"Indo Count Industries Limited
Q2 FY '24 Earnings Conference Call"
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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 H1 FY24 Earnings Conference Call of Indo Count Industries Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the 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 this conference call, please signal an operator by pressing star and zero on a 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 FY24 Earnings Call. I have with me Mr. Muralidharan, CFO and Strategic Growth Advisors, our IR Advisors. Happy to connect with you all once again to discuss the Q2 and H1 FY24 performance.

Now let me highlight the business scenario.

It gives me immense pleasure to share that we achieved a record performance in Q2 and H1 FY24. This momentum steadfastly maintains our performance and accordingly, we have increased the sales volume guidance. We remain on course in delivering the best financial year in our company's history since inception.

Now let me share updates on our key markets.

We are seeing positive signs in U.S.A. on a Y-o-Y basis as major retailers have initiated restocking activities since Q1 FY24. Additionally, retailers in global markets are expanding, they are sourcing strategically from Indian home textile manufacturers to derisk themselves. In the longer term, the growth prospects of our sector is encouraging. The same is visible in our performance where we have added new geographies and brands to our business.

The Government of India's promotional steps, the China Plus One strategy, our various omnichannel marketing strategies, existing FTA agreement with Australia and UAE, including the proposed under discussion FTAs with U.K. and EU will play a pivotal role in driving growth. Domestic cotton prices have stabilized in comparison to international levels. Also, India with adequate raw material availability ensures the security of supply chain, thus providing necessary confidence to our customers, thereby improving our market share.

Now coming to our recent performance and updates, I'm delighted to announce that we have achieved remarkable success due to our robust balance sheet, our strategic investment in supply chain and a continuous focus to increase the contribution from value-added segments of the fashion, utility and institutional business. Our quick response to market trends and elevated service levels have been key drivers to our achievements.

In Q2 FY24, we achieved a significant milestone by surpassing the INR1,000 crores revenue mark. This accomplishment stands as our highest ever quarterly and half yearly revenue along with EBITDA. We continue to maintain our gross margin. Our EBITDA has shown growth as anticipated, driven by increased volumes and cost optimization. The full integration of the Bhilad unit has further aided the improved performance.

Additionally, we commenced production in our fashion bedding unit as well as the new spinning unit at Alte, thus enhancing our capabilities. In light of the H1 performance and our view on end markets, we are revising our volume guidance for FY24 to a range of 90 million to 100 million meters. This is while maintaining our margin guidance at 16% to 18%.

This is a testament to the strong acceptance of Indo Count brand and Make in India product. Not only our approach has elevated customer delight, but have attracted new geographies like Australia, Japan and Latin America. As we strategically pivot towards the D2C, B2B and B2C segments, we are achieving better traction for all our different categories of product. Our domestic brands, Boutique Living and Layers are garnering enthusiastic customer responses.

Now let me talk to you about our ESG initiatives. In our pursuit of future growth, Indo Count is taking significant steps to enhance its operational efficiencies. We are spearheading our digital transformation with seamless IT integration to streamline operation, gain better control on supply chain and thereby enhance our customer services. This digitization empowers our employees with quick access to information, boosting productivity and improving client relationships.

Furthermore, we are driving sustainability with an investment of approximately INR50 crores in 10 megawatts solar power generation project in Gujarat. This will enable the Bhilad plant to run on 90% green energy by Q4 FY24. Our commitment to ESG extend to initiatives towards development of branded cotton like BCI, organic and ELS cotton.

Our collaboration with Partech Seeds is towards research in improving cotton seed varieties for farmers, thereby helping them to sustain and improve overall cotton yield. Further, we are focused on wastewater treatment to reduce freshwater consumption and have achieved the ZDHC Progressive Level Certification showcasing our commitment to best chemical management practices and global standards.

Now I come on to the awards and recognition.

Indo Count Foundation has been recognized at the national level as 2nd Runner Up in the Best CSR in Healthcare category by ASSOCHAM at the Second Healthcare Summit and Awards 2023, highlighting our focus on quality health care.

Additionally, our brand, Boutique Living received the E-Retail Brand of the Year 2023 award at the ET Retail E- commerce and Digital Natives Award 2023.

Now let me share with you our consolidated financial performance.

I'm happy to announce that we have achieved our highest ever quarterly sales volume of 28.7 million meters for Q2 FY24.

Total income INR 1,033 crores in Q2 FY24 versus INR849 crores in Q2 FY23, a growth of 22% on a Y-o-Y basis. Total income INR 1,780 crores in H1 FY24 versus INR1,571 crores in H1 FY23, a growth of 13% on a Y-o-Y basis.

EBITDA, for Q2 FY24 stood at INR189 crores versus INR120 crores in Q2 FY23, a growth of 58% on a Y-o-Y basis. EBITDA margin for Q2 FY24 stood at 18.3% versus 14.1% in Q2 FY23, a growth of 420 bps.

EBITDA for H1 FY24 stood at INR 319 crores versus INR 261 crores in H1 FY23, a growth of 23%. EBITDA margin for H1 FY24 stood at 17.9% versus 16.6% in H1 FY23, a growth of 135 bps.

PAT. PAT INR 114 crores in Q2 FY24 versus INR 67 crores in Q2 FY23, a growth of 70%. PAT INR 188 crores in H1 FY24 versus INR144 crores in H1 FY23, a growth of 30%.

EPS is INR 5.77 in Q2 FY24 and for the half year FY24, it is INR 9.49.

Our net worth is INR1,941 crores as at 30th September 2023. Our net debt-to-equity as of 30th September is 0.33.

Now with this, I hand over back for the question and answers.

Moderator: Thank you very much. The first question is from the line of Mr. Jatin Damania from Svan Investment Managers.

Jatin Damania: Congratulations on the good set of numbers. Sir, just need a couple of clarifications. Now when you said that our margin is around 18% in your presentation for the current quarter, but when we exclude the other income, we are getting 15.9%. So just wanted to understand the derivation of 18% and the difference in terms of other income, what part is linked to an interest income and what part is linked to forex, if you can explain that?

K.R. Lalpuria: Yes, I'll request our CFO to answer.

Muralidharan: So, in this quarter, we have income of over INR 25 crores, of which exchange rate difference is about INR 14 crores and interest and other subsidiaries, we have about INR 11 crores.

Jatin Damania: Sir, shall we consider this INR 14 crores a part of our revenue rather than a consistent other income?

Muralidharan: Yes, the exchange difference is a part of sales actually. But for accounting standards, we have to show separately. These are all sales income only.

K.R. Lalpuria: So, the unhedged portion, whenever it goes on spot with the hedge when compared, so the income gained on this unhedged portion is accounted as other income. So, this is as per accounting standard. but it is a part of our sales revenue only, but it has to be shown separately.

When you consider that, it comes to around 18% margin, which we reported in this quarter.

Jatin Damania: Sir, second question is on your expenses. Now if you look sequentially, our expenses for employees as well as other expenses have gone up on a sequential basis. So, can you explain the reason? What is the reason for the increase in both employees and the other expenses during the quarter?

K.R. Lalpuria: See, you have to compare the H1. If you see that H1 INR150 crores, this has gone up because of the increment and the addition of different units wherever we have capex. So those have been triggered and established and commenced. So, there is an incremental quarterly to this extent because we have paid the dues in this quarter. And for the year, you have to take on the H1 basis. And if you compare as per last year, it is more on similar lines. So going forward, as the revenue increases, this will marginalize.

Jatin Damania: Okay. So that is for the annualized basis, we can consider INR 300 crores of the employee expense and accordingly, the other expenses for the full year?

K.R. Lalpuria: Yes, please.

Jatin Damania: Sir, last question before I come back to queue. So, I just wanted to understand, now we are generating such a huge cash flow and there is no debt on the book. So going ahead also, we want to look in the capital allocation strategy because our capex is low -- we don't have any more capex lined up. And given the operating profit that we are generating in quarter-on-quarter basis, we will be generating a huge cash flow for FY 25-26. So can you help us in terms of understanding the capital allocation strategy?

K.R. Lalpuria: Yes. So going forward, we are prioritizing the allocation of capital towards more value-added businesses because that gives us substantial growth opportunities. And with the investment into fashion bedding utility and institutional bedding, we see a big uptick in the market towards acceptance of our brand. And we have successfully completed our spinning and our fashion bedding unit and both the brownfield and the acquisition capex. And we have almost invested INR1,100 crores in the last two years.

So now going forward, we'll sweat these assets and see that how we optimize our cost and have operational efficiency. So, our objective will be to ensure that we finance our growth going forward. And the priority is also to reduce the debt overall. So the management and the Board will take appropriate decisions regarding the future course of action. But the Board is cognizance of this fact that we have to fund both the growth and reduce our debt going forward. So, this will be the major focus on to capital allocation strategies going forward.

Moderator: So, the next question is from the line of Kapil Jagasia from Nuvama Wealth Research.

Kapil Jagasia: Sir, first of all, congratulations on very good set of numbers. My question is on volumes for this quarter. So, like are some volumes for next quarter being prebooked this quarter?

K.R. Lalpuria: So that's the reason you -- see, we have already given a guidance for volumes when we started this year to 85 million meters to 90 million meters. And looking at the momentum and a better traction, it has compelled us to give a better guidance going forward. However, we have kept the long-range guidance of 90 million meters to 100 million meters keeping in view the various uncertainties. And for this quarter, we have achieved because the second quarter seasonally is good for us and because of the customer -- new customer acquisition and the geographical expansion, we have achieved better volumes during this quarter.

Kapil Jagasia: Okay. So, like this would be kind of one-off quarter in case of this extremely good volumes because if we go by your guidance of 90 million meters to 100 million meters, the next two quarters should be producing around -- volumes of around 20 million meters to 25 million meters on a quarterly basis. Would my understanding be correct?

K.R. Lalpuria: No, I think so because, Kapil, if you look at our guidance, if I would have ended with 91 million meters, 92 million meters, I would not have revised my guidance at all. So, we are quite confident of the growth in our H2 looking at the momentum, and that's why we have upped our guidance to almost 100 million meters while our ambition is to see that we end up with our higher guidance. But still, the geopolitical situation is compelling us to consider all the uncertainties around that and that's why we have given this range as a buffer.

Kapil Jagasia: Right, sir. Sure. This helps. My next question is on the realizations. Now it has slipped further in this quarter. So, would that be a case of change in product mix, which led to this fall in utilization? Or is it something else, just your colour on this?

K.R. Lalpuria: So, we had given a clear direction. If you remember in our last guidance that the cotton prices have corrected when you compare Y-o-Y, and that correction has compelled us to give a price difference back to our customers. Having said that, you should look at us from both volume perspective and margin perspective because the other things are beyond our control. We are maintaining the margin guidance and upping our volume sales going forward. But it will not be right to say that this is a sort of one-off quarter, and we tend to invest more into our B2C and D2C strategies and more value-added activities to see that how we further increase our value realization going forward.

Kapil Jagasia: Right, sir. Because if I see the cotton prices and also the freight cost, that has been kind of stable over the last two quarters, but the realizations have kind of dropped. So, are the new customers coming in and looking at the cotton price decline and they are looking for this decrease in realizations? Or how is it? Like we are only offering them the decrease in utilization because of commodity cost decline?

K.R. Lalpuria: No, no. We are not offering any discount to new customers because the Indo Count brand is very well known, and we are a larger global bed linen player and we have a complete 360-degree solution as far as bedding is concerned. So, we are investing, as I said earlier, into more value-added product and we have given direction that our fashion, utility and institutional bedding will be 30% of our overall revenues in the coming years.

And our focus should be that how we can sweat our assets, utilize our capacities going forward, how we maintain our margin. The product mix may change to a certain extent and the other factors sometimes compelling us to address the price range is also there; but having said that, there is no discount on the price levels which we offer to any customers, and we are maintaining decent price realization going forward.

Kapil Jagasia: Right, sir. And just my last question on gross margins. I would need some flavour from your end. These gross margins have increased over the last few quarters to around 54%, 55%, as compared to the historical 50% levels. So now this commodity inflation has stabilized. So, what should we pencil in gross margins from a medium-term perspective? Like 54%, 55% would be here to stay? Or it would be like stating down a little bit?

K.R. Lalpuria: It will stay in this similar number because if you compare our H1 to H1, you will get a flavour of that. And if you compare even to our financial year 23 number, you will get a decent direction on our gross margin. And that's the reason I mentioned in my speech earlier that we are maintaining gross margin because the company is regularly investing into the supply chain, taking proper position on to the raw material side and hedging the position accordingly with the order book position.

So, the gross margin are here to stay and definitely, we'll work on further optimization to see that how we can further improve the gross margin through more value addition and through more cost optimization.

Moderator: The next question is from the line of Nirav Savai from Abakkus.

Nirav Savai: Many congratulations for achieving this INR1,000 crores milestone revenue in a single quarter. Sir, I had three questions, sir. One, you had alluded in your previous calls also that fashion, utility, institutional will contribute about 30% of revenues going forward. So how has it progressed? And what is the contribution of these segments in the quarter?

K.R. Lalpuria: So last year, we had reported 19% overall contribution from fashion, utility and institutional to our overall revenue. And this year, we are slowly seeing an uptick because now we have commenced production on our fashion bedding unit. And you should look at the full year numbers rather than quarterly, but there will be an uptick into the overall revenues coming from this particular category of product.

Nirav Savai: Okay. So, fashion has already started production, and it is already getting sold or what is the progress in the fashion bedding side?

K.R. Lalpuria: So, it is performing very well. We have commenced production, and we have interest of the customers. They are feeling quite confident with the setup which we have to deliver the product. And we have installed world-class facilities to see how we can add more value to the fashion trend and deliver to our customers. So, we are seeing an uptick here, as I mentioned earlier, and we'll be able to deliver much better results, but I request that you should be seen from a yearly perspective rather than on a quarter-to-quarter basis.

But our endeavour is there to see that how we reach our 30% goal of the overall increased revenue in these three particular categories. And there is a big scope in this as what -- we have also mentioned in our presentation that the China Plus One strategy; if you look at on the bedspread and other items, the China market share is slowly decreasing, and the share of India is increasing. So, we see that there is a big opportunity in this particular category, and we are working upon it towards this by establishing both back end and front end.

Nirav Savai: Secondly, sir, apart from U.S., we are also looking out for many newer markets. As you said, UAE is already in FTA side and Australia is in the FTA side. So, what was the proportion of revenue if we were to look at non-U.S. revenue?

K.R. Lalpuria: See, we are increasing our non-U.S. market and we thank the government for giving us an opportunity both in Australia and UAE with the FTA, and we see an uptick in demand from these particular countries. And that's why we have been able to successfully add customer base from Australia, Japan and Latin American countries.

And also in UAE, I need to mention that the GCC countries are looking favourably towards India for their supply chain. So, I think there is a good opportunity for us to develop non-U.S. market. And as a company, currently where we stand like around 70% to 75%, which comes from U.S.A., slowly, we are working on how we can improve the non-U.S. market share to almost like 40% and 60% to U.S.A.

And I'm glad to say that our strategies are in the right direction, and we will provide you much information as we move ahead. And we are also looking favourably towards having U.K. FTA sooner or later, there are things which are creating hurdles in it, which are being reported in newspaper every week, and both the governments would like to resolve this very quickly. And we see that once this happens; it will also add on to our market share very well positively.

Nirav Savai: Right. It is the future growth which we are looking at is not only U.S., it's largely from the non-U.S. geographies where our presence is relatively lower, and that's why we see higher growth coming in?

K.R. Lalpuria: So, U.S. is also a very organized market. And as we've always mentioned that the categories which we have earmarked and embarked upon to develop that fashion, utility and institutional bedding, there is a large market out there which is still to be tapped. And definitely, we are working on that strategy. The e-commerce is shaping well, which is a growing market share for us. And definitely, as you rightly mentioned, the non-U.S. market is also a big focus for us.

The domestic market, I would also say, we have been working upon it and we are finding good inroads into pan-India distribution. And we are getting good response to our brand, and we see a good growth coming in, in this area as well. So as rightly mentioned that the non-U.S. market, the domestic market, the U.S. market, with the new categories and the FTAs all will help us further improve our market share, both for the country as well as for our company.

Nirav Savai: Right, right. And sir, last one from my side now. As you rightly said about large part of the capex is already done. And for the next two years, we have been looking sweating the existing capacities. Now what would be the capex which has been outlined for 25, 26? Are we looking for any other larger expansion plan or any inorganic kind of an acquisition in future? Or how do we see the capital allocation side because we understand that a lot of capex capacity is already there in place. So, what would be our capex for this year and next year?

K.R. Lalpuria: So, it will be routine capital expenditure, but we are not leaving any opportunity both on the organic and inorganic side to see how we can further improve our product base, our customer base and our margin base. So, there are lot of opportunities around us for value-added products to be exported out of India and the Board recognizes that from time to time, what are the opportunities, and accordingly, they will take appropriate decisions.

But as of now, there are no large plans for investment coming in, except for some renewable energy towards cost optimization and then reducing our overall debt so that we become a debt-free company almost. So, these are the priorities for us and there are large priorities -- there are enough priorities out there for India to grow in the textile market worldwide as a global player. So, I think the Board will take this decision at appropriate time accordingly.

Nirav Savai: Right. So, no large capex at least in the foreseeable future for 24, 25. And if at all something comes up, then it's a different case?

K.R. Lalpuria: Yes, definitely.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: Congratulations for a strong set of results. Thank you. I wanted to understand -- most of the questions have already been asked earlier. I just wanted to understand on cotton outlook. If cotton prices increase because of the news articles talking about lower cotton production, do you think there could be a risk to the margins?

K.R. Lalpuria: No, not at all. You see, the overall exports of Indian cotton has diminished, and the crop, which is now getting to the market is quite decent, and we do not hear much of negativity about it except that some association, they do revise the numbers, but what we hear and what we believe is that there will be enough cotton for Indian players to both utilize and play on.

So, the range would be similar levels like, say, around 60,000 to 65,000 in the current year. That's what we expect. And whatever like imported cotton also towards branded cotton is getting imported as India is a big market for producing goods out of them.

And we've seen not much of a concern on the cotton supply chain side as well as the prices. So, it won't impact much of it. And as a policy, we also have a decent policy towards how we hedge our order book position and invest into supply chain to see how we can secure the supply chain to our customers.

Prerna Jhunjhunwala: Okay. That's great, sir. Sir, I would also like to understand by when will you be able to utilize your current capacities fully?

K.R. Lalpuria: We have already indicated, Prerna, as you know, going forward, like in the next three, four years, we would like to sweat all our assets, the capacity which we have built on, almost 153 million meters. And there are large opportunities out there for Indian companies to tap and with our clearcut strategies on to B2C, D2C as well as domestic market, e-commerce, value-added products.

So as a company, we have invested both on the backend and front-end to see how we can tap this opportunity. and we are on the right track. When you look at our capacity utilization currently and results which we are getting on from our customer base and also adding new geographies and new customer base, which is adding overall to our performance, we believe that we should be able to double our revenue in the next three to four years.

Prerna Jhunjhunwala: Okay. And sir, by when do we see debt level -- target debt levels to come in? What is your target debt -- net debt level over the next two, three years?

K.R. Lalpuria: See, as I mentioned, our priority is to see how we can conserve cash and fuel our growth. So that's the first priority because we have lot of opportunities, both organic and inorganic to invest into and build the company further and utilize our assets much more effectively.

At the same time, our philosophy has always been to reduce the debt. So, the priority is also to see that in the next two, three years, we make the company debt-free with the free cash flow. But it will be prudent for us to say that the Board takes on these decisions very rightly balancing the act between both growth and the debt reduction from time to time.

Prerna Jhunjhunwala: Understood, sir. And sir, last question on domestic market. You mentioned that there's a lot of opportunity in domestic market. I just wanted to understand the -- how do you see this geography panning out over the next three to five years?

K.R. Lalpuria: See, India as a country is growing into a $5 trillion economy, which we all know it is getting much more organized with the UPI payment and the middle class is growing. If you look at the various numbers of consumption, the overall consumption is growing. We are a young country.

And we see that the entire demographic is positive towards consumer goods. And we, as a brand, are finding a lot of encouraging responses towards both our brands, Boutique Living and Layers. And we have set up the fundamentals right by setting up a good team, a good product range, a good set of distribution network, and we are building on more point of sales and taking the feedback from our customers and growing this market.

So, in the next three to five years, we see a good growth and we are targeting that at least in the next five years, we reach 10% of our revenues or more than that from the domestic market and there is a very large opportunity out there, how people shop and how they consume home textiles going forward. So, we are very optimistic about this and positively, we are taking the correct steps towards this direction, Prerna, going forward.

Prerna Jhunjhunwala: Yes. Okay. Sir, one more question. Just wanted to understand how much of your revenues would have come from the new segments of fashion utility and others in this first half and in this quarter?

K.R. Lalpuria: So, as I answered earlier, you see, Prerna, last year, we reported 19% of our revenue payback from fashion, utility and institutional business. We have established a new factory, and we have commenced the production. This is a world-class facility, and we have been now recognized as one of the key players in Asia to supply, filled product.

And so we will -- we are seeing a good uptick, and it will be better for us to evaluate on a full year basis because when the winter starts, there are more need of filled products and we see an uptick on the institutional side of the business also because the consumers are traveling more, they are using more hospitality product. So, we feel that we should grow this number, but we should be able to give a better guidance in our Q4 results.

Moderator: The next question is from the line of Sajal Gupta from FE Securities.

Sajal Gupta: Many congratulations to you and the team for this receiving such stupendous results, that has really been outstanding if you compare it to the rest of the companies in the industry. And plus, your sales guidance, getting enhance is also a very, very positive thing.

I just wanted to understand one thing, that what has transpired to see such good EBITDA margins? Because as I understand, when GHCL acquisition was done, it was around 10% margins. So, is it the GHCL margins have moved up? Or is the rest of the business is doing the higher margins to compensate the GHCL margin? We wanted to get an idea on that part of the business of yours?

K.R. Lalpuria: So, thanks for your wonderful question. And you see, GHCL when we acquired, we had stated that we will bring about complete better integration into the overall culture, the overall product basket and the overall marketing strategies to see how we sweat those assets and we communicated and engaged with our existing customers, and we are able to offer them better end goods.

We were able to communicate much more effectively that how we can collaborate more to increase their market share and we were able to convince that. So that brought in a dramatic change, and they were confident about Indo Count brand as well as our products categories which we have developed recently in the last four or five years on the fashion, utility and institutional side.

So, we got a very good opportunity to cross-merchandise and offer them better end products which they grabbed and that brought in an entire elevation to how they marketed their products. And this brought in the change, wherein we were able to improve the margins what earlier GHCL used to have.

Also, on the better utilization of the capacities too, we were able to cost optimize whatever we could on the raw material side, on the supply chain and other operational activities to see that how overall, we can improve the performance of this asset.

And we will continuously work upon it to see that how we can further generate much more value-added products from this facility not only from our own facility, but this newly acquire facility. And I'm proud to say that we have been able to retain each and every single person when we took over this unit. And it has gelled with our culture, and they are now enjoying their work. So, the overall efficiency and the productivity of our people has also increased substantially to provide us this success.

Sajal Gupta: Wonderful to hear about all these things. I just wanted to know what this margin is what you are talking that's adding new value-added products, the margins do have a scope to further move up going forward. Sure. Fantastic, fantastic.

Moderator: The next question is from the line of Sangeeta Purushottam from Cogito.

Sangeeta Purushottam: Congratulations for the great performance. My question was that what is your exact capacity utilization likely to do this year? Would it be about 60%?

K.R. Lalpuria: So as per the guidance given, it should be beyond 60% and currently, it is at 75%. But if you look at on a yearly basis, it should be over and above 62% to 63%.

Sangeeta Purushottam: Okay. So about if the growth that we've seen continues as you've outlined the various opportunities, are you likely to exhaust our current capacity by end of 26?

K.R. Lalpuria: That's what our aim is, and that's what the guidance we had given last year also, we have mentioned that once we complete our capacity expansion, both brownfield and the acquisition, our focus is entirely to see how we sweat our capacities and we have got a big market opportunity out there when the companies with the right strategy, with the right financial balance sheet, we are able to penetrate and grab much more market share out there in our product range.

And we are a focused company. So that helped us into bringing out the optimization into all the activities we work with. So, by saying in the next three, four years, we should be able to exhaust our capacities. And as and when needed, having a good balance sheet, and we haven't leveraged at any given point of time, so there is an opportunity and the Board will take appropriate decision to expand further.

Sangeeta Purushottam: Right, right. Okay. And sir, what is your domestic sales as a percentage of your total sales right now? And how has it grown in the last two to three years? would you be able to give us some numbers on that?

K.R. Lalpuria: See, FY23, we were able to clock 2.5% of our revenue coming from domestic sales. And going forward, we will have increased revenue. But as I mentioned, our endeavour is first to establish both our brands very well among the Indian consumers to provide them necessary services, to set up the backend, to provide the distribution base so that we can deliver correctly and steadily.

So, all these factors we are working upon, and we have got a good traction and encouragement from all our consumers, and they are accepting the goods. And looking at overall Indian consumption moving up because of our economy moving up, we see a big opportunity here and we have the right ingredients to see that how we evolve to a better number going forward. So, once we are on our Q4 call, we'll be able to better guide how much is the revenue on the overall domestic side.

Sangeeta Purushottam: Right. And in the domestic market, are you focusing on the higher end or the lower end or across the spectrum?

K.R. Lalpuria: It is across the spectrum because, first, we launched Boutique Living, which is an aspirational brand, and we are having a good success on this. So, it is positioned from mid- to high end. And the second brand, Layers, is a value-driven brand where we are targeting to provide a solution to the middle-class family, which is a growing class in India. So, we are targeting both the ends and it is finding a good traction. So, it is across the spectrum. We are not attacking the lower end of the market.

Sangeeta Purushottam: Right. Okay. And sir last question is on margins. When I look at your margin over the last 10 years with the exception of FY16, the margins you're showing this year are the highest than they've probably ever been. And you are guiding for that range to the mean. So, is there anything which is causing a structural uplift in your margins and will it stay over the next two to three years?

K.R. Lalpuria: Of course, all our strategies are towards value-added creation because we have moved away from a commodity supplier to a value-driven supplier. And as we have mentioned time and again that there are opportunities out there on the fashion, utility and institutional side where China dominated all the time, and this is a high-margin business.

Secondly, on the e-commerce side, the licensed brands also provide an opportunity for higher margin business when you promote it correctly. The domestic business also is a good margin business. So as a company, you see we are working upon various B2C, D2C strategies to see how we can scale our margin. Over and above this, if we utilize our capacities well, if we optimize our cost, if we invest into new technology, automation, digitization to improve our overall operational efficiency thereby, we will cut our costs and you see that we are also investing on the energy side through renewable energy like solar and wind so that we reduce our overall energy costs as well. So going forward, the various strategies, whether on the marketing side, whether on the operational side will help us improve our overall margin.

Moderator: The next question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: So, I wanted to understand, is the volume growth on account of new customer additions or positive demand scenario, if you can bifurcate between the two?

K.R. Lalpuria: So, this is on both accounts, you see, because we have an existing business where we have a good customer base which are relying more on us towards their supply chain, there is an uncertain world out there. So, they are banking upon both India and our company, as well is performing quite well with the necessary infrastructure with our lean and mean and the China Plus One strategy, which we have been always mentioning about.

So, you see a lot of reliance is there to the outside customers to derisk themselves from China and to have more businesses in India, and we stand out with our class of infrastructure and product range and our overall service level to see how we can deliver more. So that is one -- part one. As I mentioned on the other part that we have been successful in adding new geographies and new customer base and this is slowly growing post this FTAs with Australia, UAE and also we are targeting other countries like Japan and Latin America.

So, our overall marketing strategy is to build more new markets and new customers and with the kind of a complete bedding solution which we have as a product range and being a focused company, we are able to provide a much more better value proposition. So that is helping us gain much more market share going forward, and we'll work upon it to see that how we can further grow our revenues by sweating our assets going forward.

Gunjan Kabra: Okay. And sir, how is the demand scenario in the U.S., like the customer engagements, do you think the growth that -- the number that we did in this quarter is sustainable for the next two quarters or next two -- in the near term? And how is the engagement -- customer engagement in the Europe and the U.K. likewise?

K.R. Lalpuria: So, we are witnessing signs of recovery. And as I had mentioned earlier that the customers are also looking to do better business Y-o-Y basis because a lot of headwinds were there in FY23, which have diminished or gone away. And therefore, we see a big surge in the order inflow, and that prompted us giving a better guidance in the very beginning of the year from, say, what we clocked 75 million meters last year to 85 million meters to 90 million meters.

And the recovery is enabling us to further improve our guidance to, say, 90 to 100. So, we see that there is a momentum and there is a demand for the right product, for the right price and for the right service level. So that we are formulating as a strategy to see how we can accomplish that. And our omnichannel strategies are working quite well to see that how we can improvise further on both the market share as well as our end of products.

Moderator: As there are no further questions, I would like to hand the conference over to the management for closing comments.

K.R. Lalpuria: Thank you. We maintain our unwavering confidence that Indo Count is poised for sustainable growth, which will not only enhance our brand but also bolster our profit margins in the future. As demonstrated by our past performance, we are optimistic about our ability to penetrate the market further through our B2C and D2C initiatives. Our track record is a testament to our potential for a promising future. That is all from my side and I wish all of you are very happy Deepawali. For any further information, kindly get in touch with me or Strategic Growth Advisors, our IR Advisors. Thank you.

Moderator: Thank you so much. On behalf of Indo Count Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.