challenges panning out there, so we will be able to better give you guidance in FY2023 in the third quarter.

Kirti Dalvi:

Third and last question from my side on the balance sheet. Our gross debt has gone up. Is it basically for the inventory and the Capex or any other reason for the same and where do we see it going?

K.R Lalpuria:

I can say that if the growth is there, so we are financing the business. That is why it has gone up.



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Kirti Dalvi: Rs.745 Crores is the gross debt that we have today in our balance sheet. By year-end do we see this debt maintaining at the same level or do we see it further going up given the improvement in volume as well?

K.R Lalpuria: We as a company have taken a conscious decision and you must see that how we have serviced our customers by investing into our supply chain and there are some seasonal products which we need to maintain stock. So, to meet our commitments on the order book position going forward we need to create that much inventory so that the customers also feel confident that we will deliver in times to come.

Once these challenges about the transit time and all this normalizes, we will back to normal businesses, and at that time, you will see our levels, which you have seen in the past three-four years how we are able to maintain our working capital cycle. So, these are times where you need to observe how we can meet our commitments on the supply chain side. As I mentioned, we have been investing into this, so that we can deliver to the customer what we have promised.

Kirti Dalvi: Sir, last from my side, if you could give us any number for that first half, export incentive, because in the first quarter we had said that we did something like Rs.90 Crores out of that Rs.50 Crores belong to the previous quarter, I mean the previous period. So, for the first half, how much would be that number, so must have received Rs.37 Crores roughly number in the Q1, so Q2 how much would have been our export incentives, or even say first half number will do?

K.R Lalpuria: We can give you the number offline, but what I am trying to say is I have already answered that question that around 7.5% to 8% is the incentive which we get, not as an incentive but drawback. The refund of the duties and taxes, this RoSCTL, RoDTEP, and the drawback that the government



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provides so roughly it is around that number, we can give you offline that number.

Kirti Dalvi: Thank you, Sir. Wish you good luck.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from AK Securities.

Aman Sonthalia: We had taken a license of a brand, so whether this will give additional turnover and additional margins compared to our normal business?

K.R Lalpuria: Yes.

Aman Sonthalia: So, how much margin we can expect, extra margin compared to our normal margins?

K.R Lalpuria: See, in comparison to the normal products, we make around 10% to 15% additional margin on the branded products.

Aman Sonthalia: Sir, as the world is opening up after this Coronavirus, people are coming out of their homes, so is there a possibility that there may be a demand drop as people are coming out of home and work from home culture is getting down?

K.R Lalpuria: In fact, we should look the other way. The demand will go up as people come up, they will shop more. It is an emerging economy that everybody is talking about. So, you see when you go out, you go out for some reasons like you go to the mall or you go to a garden so different kinds of entertainment and leisure you experience. There will be a movement of goods and overall what has happened in the last 18 to 24 months, people have recognized that they want to live better and this is why it is called a homebody experience.



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We have become all aware of health, hygiene, and wellness and we are embedding that into our lifestyle, and we have changed our lifestyle for the better. So everybody wants to upgrade their homes, upgrade their wardrobes and spend in all home consumption product range. Coming out will also help the economy to move ahead. That is what is happening in India also, you see. So, it will be similar over there. So, I think this is positive actually.

Aman Sonthalia: Sir I have seen an interview of Mr. Piyush Goyal and he was telling that India is going to sign a FTA with the UK and various talks going on with some other countries along and European Union. So once this agreement got signed how big this market is for home textile?

K.R Lalpuria: See there are positive news about our negotiation going on with all these countries and there are major countries involved here like UK, Australia, Canada, EU so all these are important developed economies where the consumption of textile is high and here we are not at level playing field; just imagine like we are paying 17% duty in Canada, we are paying 9.6% duty in EU, we are paying 9.6% in the UK, we are paying 5% in Australia; now if those import tariffs are removed we will have better opportunity and level playing field against all the other competing countries like Pakistan and Bangladesh who enjoy duty-free access.

So, definitely this FTA will provide us a level playing opportunity and we should be able to increase our market share there because currently, it is hovering around 4% because of this anomaly and as we signed this FTA maybe in a year's time as negotiations are going on; it takes a little bit longer duration, but it will be very, very positive to India and Indian textile players.



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Moderator: Thank you. The next question is from the line of Rushab Shah from RS Capital. Please go ahead.

Rushab Shah: As I understand last one year there were a lot of tailwinds faced by the home textile exporters. I assume that whatever Capex industry is doing will be observed in the next three, four years and it is more demand-driven Capex and doing Capex and then pushing for sales. So in the US already we have had a high textile market share of more than 50% so our comfortable at the US retailers observing the incremental Capex and relying on India as a supplier going forward or is this Capex from more for other countries like the UK or if you could give some color on this Sir?

K.R Lalpuria: See as I mentioned the overall home textile consumption is growing in the market space. Just imagine in the US the current home textile market is \$28 billion at retail so \$14 billion at cost. Now if that is growing by 4% so it is almost like more than \$ 500, 600 million in a year, across the home textile product. Now with the large players already having a good positioning out there, somebody needs to meet these expectations of the brands and retailers when they are shifting from China.

Now just imagine China today has a market share of 75% in fashion bedding and utility bedding and institutional bedding so why we as a country when we have reached 16%, cannot reach 75% or 80% there in this space.

So, we are expecting to go ahead with our plans in Capex which will be positive for all of us, both as a country and company and I think once these FTAs are signed the other markets also will open up, where we have a decent presence and just let me tell you that only 5 countries in the world are supplying 85% of textiles to the world and these five countries are China, India, Pakistan, Bangladesh, and Vietnam.



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Now Bangladesh and Vietnam do not have the raw material. They are labour arbitrage, so the raw material is brought from other countries. Pakistan has got a limited supply of raw material and limited space in MMF so the rest is China and India those are the two large players. Now China has dominated earlier but now it is losing its dominance so who will stand to gain? India. This justifies the capacity expansion by all the players and definitely, there is a large market and what the government also expect us to move from \$33 billion to \$100 billion; and even the domestic market which will be grown quite substantially from \$ 120 billion to \$ 250 billion in the 5 trillion economy because textile plays an important part; and way almost 3% of GDP is from textiles, so with all these factors this capacity expansion by all the players is justified and we see big opportunities out there once this FTAs are signed and we are present in all the market so we have got reason to expand further.

- Rushab Shah:** So whatever Capex is happening is mainly for the US market Sir?
- K.R Lalpuria:** It is also for the domestic market. In the domestic market also in the home textile front, there are hardly any brands out there.
- Rushab Shah:** This RoSCTL benefits export incentives how much is it shared with the customers or is it fully absorbed by the company itself?
- K.R Lalpuria:** No, the RoSCTL is the refund of state levies, taxes, and duties. So we sell on our cost-plus basis and we do not consider this as a benefit to us.
- Rushab Shah:** So that directly benefit from that bottom line understood Sir. Thank you, Sir.
- Moderator:** Thank you. We take the next question from the line of Bhavesh Chheda from Enam Holdings. Please go ahead.



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Bhavesh Chheda: Mr. Lalpuria excellent set of numbers. Just few questions on your guidance. Since you have to deliver almost 50 million-odd in the second half were there any issues on the logistics mainly shipping and all so are those issues sorted out now and the monthly run rate improving dramatically, and you are confident enough of shipping booked out for 50 million for the second half?

K.R Lalpuria: We are confident and that is the reason we have given the guidance both on the volume and the revenue also; and since we have overcome this problem and we have navigated through the challenges in the near past where it was at a higher intensity. It is improving slowly so we are hopeful that it will improve further, and we should be able to fare much better.

Bhavesh Chheda: Second was just missed out on your pending Capex number what it was for FY22 and if any plans for 2023 also?

K.R Lalpuria: Yes, we as a company always look for growth and if need be the board will decide about the Capex plan in 2023 as well but currently we will be spending Rs.200 Crores to increase our capacity from 90 million to 108 million.

Bhavesh Chheda: So this is the second half we will be spending Rs.200 or this is total for the FY22?

K.R Lalpuria: As I mentioned we have already spent Rs.60 Crores and the rest is in pipeline and work in progress so by Q4 we will complete the Capex.

Bhavesh Chheda: Thanks a lot and best of luck.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we take that as the last question for today I would now like to hand the conference back to the management for closing comments.



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K.R Lalpuria:

Thank you to all. We at Indo Count remain confident about the next level of growth. Our focus going forward continues towards increasing utilization level and increasing our revenue and market share. With this, I would like to thank everyone for joining on the call. I hope we have been able to address all your queries for any further information kindly get in touch with me our Strategic Growth Advisor, our Investor Relation Advisor. We wish each and every one a very Happy Festive Season and a Happy Diwali to all. Stay healthy, stay safe, and thank you very much once again.

Moderator:

Thank you. On behalf of Indo Count Industries Ltd. we conclude today's conference. Thank you all for joining you may now disconnect your lines.