



“Indo Count Industries Limited Q2 FY23 Earnings Conference Call”

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November 15, 2022



MANAGEMENT:

MR. K.R. LALPURIA – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – INDO COUNT INDUSTRIES LIMITED

MR. K. MURALIDHARAN – CHIEF FINANCIAL OFFICER – INDO COUNT INDUSTRIES LIMITED



Moderator:

Ladies and gentlemen, good day and welcome to the Q2 FY23 Earnings Conference Call of Indo Count Industries Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to 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 the Indo Count Industries Q2 and H1 FY 23 Earnings Call. I extend greetings to all of you for the festive season and the New Year ahead. I have with me Mr. Muralidharan, our CFO; and Strategic Growth Advisors, our Investor Relations advisor. Happy to connect with you all once again to discuss the Q2 and H1 FY 23 performance. Let me start with the industry and business scenario during Q2 and H1 FY 23.

Global businesses have been impacted by inflation and higher interest rates. Our industry has been impacted by these challenges in addition to the problem of over investment in inventory by big box retailers. Consumers continue to focus more on purchase of essential products rather than discretionary purchases and this has caused challenges in offtake for our industry. We believe that this should continue for a couple of quarters.

Talking about our key markets

The upcoming holiday season demand is expected to be highly promotion driven. Currently, combination of lower consumer spends and easing logistical challenges left retailers with inventories that are higher than usual. However, we believe the holiday sales may help them get back to regular inventory levels.

Domestic scenario.

On the domestic front, Indian economy continues to do well. The retail sector is in the growth mode. With the new cotton crop season coming in, we believe that India will be at par with other countries for cotton prices scenario.



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Apart from that, India's efforts on the various treaty and FTA agreements, introduction of PLI 2 scheme and the continuation of RoSCTL will help us further to move ahead and be a key supplier to the global textile market. In view of the China-plus-1 strategy, we believe the Indian textile industry's long-term growth prospects remain unchanged. We believe the medium-term recovery of demand will be largely aided by the downward trend in pricing for the new cotton season, the resolution of supply chain concerns and the actions taken by the individual governments to combat inflation.

Overall, we continue to be positive on our prospects given that we have sufficient capacity with our acquisition and could see better ordering patterns from the big box retailers in FY 24.

We believe that as we increase our utilization levels to meet this anticipated demand rise, it would lead to operating leverage benefits.

Coming to our performance and recent updates

During the quarter, we have achieved a volume of 20.6 million meters. We have witnessed good traction in the domestic market for our brands, Boutique Living and Layers. Our e-commerce business is on a growth path and by FY '23 we are targeting this to contribute 10% plus of the top line. During the quarter, we have witnessed volatility in cotton prices. However, as a strategy, we would invest into our supply chain so that we are cost effective and we can service our customer better.

Key developments

We are committed towards investing for the growth continuously.

GHCL acquisition: Our acquisition of the home textile business of GHCL Limited was completed on 2nd of April 2022. As we speak, we are intertwining the two manufacturing units to scale up our efficiencies and deliver a better business. We have gained a new set of customers via this acquisition. We will be able to offer a large bouquet of offerings, including a range of products from GHCL's kitty to our existing customers. Besides we also aim to target our existing range of products to GHCL's existing clientele. With this cross-selling opportunity, we will be able to realize synergies from this acquisition.

Amalgamation of PSML: We have completed all the necessary steps towards the amalgamation of our subsidiary, Pranavaditya Spinning Mills Ltd., with the company.



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I'm also happy to update you that we are on track both in terms of timeline and cost with respect to our capex project which entail incremental home textile capacity from 90 million to 108 million meters. This will operationalize by H2 FY '23.

Cut/sew facilities and additional Top of the Bed capacity, the work is in progress and this will also complete by H2 FY '23.

Enhancement of spinning capacity to 68,000 spindles with a capex of INR 270 crores is on track and this also will complete by H2 FY '23.

Now some updates on the B2C and D2C segment We are advancing towards D2C and B2C segments through high quality product offerings across varied price points. Our e-commerce business is on a growth trajectory mode. We are promoting B2C and D2C strategies with the addition of UK distribution channel. During the quarter, we have launched health and wellness global brand GAIAM in US during the market week in September. The GAIAM home collection will feature an extensive range of bedding and bath solutions that will help consumers restore, relax and enjoy a better night's sleep. It will be available in stores and online in the US, Canada and Mexico markets with retail partners in spring 2023.

All the efforts which I spoke about are focused on diversification and providing products with better value addition.

ESG initiatives. We continue to remain an ESG focused organization with well-defined principle, road map and targets.

During the quarter, the company has achieved higher score for Higg Index FEM; Facility Environmental Module. The Higg Index delivers a holistic overview that empowers us to make meaningful improvements that protect the well-being of our factory workers, local communities and the environment.

Awards and Recognition.

I'm happy to share that Indo Count has been awarded winner in 'Within the Fence' category in CII's National Award for Excellence in Water Management.

Apart from that, our Chairman Shri Anil Kumar Jain, has been awarded with Industrial Excellence Award by The Textile Association of India. This award recognizes his contribution towards promoting Indian textile globally and achieving industrial excellence in this sector.



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Also Shri Anil Kumar Jain has been conferred with the Mahatma award for Lifetime Achievement in Corporate Social Responsibility, Sustainability and Social Impact. This is for the impact made on society through the works of Indo Count Foundation, which is our CSR arm.

Now let me share with you our consolidated financial performance.

Kindly note that Q2 FY22 financial includes RoSCTL benefits of INR 49.99 crores referred to a INR50 crores for the period of January 1, 2021 to March 31, 2021. We will compare our performance therefore excluding this one off. Also note actual H1 FY '22 figure does not include Bhilad Unit figures.

Total income is INR 849 crores in Q2 FY 23 versus INR 767 crores in Q2 FY 22. Total income is INR 1,571 crores in H1 FY 23 versus INR 1,476 crores in H1 FY 22. So the income has increased on a Y-o-Y basis.

EBITDA, INR 120 crores in Q2 FY 23 versus INR 139 crores in Q2 FY 22. EBITDA, INR 261 crores in H1 FY23 versus INR 267 crores in H1 FY22. EBITDA margin stood at 14.1% in Q2 FY23 versus 18.2% in Q2 FY22. EBITDA margin stood at 16.6% in H1 FY23 versus 18.1% in H1 FY22.

PAT, INR 67 crores in Q2 FY '23 versus INR 85 crores in Q2 FY '22. PAT, INR 144 crores in H1 FY23 versus INR 202 crores in H1 FY22.

EPS, we reported an EPS of INR 3.38 in Q2 FY23. We reported an EPS of INR 7.29 in H1 FY '23.

Net debt during the quarter stood at INR 762 crores versus INR 906 crores in March 22. Net debt-to-equity ratio stands at 0.47x as of 30th September '22 from 0.57x in March '22.

Now this is all from my side. I now leave the floor open for the question and answers. Thank you.

Moderator:

The first question is from the line of Bharat Chhoda from ICCI Securities Limited.

Bharat Chhoda:

I had a few queries on our numbers. Like current quarter we have a gross margin close to 51% and just wanted to know if we had any benefit of a low cost inventory from March 2022 over here. And also is our low cost inventory completely exhausted or some is still available with us?



K.R Lalpuria:

Thanks, Bharat, for the question. If you look at the Q1, it was a one off because the quarter was covered in the season like say during December, January and February so it was at a competitive price. And as the price went up, we have a first-in first-out methodology to capture our cost. And during the quarter the price at which we considered our raw material cost was higher than the Q1 so there has been an impact on the gross margin due to this.

And secondly, as we move forward till the end of this year because we are carrying high cost cotton in the Q3 as well, but the season have already started, the cotton prices have come down and even though it is volatile, we see that the crop size is good. So we expect that the price should moderate as compared to last year and it will provide us an opportunity for us to reduce our raw material prices going forward.

Bharat Chhoda:

And sir, our average realization has actually increased from INR 355 to INR 395. So what is the reason for this higher realization? And also with cotton prices now declining, would the average realization trend downwards from the next two quarters? Would this understanding be correct?

K.R Lalpuria:

No. You see the product mix keeps on a little bit changing you see as the season changes and of course our focus is entirely on to how we can promote further value-added products. As we all have been saying about how we are focusing upon fashion bedding, utility, institutional bedding; how we are focusing on different strategies to promote licensed branded goods; how we are promoting B2C and D2C brands; how we are playing on the domestic front towards promoting our brands; how we are promoting the utilization of capacities going forward and building synergies on to operational efficiencies.

And that's the reason you see that slowly we are trying to see how we can gain a better margin profile for the product which we sell and getting away from the commodity sale. So this is what the strategy which we have been building for the last three, four years, which is paying good dividends to us. So that's why you see we will see to it how we can improvise our margins. But as we all know that last year there were various impacts on too many things like say the raw material, the logistic cost, the recessionary trend, the inflation and the retailers having higher inventory margins. So even though those all impacted, but our efforts will be to see how we can sustain or improvise on our margin profile going forward.

Bharat Chhoda:

So sir, would it be fair to take this kind of a realization or should we take it trending lower? That is some clarity on that if you can provide because product mix would



obviously add to it if you're having a superior product mix, but because of cotton prices coming down, the entire thing probably would go down. Is it possible the realization?

K.R Lalpuria:

I think the cotton prices are relevant to bringing about our overall competitiveness into how we promote our goods overseas. And so definitely as how we are positioned into the mid to high segment, our endeavour is always to try and see how we can sell better end goods and to see how we can realize much better value for our goods that we sell. So these are the efforts, which I mentioned before, will help us in order to sustain to some level. But as we all know, there are various impacts on the global trade and this we all need to wait and watch and see how it stands out going forward on the margin side.

Bharat Chhoda:

And sir, could you just share GHCL volumes for either Q3 or H1 FY '23, if possible?

K.R Lalpuria:

So as I mentioned, you see GHCL and Kolhapur we have to take as one unit because you see that the whole reason we have acquired this asset to see how we can synergize and intertwine both the capacities to see how we can service our customer much better. And that's the whole reason for bringing in this addition of assets to see that not only our capacity build-up is there to be market ready, but also to serve the customer better with both cross-selling our product basket as well as you know improvising upon what GHCL margin profile was there going forward. So like it will be false on my part to provide you numbers differentiating between these two. You have to consider it as one.

Moderator:

The next question is from the line of Kapil Jagasia from Edelweiss Broking.

Kapil Jagasia:

Good numbers in a difficult environment. Sir, my first question is on the demand outlook. Like we already are into mid-November so any improvement seen here on the demand environment in US or Europe markets? And also what would be our order book position as on today?

K.R Lalpuria:

See, first of all, you see the demand is still subdued. We are all expecting that once the holiday season ends, how the retailers have fared on to their sales. That will be the basis of informing you how the demand has improved or whether it is the same because the inflation is still continued in the US. It only moderated to some extent. But the geopolitical concerns or the high inflationary environment and our increase in input costs, all are impacting the overall sluggish demand off-take.

So we believe that you see post the holiday season at least this would improve the inventory levels with the retailers at regular levels of inventory they would – the inventory levels would normalize I would say if the holiday sales are good. So let us wait and watch till the holiday season ends. This time it has delayed a little bit because



of the shrinking of wallet size and the inflation. So we'll be better able to tell you about how the demand improves in our next con call.

Kapil Jagasia: And sir, like what would be the order book like for us? Has that stayed the same as compared to last year or like just a ballpark number would be fine?

K.R Lalpuria: See, I had mentioned earlier on my con call that the first two quarters are on similar lines and the trend hasn't improved in Q3 and going forward Q4; we'll be able to better tell you in our next con call because we will witness the holiday season sales. So I think more or less it will be on similar lines as what we did last year. Even if we sustain those, at least we'll protect our market share and we'll service our customers much better and we'll work hand-in-hand with the customers to see how they can over tide this difficult situation.

Kapil Jagasia: Sir, my next question is the partnership in GAIAM. So like this partner -- this GAIAM, the offerings are at the premium end or it's a value offering? Some like colour on this like it would be fashion bedding or how it would be? The realization per meter would be how much from this end?

K.R Lalpuria: So it's a very good, strong health and wellness brand in the US for the past 25 years and doing pretty well on that front. And they have selected us because we are in the comfort area where we can provide product innovations to meet out the expectations of the consumer, to have a better sleep. So they have similar offerings so they tied up with us and this strategy will help us promote value-added products.

And the collection will feature both in the bedding and bath areas, which will help the consumers of currently GAIAM brand to have new product I would say and help them restore, relax and enjoy a better night's sleep. So it will be a value-added product and also it will be in the fashion bedding area and other areas which we are trying to promote. So overall the brand strategy, which will help us -- this license brand will help us improve upon our brand offerings to the retailers.

Kapil Jagasia: And sir, in your presentation you have also mentioned there have been some brand additions. So like they would be into which geography, I guess into US geography only? And like how much revenue contribution would be expected from these brands, say, in the next five years?

K.R Lalpuria: So we have been making all-round efforts to promote our brand strategies as we mentioned like this is important to us and we have earlier mentioned that overall on FY '22 revenue, we have locked up sales of almost 10% towards licensed brands and our own brands. So only if you look at the FY23 situation, because of the inflationary



trends and the situation out there, which is due to the geopolitical concern, there has been a slow off-take on the branded good side and on the high price goods.

So currently the sales are a little bit muted at the moment on the licensed brand and brands, but I think it should improve because the online sales are also improving. And post the holiday season as the inventory levels trickle down, we feel that this will be having much more prominence into the US sales when we promote licensed brands and our brands. So definitely we hope to improve our numbers in FY24 on the branded sales side.

Kapil Jagasia: And sir, just last question from my side. Like the other expenses are up by 14% this quarter so like any reason specific to this? What would be the like breakup in this? And I guess that would be all from my side.

K.R Lalpuria: See, the other expenses are because you see first of all, if you compare on a H1 to H1, they are because of the Bhilad Unit's getting unabsorbed. And secondly, we also have promoted some goods in Q2 to see how we can act upon and help the customers to liquidate some part of their inventories. So those are the strategies which we are adopting to see how we can protect our market shares and move forward and help the customers also protect their own market share.

Moderator: The next question is from the line of Abhineet Anand from Emkay Global.

Abhineet Anand: First of all, just wanted on GHCL side in the balance sheet, what is the fixed asset and working capital that has been added, sir?

K. Muralidharan: Abhineet, about INR 340 crores have been added in the fixed assets. These are reflected in the property and equipment.

Abhineet Anand: And on working capital side?

K. Muralidharan: Working capital side we added about INR 300 crores roughly in terms of inventory and receivables.

Abhineet Anand: Second, from the global retailers, how are the inventory levels? Are they still high, sir, or there has been some -- for the last say six to nine months, how has been the trend?

K.R Lalpuria: The trend continues because you see earlier the transit time taken for the ships to reach there was almost 45, 50 days and now it has reduced to 30 days so quicker receipt of goods. And secondly, the sluggish off-take also not on the regular like usual terms because of the sluggish off-take, the inventory levels are still there. But because they haven't ordered large quantities on the replenishment side, the inventory levels



definitely have come down what it was in Q1 and we hope that the holiday season will definitely help them improve upon these inventory levels once they are able to sell more products during the holiday season on a promotional basis.

Abhineet Anand: And one of the things that otexa data suggested that for this current year is CY '22 first nine months, India seems to be having lost lot of share on the cotton side if we see it from 67% now it's 50%. So just wanted your thoughts that what is happening there. Can you just throw some light on that, sir?

K.R Lalpuria: See, we all know that the cotton rates have skyrocketed in India almost to INR1 lakh a candy. So the raw material cost went up and so the prices. And once the retail prices were jacked up by the retailers, they did not have the similar upticks what they expected. So that's the reason you see because of the higher prices, they lost some sales and because of the inventory too, they have lost from sales. Now this I think should improve post this holiday season as what we all expect to be. Till now the demand is subdued, but we hope if there is a good holiday season, this should improve going forward.

Abhineet Anand: So the data says that Pakistan numbers will improve so does Pakistan have enough cotton for their own exports or do they buy from outside? How is it, sir?

K.R Lalpuria: So because of the product mix, we were expensive from Indian cost standpoint and Pakistan is at the low end. So the product categories moved towards the lower end and that's why Pakistan got a traction and India's exports suffered because of higher price offering. And some of the product mix also got interchanged to synthetic like blending with viscose, tencel and polyester. So overall, you see that India lost some of the market share to Pakistan because of the price competitiveness.

But I think going forward as the cotton prices improve, India should gain a traction because India is very well positioned and the reliability and credibility of Indian supply chain they have all witnessed. And India is very versatile into their product offerings and can offer all different kinds of products, both the coarser varieties as well as the finer varieties. So the reliance on Indian supply chain is more than what Pakistan can offer, but only because of the lower price good positioning of Pakistan helped them gain some market share from India during this period.

Abhineet Anand: And lastly on GHCL, what are the steps that the company is taking to maybe bring its margins, which used to be I think last year was lower, to the levels where Indo Count numbers are and how will it play over let's say in 12, 18 months?



K.R Lalpuria: So we are consistently engaged with our customers and they feel confident once we have come into picture and they are very happy to deal with us and we are making strategies to see how we can offer Indo Count's product because GHCL was just selling sheets and was not in fashion, utility and institutional bedding. So we are trying to increase our product basket to the customers which we acquired and also we are working on how we can have operational leverage by better utilizing the capacities going forward.

And we are intertwining to see how we can build synergies within the two units and see where we can save money and make a better margin profile for the sales with GHCL in the post half. So all kinds of strategies are being implemented to see how we can improve. And this is a long-term strategy wherein we have acquired this unit and the assets are very good and the customer base is good, the product profile what they were selling is very good. So we are quite confident that with our overall strategy we will be able to see when the market revives, we should be able to improvise on our margin base.

Abhineet Anand: And sir, the last one I think you talked about something on other expense. One, obviously Bhilad Unit getting added and something other than that in terms of customer. I didn't understand, if you can slightly elaborate on that?

K.R Lalpuria: You see because of the recessionary trend and the inventory levels, the brands and the retailers are in a promotional mode. So we also need to see that how we can help them by hand-holding in this promotional activity. So to some of the customers, we have offered some promotional support to see how they can fare much better in their marketplace and do much better. So that's what I mentioned.

Moderator: We'll move on to the next question that is from the line of Aman Madrecha from Augmenta Research Private Limited.

Aman Madrecha: Can you please highlight on like how are we looking at volumes given the current scenario? Because as we are in the process of increasing the capacity from 90 million meters to 108 million meters so can we say that the volumes would be higher or the same as last year? Like can you please throw some light on this?

K.R Lalpuria: See, the volumes may be similar to what we performed in the first two quarters to some level depending upon how the holiday season pans out. But the capacity additions are all long-term strategies, because we see a lot of things getting promoted out of India, the China-Plus-One strategy, the FTAs, India's position on to the cotton side of the supply chain, India being considered as a highly growing country where everybody



would like to participate in their growth and with all the kind of relationship which we are developing currently with different countries and trade blocks.

I think these are all strategies towards getting much more market share in the future where China is retreating to some extent due to their higher cost as well as their focus on the domestic market. So I think the capacity expansions are all towards bringing about medium and long-term strategies. Just because of the geopolitical concerns, this year was a difficult year for everybody. The cotton prices went up, the logistic cost went up, the recessionary trend impacted the retailers with carrying higher inventory, the wallet sizes shrunk because of the inflation, our input cost went up. So all these factors came within a year. So we should not get perturbed about this thing.

I think India is very well positioned on the textile front as a supplier and we should see good capacity utilization in the coming years. So we are quite confident that such strategies where we have invested into our capacity building both with from 90 million to 108 million meters in our existing plants and through our acquisition will help us to deliver our long-term strategies.

Aman Madrecha: And sir, can you please also throw some light on how has been the logistical or the container issue in the US geography? Like has that eased or is it the same as previously faced?

K.R Lalpuria: I didn't get your question.

K. Muralidharan: Logistic issues whether it has been rectified now. So I think by and large the logistic issue, issue of container availability have all now eased a bit actually. So going forward at least for the moment, there is no concern as far as the availability of containers is concerned for exports.

K.R Lalpuria: No. But one more thing I will add here is that China -- Chinese economy is slow at the moment. Once it gets up, maybe the logistic cost side may go up to certain extent. So we are all waiting and watching to see how it pans out in the medium-term. But currently yes, to what Mr. Muralidharan added you see there is some easing out on the availability of container as well as on the cost front.

Moderator: We have lost the line for the current participant. We'll move on to the next question that is from the line of Aman Sonthalia from AK Securities.

Aman Sonthalia: The reason for the boom in the home textile was work from home culture related to pandemic. So now the pandemic is over so whether...



Moderator: Sorry to interrupt, Mr. Sonthalia, there's disturbance from your line.

Aman Sonthalia: Sir, the reason for the boom in the home textile was -- one of the major reason was due to this pandemic work from home culture. So now the work from home culture I think it has come down a bit so whether we will get that business going forward?

K.R Lalpuria: Yes. Home has become the center stage during pandemic, but we all feel that there has been a structural shift how you look up at your home now. And everybody is upgrading and decorating their homes to see how they can live much better life and lifestyle. So it has become the center stage of our life and lifestyle. Secondly, you see the wellness factors like it's better sleep so our product is connected to the wellness factor.

So this will definitely do well in the coming year what has been anticipated in all the discussions going on and we see an uptick into areas wherein fashion bedding, utility, institutional also moving up as you see people spending more money on traveling and luxury and etcetera. So we feel that this is bound to stay and India also as a country is very well positioned on this product as you can see from the market share it has in the US. And unfortunately, we were not at level playing field in Europe and UK where we were paying 9.6% duty as compared to Bangladesh and Pakistan paying no duty.

So once the FTA is signed, that market also will open up which is an equivalent like on value and volume terms to what the US is. So definitely these are the opportunities, which will open up further for the home products to do much better. So we are quite hopeful and this we are just discussing all the time about the US, Europe and UK. There are other countries which are developed globally like say Japan, South Africa, like say Australia, Middle East and Latin America. So the consumption is there and definitely as these markets open up with equivalent duties or certain trade agreements with India, definitely these products will do extremely well and the consumption will move up and we'll get more opportunities to export. So we are quite confident about the product line which we are into.

Aman Sonthalia: Sir, one question that the logistic cost has come down, cotton prices has come down. So whether we will able to better our margin in the next two quarters?

K.R Lalpuria: So it has just started, the season has just started, but even though the season has started, you can see the volatility. The cotton prices have come to INR 64,000 a candy and again going back to INR 70,000 a candy. So we have to wait and watch for the arrivals. The arrivals are currently they should have been in the range of 1 lakh bales and above, but they are at a 65,000 bales level. So once the arrivals improve, definitely we'll see that the prices moderate and that's when we will get a chance to buy cotton at a better



rate rather than today because today we are carrying some inventories till December with our old prices. So definitely post Q4 we may like get an advantage there, but let's see how it pans out. We can never say about how the speculation and the commodity behaves because certain other countries like Pakistan and USA had a bad crop. So let's see how it pans out. But definitely the cotton situation has improved because of the higher cultivation of cotton and a higher crop this year.

Aman Sonthalia: And sir, one last question. Whether we see at least the same volume in the next two quarters, which we have seen in the last quarter?

K.R Lalpuria: Yes. We are working towards it. It should be on similar lines as what the last two quarters are on the volume side. We are quite hopeful that they should be on similar lines. We are working towards it. And as I mentioned earlier, we are all waiting to see the next four weeks how the Black Friday and the holiday season sales are.

Moderator: The next question is from the line of Aditya Surana from Asian Market Securities. The next question is from the line of Sajal Gupta from FE Securities.

Sajal Gupta: Congratulations to report such good set of numbers in prime times. My question to you and the management is that on a macro level like what is happening in Pakistan economy right now, wouldn't the buyers there who were sourcing from Pakistan looking at India as a sourcing country? And plus today, FTA has opened up in Australia, have you started making any headway on that side? So if I look at this way things, you have more buyers coming to yourself. If I'm correct in next two years to three years, don't you see that whatever capacity you have built up, you should be able to utilize that capacity in next three years to four years' time or two years to three years' time?

K.R Lalpuria: So thanks, Sajal, for the very good question. And certainly you see there are challenges in the Pakistan economy. Pakistan is also a strong contender on the textile front with both raw material and a good setup. Unfortunately, they had their own problems on the flooding side as well as you see on the power side, on the gas side to be precise and so the supply chain has been disrupted. And secondly, you see Pakistan is at the lower end of the market segment and India is positioned on to the mid to high segment. So they were able to do much better in EU, UK and other lower segment of the marketplace where India is not much present. So if you look at the reason why they could garner 4% additional market share in the US was the reason because they competed with India at the lower front and to some extent the market share moved from the mid segment to the lower segment because of the high cotton prices and the price rise.



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But you see that the confidence level of the buyers and the brands and the retailers are now post the China Plus One strategy is very clear that they want security of the supply chain apart from the cost factor of the supply chain. So here India stands out much better because India has got a very versatile fiber manufacturing, they have got a good setup of manufacturing setup in the complete value chain, they have got a traditional labor pool which understand textile and currently the government is also focusing on textiles through various measures by hand-holding the sector and the industry. So I think this will help us to gain confidence in the global market as compared to what Pakistan is doing going forward.

So definitely this is a positivity for the Indian companies to gain much more market share. And because of the FTA also, as I mentioned earlier, we are not on a level playing field in EU and UK, where we are paying 9.6% duty and India, and Pakistan is paying no duty. So once that FTA is signed also, India will gain advantage into these markets where it can grow its own market share from 4% to say at least 20%. So this is the future what it seems to be going forward as compared to what Pakistan's industry is doing vis-a-vis Indian textile sector.

Secondly, on the Australian front, we have signed an agreement with them. The nitty-gritties and the finer things are being discussed and settled between the two ministries and because they have a new government, it is taking a little bit of time. But it should happen by during the first quarter of next year so that's what we anticipate. But having said that, you see the confidence level of the brands and retailers out there is very update on how they can improve upon their buying and sourcing from India much more. So we are seeing a good traction of customers from Australia currently, which are demanding our Indian products. So definitely we feel that once this is put on to work the whole agreement and we get that advantage of duty, definitely our market share will improve with Australia. We are very much confident about that.

And secondly, also I would like to add you see that the Australian market per capita consumption on the home textile is also very high as similar to what UK and other countries is. So that will provide us enough opportunity to offer them a complete basket of products. So I think the lifestyle over there is of a developed nation so this will provide us an opportunity where we are positioned. So I think definitely it will improve our numbers going forward on how we trade with Australia. So these are both positives going forward.

Lastly, you see, as I mentioned, we have built on all these capacities for long term. And when we had 90 million meters and we were at 75 million meters, we already consumed almost 85% of our capacity. So we needed to add on to our capacity from



90 million meters to 108 million meters in order to cater to our customer demand. And you have seen that in FY '20 and FY '21, we had a very good growth of say 26% and 17% in two years. So we felt that there is a need of capacity expansion at the current where we exhausted our both land and building area. So we needed for the future when the FTAs are getting signed and how India improvise its position with different countries like Australia, GCC countries, Canada, EU, UK and once those things happen, we should be market ready. And this opportunity of GHCL came to us so we grabbed this opportunity to add on this capacity. There is a complete synergy.

So all these capacities we are quite confident that in the next three years, four years, it will give us a definitely good advantage to be market-ready. And as we are a customer-centric company and we are a focused company on the bed linen side of the business with strong financial fundamentals, I think all these factors will help us to see how we can get more market share in new markets as well as the existing markets and service our customers much better. And everybody is looking at India because India is well positioned in textile. And so definitely we are quite confident that in the next three years, four years we will play a good role into supplying bed linen to major customers worldwide.

Sajal Gupta:

Yes. I agree with you. Sir, the opportunity size is so big right now for you in the coming three years so don't you see that the next three years if not three years, four years you should be able to utilize the capacity to the fullest and move forward from there?

K.R Lalpuria:

Absolutely, you are absolutely right and that's the long-term strategy where we are building upon. And you see, I forgot to mention about Indian market also which is also growing, domestic market is also growing. Whatever our fashion bedding where China is playing a dominant role in utility, fashion and institutional bedding as I have been saying for all these three years, four years, we'll be able to gain much more market share from them as what we did on the sheet side of the business. So definitely home textile is where India will do very well as compared to other countries. And as always I had mentioned that both Bangladesh and Vietnam are focusing on the apparel side of the business not on the textile side of the business. They are short of raw material and they are basically on labor arbitrage. Pakistan has got a saturated and limited supply chain of raw material. So India stands out. Basically India is exporting cotton, yarn and gray fabric and all that, which can be value-added to see that how we can convert them into apparel and textiles like home textiles, etcetera and increase our market share going forward. So definitely all these capacities we are quite confident to consume going forward in the next three years, four years.

Moderator:

The next question is from the line from Amit Kumar from Determined Investments.



- Amit Kumar:** My question has been asked and answered.
- Moderator:** The next question is from the line of Abhineet Anand from Emkay Global Financial Services Limited.
- Abhineet Anand:** Sir, from your vast experience on the sector, can you throw some light in the whole chain of the textile part? Spinning, let's assume lot of spinners are making loss and all last quarter and probably their margins have now come up to a break-even point. So is it fair to understand that for spinning, you start breaking even then after three months, six months, the HT part of the business starts doing better? Is there any cycle like that?
- K.R Lalpuria:** See, I know my business and I'm a focused person on my business home textile so I cannot comment on a spinning standalone business. However, you see every business will do well in the value chain because you see India stands out to meeting the expectation level of the global textile trade in all contexts. Because the production has been discontinued in developed nations in both spinning, weaving, dyeing, finishing; India has got a good advantageous situation where it should excel in all these fields. So definitely all the textile companies and the sector overall will play an important role into contributing to the Indian GDP going forward.
- And as we all dream about our \$5 trillion, \$6 trillion economy in this decade, definitely every company has to play an important role in the supply chain. And companies which have established competitiveness, established technology and invested into it and are focused, definitely they will do well. There are short-term hiccups wherein they deviate from their strategy and policy so then sometimes it is painful. But if they have a consistent approach towards the supply chain and the value chain and respect that, I think Indian textile sector should do extremely well.
- Abhineet Anand:** And just one small data point. This expansion that we are doing, what is the debt cost for that?
- K.R Lalpuria:** We have already mentioned in our Investor deck like INR 200 crores, which we were investing in three areas. That is spinning, modernizing our spinning and addition of spinning at the Gokul Shirgaon unit, which we have completed. Secondly is expansion from 90 million meters to 108 million meters at our Kohlapur unit, which is in progress and we should complete it by say Q4. Then we are adding up a new facility on the cut/sew side of fashion bedding in order to service our fashion bedding and utility bedding segment wherein the capex is on track and we should complete this by Q4. The other area where we are investing is 68,000 new spindles at Pranavaditya Spinning which we merged with Indo Count just recently. So the addition will be completed by



again Q4 FY '23, which is an investment of almost INR 270 crores in which INR 160 crores is from debt and INR 110 crores from internal accrual. So this is how the status on the capex and the investment on this looks like.

- K. Muralidharan:** I'll just correct it, it's INR 175 crores debt and INR 95 crores internal accruals.
- Abhineet Anand:** I also meant that this INR 175 crores comes at what interest cost? I'm assuming that there must be state incentive and all. So my question was more related to that. About 4% post the benefits can be assumed on that INR 175 crores?
- K. Muralidharan:** No, there are no interest subvention benefits here. This is a term loan so there is no subsidy on the interest.
- K.R Lalpuria:** This should be the last question I think.
- Moderator:** Sir, we have one more question in the queue. Ladies and gentlemen, we'll be taking the last question that is from the line of Vivek from Noak Tech Llp.
- Vivek:** Sir, I just missed your guidance on the margin in the coming quarters like in the next two quarters of this fiscal.
- K.R Lalpuria:** You see, it's quite volatile to give purely a margin guidance. But you see definitely the Q3 will be, may be on similar lines what we reported for Q2 and maybe we'll see an uptick on the Q4 side. So we'll refrain from providing a margin guidance at this moment because we need to also watch the holiday sales as well as our cotton prices how they pan out.
- Vivek:** So sir, with the holiday sales you will be getting the top line. So is it possible that we get the bottom line also with the good holiday season?
- K.R Lalpuria:** So we are confident. With all the strategies which I spoke about, we are confident of having sustained some of the margins which we have developed in our business. So definitely you can look at improving the margin in Q4 onwards.
- Vivek:** So the improved margin from Q4 onwards and if the season does not become that good as you're anticipating so the next leg of good margins will be from Q1 FY '24?
- K.R Lalpuria:** Yes, that's how you can calculate. But as I mentioned, you should wait for some time and we will provide you in our next con call once the holiday season we get some traction to see how it liquidates both the inventory levels and how the replenishment business kick starts.



- Vivek:** So will there be any revision on capex if the things don't turn good like there's a possibility?
- K.R Lalpuria:** No. They are all on track.
- Vivek:** There will be no revision of capex. Okay?
- K.R Lalpuria:** See, the business is there. There is no structural shift as far as the customer demand is concerned. This is a momentary thing which has impacted due to inflation and we have to see both medium term and long term how it stands out. We all know during this year what are the reasons for the subdued demand and the subdued results. So those are very apparent. So I think once they get over, I think things should improvise because there are no structural shift into the consumption.
- Vivek:** So sir, what are the changes you are seeing in the structural demand?
- Moderator:** Sorry to interrupt Mr. Vivek, sir, that was the last question we could take. Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.
- K.R Lalpuria:** Thank you. Looking beyond the short-term challenges, we remain optimistic about the textile industry landscape. As the overall business environment has started to improve and moderating input cost and improving consumer sentiment as well, we at Indo Count Industries are well positioned and market ready for the upcoming quarters. 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 or Strategic Growth Advisors, our Investor Relations advisor. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Indo Count Industries Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.