“Indo Count Industries Limited

Q3 and 9M FY ’23 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 Q3 and 9M FY '23 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 risk 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. 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.

Kailash Lalpuria: Thank you very much. Good afternoon and a very warm welcome to all of you to the Indo Count Industries Q3 and 9M FY '23 earnings call. I have with me Mr. Muralidharan, our CFO; and Strategic Growth Advisors, our Investor Relations Advisors. Happy to connect with you all once again to discuss the Q3 and 9M FY '23 performances. Let me start with the industry and business scenario during Q3 and 9M FY '23.

The quarter gone by has been challenging for us and the industry.

High inflation coupled with muted holiday season spends affected the business environment in the global markets. The industry situation is still challenging due to the continuity of geopolitical situation. Inflation remains a key challenge to consumers and will continue to be an issue in the near future. Due to this, consumers are spending on essential products rather than discretionary purchases.

However, lower raw material prices and a decrease in freight cost and improvement in supply chain will lead in improving overall competitiveness of our business. There may be short-term challenges. However, Indo Count as a company is fully ready with our team capacity and capabilities to service our global client base.

Domestic scenario: as Indian economy is in better shape and improving, the domestic demand will have an uptick. Therefore, opportunities to develop local brands in home textiles are immense.

The market is getting more organized. Middle class aspirations are growing and with increased new home sales and a changing lifestyle. This will see a very good growth in overall consumption. We anticipate our domestic brand, Boutique Living and Layers, will lead this growing demand and in the next four, five years we will have an almost double-digit percentage of our revenue coming from domestic sales.

Coming to our recent performance. Due to global demand disruption, our volumes for the quarter were impacted. The reduction in volumes in the quarter has impacted the margins due to under-absorption of fixed cost. We observe an upward trend in Q4 FY '23 volumes, hence we are providing a guidance of 73 million to 75 million meters for the full year thus achieving a flattish revenue in FY ’23. Our margins on current nine months will be sustained for FY ’23. Our ongoing efforts to manage our working capital efficiently is showing result. Our plans for net debt reductions are on track. I’m happy to share that CARE Ratings has upgraded our long-term bank facilities to CARE AA- with a stable outlook from CARE A+ with a positive outlook.

Now I would like to highlight our updates on B2C and D2C sales strategy. The Company continues to remain laser focused on increasing our share in the e-commerce and branded business both locally and globally. We are focusing on brand promotion globally and in India through our 10 active brands.

Our licensed brand Jasper Conran is getting good traction in the market. We will be promoting GAIAM, our other licensed brand, in USA this season. With new innovation and technological capabilities, we will further strengthen our brand offerings. Our share of the branded business is slowly improving in the overall revenue mix.

We believe we will be able to maintain our fashion, utility, institutional business of value-added goods at similar levels at 19% in our overall revenue of FY ’23.

Let me update you on the brownfield capex.

Increase in home textile capacity at Kolhapur facilities from 90 million meters to 108 million meters and the capex for commensurate sewing facilities and TOB (top of the bed) capacity are on track and will be completed by Q4 FY ’23. This will help us to serve our customers better and also increase the value-added mix in the business.

ESG initiatives:

Being sustainable is no longer a cost of doing business. It is a catalyst for innovation, growth, new market opportunity and wealth creation. We intend to build up the best practices to achieve traceability of raw materials across the supply chain.

We participated in United Nations Global Compact India and Accenture Led CEO Study on Sustainability for 2022.

We maintained our CDP performance as one of the world’s largest global disclosure platform, Carbon Disclosure Project, and received B score, which is higher than the average C for companies across Asia as well as the globe for taking coordinated actions on climate issues.

Awards and recognition:

I’m happy to share that our domestic brand Boutique Living has received Best Brand Award 2022 by the Economic Times at the fifth edition of the Economic Times Best Brands 2022 Conclave.

Now let me share with you our consolidated financial performance.

Kindly note the previous period 9M FY ’22 figures are restated on account of RoSCTL one-time benefit of INR 49.99 crores.

Total income INR 662 crores in Q3 FY ’23 versus INR 787 crores in Q3 FY ’22.

Total income INR 2,233 crores in 9M FY ’23 versus INR 2,242 crores in 9M FY ’22.

EBITDA: EBITDA of INR 78 crores in Q3 FY ’23 versus INR 146 crores in Q3 FY ’22.

EBITDA of INR 339 crores in 9M FY ’23 versus INR 392 crores in 9M FY ’22.

EBITDA margin stood at 11.8% in Q3 versus 18.6% in Q3 FY ’22. EBITDA margin stood at 15.2% in 9M FY ’23 versus 17.5% in 9M FY ’22.

PAT: PAT INR 38 crores in Q3 FY ’23 versus INR 71 crores in Q3 FY ’22. PAT of INR 182 crores in 9M FY ’23 versus INR 273 crores in 9M FY ’22.

EPS: we report an EPS of INR 9.19 in 9M FY ’23.

Now that’s all from my side. I now leave the floor open for the question and answers.

Moderator: We have a first question from the line of Kapil Jagasia from Nuvama Wealth Research.

Kapil Jagasia: Sir, my first question is on volume guidance provided by you of 73 million to 75 million meters for FY ’23. So with that, I guess you would be doing kind of 20 million meters volume in Q4, which is much better than this current quarter volumes. So would you regard this quarter volumes of 15 million meters to be the bottom? Things would be only improving from here back to 20 million meters volume.

Kailash Lalpuria: This quarter was one-off you see with the kind of muted demand in the marketplace and so we see an improved trend and that’s why we have been able in our Q4 to perform better.

Kapil Jagasia: And beyond Q4 like Q1, Q2 next year?

Kailash Lalpuria: Beyond Q4 also, things are improving. There are positivity in the marketplace as raw material prices are decreasing, the freight cost has decreased and overall supply chain situation is improving. Our customers’ inventory pipeline is also getting reduced to certain extent. So with all this positivity and we are also market ready so we expect that we should do better in the coming FY ’24 as compared to FY ’23.

Kapil Jagasia: My next question is on the realizations, which are like up by 20% this quarter. With the decline in cotton prices, should we expect realizations for our company to come down or we can take realizations at the level going forward also?

Kailash Lalpuria: No. Certainly like we are working upon value-added growth, as we mentioned, into our different strategies on B2C, D2C, licensed brands, domestic brands, and the overall innovation and technological capabilities which we currently have. As we develop further our promotion of licensed brands, we intend to improve our margins going forward and this is seen into how we have maintained our gross margin also during the year in spite of challenging times. So our entire efforts will be see how we further promote our value-added goods in the coming future.

Kapil Jagasia: So the fashion, utility would be 19%. Going forward can we assume upwards of 20%?

Kailash Lalpuria: Yes. Our efforts, as we mentioned earlier, that we intend to take it up to almost 30% of our revenues in the future. So our emphasis will be on how we can further promote the fashion, utility, and institutional bedding, which is finding a good traction. And we are also building a TOB capacity so that our focus will be on to see how we further add value to our business.

Kapil Jagasia: And sir, just last question from my side. Could you provide some color on our debt levels as on December and also on your working capital days?

Kailash Lalpuria: So, the net debt on 31st December stood at INR 684 crores as compared to INR 762 crores reported on 30th September.

Kapil Jagasia: And the working capital days would be?

Kailash Lalpuria: That we will provide you offline.

Moderator: We have our next question from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: Congratulations, sir, on strong profitability this quarter as compared to what is the industry going through in terms of lower profitability. So, I just wanted some color on how we can see this margin performance going forward.

Kailash Lalpuria: See, as I mentioned, our emphasis will be, Prerna, to focus on value-added goods growth and we have seen some color like we have been able to maintain the 19% of our revenue mix from fashion, utility, and institutional bedding in spite of this challenging year. So whatever our licensed brand commissions as well as our domestic brand growth will provide us definitely a positive margin.

Also, I had mentioned about that the stability of the raw material prices happening currently as well as the reduction in the freight rate and the improvement in overall supply chain will help us into building our competitiveness and our market share. And thereby once we improve our market shares and volumes, definitely it will absorb the expenses too. This will help us to further elevate our margin going forward.

Prerna Jhunjhunwala: But will our sustainable margin range continue to remain between 15%, 16%? That stance continues?

Kailash Lalpuria: Yes.

Prerna Jhunjhunwala: Sir, my second question is on the demand. Could you give some color on how the demand scenario is now panning out between various types of retailers like big box retailers and departmental stores and between US and Europe and Australia where you have presence. So some colour on demand that could help us understand how mass segment, mid-premium, premium; what is moving to get some colour on the same?

Kailash Lalpuria: So that we all know that the demand has been muted mostly because of the mass merchants. The lower income bracket people earning $60,000 to $80,000 have been hard hit and their wallet size has shrunk and whatever they were left with has been spent on essentials. So, the mass merchants were badly hit. The departmental stores are still sustaining the businesses, the specialty stores and especially the club houses had good businesses and the e-commerce also did well.

So the licensed brand and the national brands also did well comparatively in this financial year. So I would say that going forward as things start improving on the inflation side, the wallet size returning to normal will help the mass merchants' demand going up. So that will help the business to normalize.

Prerna Jhunjhunwala: And any pressure seen in terms of working capital days wherein customers are asking for lower sizes or just in time, so you have to maintain higher inventory or something like that?

Kailash Lalpuria: As a company focus, see, we have a robust balance sheet, so we always invest into supply chain and elevating our customer services. So, we invest into supply chain and in today's world supply chain is the key to your success to service.

And as a company, we have been investing into the supply chain which we have maintained and going forward also we will invest into it. So, whatever is required in order to provide security of supply chain to the customer, we as a company will invest into it.

Prerna Jhunjhunwala: And sir, last question is on synergies between GHCL and your Company. How is the cross marketing of products between two customer bases happening? Any colour on that?

Kailash Lalpuria: See, I'm happy, Prerna, to say that the intertwining and integration is working very well for us as far as GHCL is concerned. So, whatever long-term strategy which we had spelled out and because of that which we acquired these assets are working very well for our Company from a long-term standpoint.

And the team is fantastic and the product range is very good and with the intertwining of the product mix between our two companies is working on very well and the customers are getting more confident. And whichever customer they were working with are feeling more now secured and going forward they will embrace our entire product basket list. So, we are quite positive about how the entire acquisition is shaping up and will play an important role into delivering our next level of growth.

Moderator: Thank you. We have our next question from the line of Abhineet from Emkay Global. Please go ahead.

Abhineet Anand: Sir, first my question is what is the capex for '23 and '24 and what would be the corresponding debt levels at the end of '23?

Kailash Lalpuria: See, we are spending most of our capex by Q4 FY '23 and which we have already explained in our investor deck so you can refer to that. As far as FY '24 is concerned, it will be routine capital expenditure. So whatever capex was needed for our building capacities and capabilities, we have invested so far in the last couple of years and with that, we have repositioned ourselves as a very strong player into delivering the next level of growth.

Abhineet Anand: And debt levels expected at the end of this year?

Kailash Lalpuria: The debt levels totally compare with the acquisition will definitely improve, which we will provide you in our H2 result. So it will be better to provide you those numbers because currently the cotton season is going on, we have to invest into building our raw material and investing into other areas where we maintain the security of the supply chain. So, we'll be better off to provide you the net debt as we move forward. But as we mentioned in our press release and our investor deck, we are on track towards reduction of both our inventory levels and the net debt.

Abhineet Anand: So, my next question is on that. Basically what is the inventory level of the cotton that you are carrying now in terms of month or something?

Kailash Lalpuria: We had earlier informed that we carried inventories till December and we are now in the process of buying new crops, which will only play out from Q1 onwards because whatever crops which we will buy in Q4 will be helpful for us in delivering the Q1 results. So the impact would be coming next year. Definitely the inventory levels are reducing and they are on track. But we always have to see that how we can maintain the inventory levels to certain levels where we can service the customer better.

Abhineet Anand: So as of December I mean in terms of inventory days or something, whatever internal measurement is there, what is that number that we are carrying? I think end of 4Q obviously that will be higher because you need to have more crops at that time. So, presently are we light? That's what I'm trying to understand.

Kailash Lalpuria: Certainly, Abhineet. See, the thing is as on 31/12 we had an inventory level of INR 1,068 crores. But post that, we had acquisition of GHCL inventory as well. So overall when we report our inventory levels post H2 result, you will be at a better position. But I can say currently that the reduction in inventory levels and the debt levels are on track.

Abhineet Anand: Secondly, can you throw some more light in terms of how has 4Q demand started versus say at the start of 3Q? Is there some improvement in the demand scenario right now?

Kailash Lalpuria: Certainly the retailers are looking they seemed to be more enthusiastic when we had this Heimtextil show in January and during Market Week also in the US in September. So, they are looking at new innovations and creativity to see how they can offer their customer more solution. So certainly they were not chasing goods, but they were reducing their inventory level which is visible because of the muted demand from them. And certainly as the market as their pipeline is getting reduced day by day, we believe that they are better off than what they were and the demand once it improves will bring that normalization.

Moderator: We have a question from the line of Nishit Deepak Jain from S&J Investments. Please go ahead.

Nishit Deepak Jain: I would like to understand what was the cost of raw material cotton in quarter three in comparison to quarter two?

Kailash Lalpuria: It was around INR 85,000.

Nishit Deepak Jain: In quarter 3?

Kailash Lalpuria: In Q3.

Nishit Deepak Jain: And what about quarter two?

Kailash Lalpuria: Quarter two was a little bit lower side, which was around INR 75,000.

Nishit Deepak Jain: So as we understand, the cotton prices are lowering so in quarter four, it will definitely be better, it will be on the lower side.

Kailash Lalpuria: It would be lower, certainly it would be lower. But you see what you need to look at is our net raw material cost, our gross margin because you see there will be always up and down, different cotton being used at between point of time. Different qualities are being used at different times. The product mix keeps on changing. The demand keeps on changing. So what we need to look at is whether the company is able to maintain their overall gross margin, which we have been able to do so.

Nishit Deepak Jain: And the second thing is on the freight cost so a significant decrease in the freight cost in quarter four also. Is it right to say?

Kailash Lalpuria: Of course like this will bring in more competitiveness I would rather say because the freight was getting to an abnormal level, which was impacting our overall exports and servicing the customer. So the freight cost and the raw material cost keeps on dynamically changing all the time, but definitely it will improve both from a cost standpoint as well as our competitiveness standpoint.

Nishit Deepak Jain: And the last thing is regarding as we know the issue faced in Pakistan and all. Will there be any impact in the orders may shift to India to companies like ours and other peer companies? Are you seeing any impact on that?

Kailash Lalpuria: We also do hear such things. But definitely Pakistan is well positioned in EU and UK and they are well entrenched into those markets and they are also well entrenched into the lower end of the market. Textile is their main base and industry and definitely if they are unable to supply, definitely it will be an advantage of India just like when we speak about China plus one strategy so it will become a Pakistan plus one strategy.

So definitely there will be gain if somebody from the peer group loses market share, but they are into the lower end of the business. And secondly, you see many of the times the market tends to change to other lower cost producing countries. So, India is positioned into the mid to high end meaning if that a FTA gets signed with EU and UK, the real gain from Pakistan's market share will fall into Indian lap.

Moderator: We have our next question from the line of Pankaj from Affluent assets. Please go ahead.

Pankaj: We would be reporting around INR 3,000 crores of topline for this year, which is more or less equivalent to 50% of our capacity given the total capacity I mean GHCL plus our old capacity including the expansion. So by when do we see, if things improve, us reaching a target of around $1 billion of topline and peak margins of around 18% to 20%?

Kailash Lalpuria: See, good question. It's a very positive question and certainly we are working on those objectives and goals only. The acquisition intent was to bring about the next level of growth as you rightly said towards making our Company $1 billion revenue company and with a good margin growth of course. But our first priority is to see how we consume our capacity to the optimum level and to the best level and we are working upon that.

We have got a good customer base, we have got a good product base, we are a focus company, our balance sheet is robust, we have invested into good assets, our team is superb, and our products are world class. We are exporting to 54 countries. So with all this positivity and India also is placed in an advantageous situation as a textile producing country and a textile supplying country. So with all this positivity, we will see to it that how we consume our capacities which we have invested upon and see that we take our Company to the next level and should be why not a $1 billion revenue company.

Pankaj: So, any tentative deadline or target?

Kailash Lalpuria: See, deadline we have given when we acquired GHCL that the additional revenue from the GHCL acquisition will be almost like INR 1,500 crores, INR 1,600 crores and with our capex also with the additional capacity, we will be increasing our revenues by almost INR 600 crores. So the overall additional revenue if you look at in today's context of 75 million and INR 3,000 crores so if you double it, safely we can say that we'll be almost at a INR 6,000 crore level in the next three to four years.

Pankaj: Secondly, we have acquired a spinning mill too. So with this acquisition and the expansion which is ongoing both in-house or old company and the new acquisition, how much integrated would we be?

Kailash Lalpuria: Integration will happen. See, the entire reason for integration is synchronizing our efficiencies. If whatever we can produce at either of the factories more efficiently, we would interchange. We will build upon the efficiencies in such a way that we can service the customer more competitively and more efficiently and it is happening. As I mentioned in my previous answer that we are very happy to state that the integration has happened very quickly for us and it is coming to a good shape. Once the demand improves, definitely we will benefit from it.

Pankaj: I agree about the intention. My question is what percentage of our total requirement would be sufficed domestically in-house?

Kailash Lalpuria: So sorry for this Pranavaditya, I missed to say that with the integration of Pranavaditya the amalgamation, we should be able to at least have 25% of yarn requirement in-house.

Pankaj: And what was our earlier share?

Kailash Lalpuria: So, the earlier was like on 90 million. Once we acquire the total I'm saying about in 153 million, it will be 25%.

Pankaj: All over including both earlier yarn spinning mill and the Pranavaditya acquisition, right?

Kailash Lalpuria: Yes.

Pankaj: And my third question is you mentioned that our value-added products are around 19%, 20%. So as this increases to 30%, as mentioned by you, would we be able to improve our margins?

Kailash Lalpuria: Of course, why not? That is the whole idea behind increasing the sales of the fashion bedding, utility, and institutional bedding. Why we would not gain much more margin? Those are value-added products.

Pankaj: So tentatively how we can reach -- from say 16% now, where can we reach?

Kailash Lalpuria: That guidance we cannot give at the moment. There are so many moving pieces. But definitely you see when you make value-added products in the business apart from commodity, you always get to gain on the margin side. So definitely the entire emphasis is on how we can add value to our business and make a value-added growth.

Pankaj: No. But just wanted to understand what is the improved margin?

Kailash Lalpuria: Why you improve? I did mention that the margins will get improved. It is anybody's guess.

Pankaj: Sure. Okay, sir. Thanks a lot, I'll get back to the queue.

Moderator: We have our next question from the line of Nirav Savai from Abakkus AMC.

Nirav Savai: Hi sir. Thanks for the opportunity. Sir, my question is related to the standalone operations. So this quarter our margins for stand-alone is very low and also if we look at the profitability there, it's significantly lower. So, is there any reason behind that? How do we read the overall results because generally standalone is a bulk of overall profit?

K. Muralidharan: So, I think you should read this numbers for nine months. In quarters there could be variations due to product mix. But if you read the nine-month numbers, I think it's more stable and you'll be able to get the answer right.

Nirav Savai: Right. Because for the nine months, it's more or less in sync with what the historical trend was.

K. Muralidharan: This happens because of the product mix and so many variables, the numbers keep moving. But you look at a wholesome picture of nine months, it will answer this one. I think this is better.

Kailash Lalpuria: And also you see, we serve omnichannel and we serve also ex-US distribution. So definitely when we consolidate, it would give you a more clear picture because whatever FOB businesses and ex US businesses get consolidated, then only you will get a clear picture.

Nirav Savai: Okay. So in case if you sell it to one subsidiary and inventory is lying in that subsidiary, then maybe the standalone would be lower but the consolidated will be better than that. Is that the right way to look at it?

Kailash Lalpuria: Yes. Because for customers like they need to service good south of the US warehouse also and in US we have e-commerce business also. So when it gets sold, it gets consolidated.

Nirav Savai: And inventory is lying in subsidiaries, which was maybe a couple of quarters back sold to subsidiaries and now the recognition has happened. Is that the way to look at it or how do we look that?

Kailash Lalpuria: Like we are doing as we mention all year long, there are certain customers who buy FOB also. There are certain customers who buy ex-US warehouse also. So, there will be inventory servicing from US warehouse also.

Nirav Savai: Got it, sir. This is something which is a normal thing, it can happen so we need to look at only consolidated.

Kailash Lalpuria: Yes, it's a normal thing. So, that's why you have seen that wherever we give consolidated results because that will give you a clear cut picture.

Nirav Savai: Got it. All right sir. That's it from my side. Thank you.

Moderator: We have a question from the line of Devendra Pandey from DP Financial Advisory Services.

Devendra Pandey: Sir, my first question is on our license brand contribution. So, how do you see license brand contribution growing in the next two, three years as a percentage of revenue?

Kailash Lalpuria: We have mentioned, Devendra that we have 10 strong active brands and we keep on adding licensed brand as per the market demand from our customers and looking at the fashion trend as well as how we can service our customers much better with the licensed brand as well. So, those strategies spell out when we acquire a license for brand promotion. So, certainly they are doing very well.

We had launched Jasper Conran last year, it is getting a good traction. And secondly, we have launched GAIAM at the last Market Week, which we'll be promoting this season and it also responding very well. And there are other product brands, which we are selling like Infinity and Signature Sateen and pure earth etc. which are doing quite well. So, our overall brand portfolio is helping us to improve our promotion of overall licensed brands in the marketplace.

So, definitely they are doing well. I cannot give you the exact number as such. But the overall brand strategy is working very quiet well for us and we might have a couple of more licensed brands going forward either in this year or the next year.

Devendra Pandey: And sir, as the various free-trade agreements are getting signed, are you planning to add any new geography in our portfolio?

Kailash Lalpuria: Absolutely. Like you see the Indian government already has established free-trade agreement with Australia and UAE so we are seeing an uptick in the demand from those customers. We are discussing with UK, which is pretty close to get established so UK also market will open up. EU we are having advanced negotiation and Canada too where we are paying 17% duty as compared to Bangladesh.

So, that also will help us improve our market share over there. So, certainly this FTAs will provide a big boost to how we export more textile products to these countries and definitely our market share, which are major over there like almost to 4%, 5%, will definitely improve just like what we have done in USA. You see the result yourself in US.

We have gained almost 50% market share. Our products are competitive, we have performed well, and India as a country as a bilateral trade partner is accepted worldwide. So, definitely this entire FTA negotiation will help our country to go to the next level of attaining market share.

Devendra Pandey: And sir, in terms of geography addition, which region are we targeting specifically if at all?

Kailash Lalpuria: So this like when we have an FTA say with Australia or with UAE, definitely we develop our competitiveness then over there so these are the target.

Devendra Pandey: And sir, my last question is on the marketing spend. So for Q3 and 9M, how much was it as a percentage of revenue?

Kailash Lalpuria: So, that gets reflected in our other expenses and marketing expenses we do not count in our overall expenditure. We work on a cost-plus basis in made to order business.

Moderator: Thank you. We have our next question from the line of Abhineet Anand from Emkay Global. Please go ahead.

Abhineet Anand: Just on this FTAs Australia and UAE. that has started, if you can throw some light I mean how big are these market and potentially what additions can happen on an industry level or from India level that subjective things will work?

Kailash Lalpuria: Certainly this markets are huge like the home textile consumption is very good over there. Say for example Australia is equivalent to UK even though the population size is less, but the Manchester consumption is high. UAE of course is a developing country and we are also discussing FTA with GCC countries where Pakistan is more prominent. So, as somebody asked me where we can show our market share.

So definitely if Pakistan is unable to supply and ensure the supply chain, we will grow GCC and UAE countries. UK I had already explained like Pakistan and Bangladesh are duty free and we are not, we are paying 9.6% duty so definitely that is an organized market where we can have a good traction. EU of course is the larger trade blocks like almost the retail sales for home textile there are larger than the US.

If US is $28 billion, EU is almost like $32 billion market and definitely we are only 5% over there as a market share. So, that will open up the whole market size to us. And as I explained, Abhineet, that since we have gained a market share of almost 50% plus in USA through our efforts and through our competitiveness, why can't we gain that in EU and UK.

Abhineet Anand: Sir, I agree to that. So, you are saying Australia is as big as UK, right?

Kailash Lalpuria: Yes, the Manchester consumption is very high. See the per capita consumption just to give you a flavour say in the US for home textile is 24 kgs per person whereas in India it is 6 kgs per person or in say UK it is almost like 20 kgs per person. So in Australia also it is more than 20 kgs, it is 25 kgs per person. So, the per capita consumption is higher and that gives us an opportunity to scale up our sales there. And since the relationship between Australia and China also are not to the same mood as earlier, we are getting that advantage as well.

Moderator: We have a question from the line of Pankaj from Affluent Assets. Please go ahead.

Pankaj: Sir, on Slide Number 14, you have mentioned three tables. One of them is share in cotton bedspread, US imports of cotton bedspreads where India is nearly 20%. What exactly is this compared to cotton sheets and pillows?

Kailash Lalpuria: See, whatever is not cotton sheets and pillows is like the filled product and the unfilled product, which goes into decorating the bed and being used on the bed for use also. So like comforters, quilts, coverlet, bedspread, duvets; all that which China is dominating today.

Pankaj: Okay. Has it penetrated? As Indo Count, have you penetrated do we have products in this segment?

Kailash Lalpuria: Of course, we have mentioned that. That comes in the fashion bedding, utility bedding. I hope you are clear and see the pictures. We have given some beautiful pictures. You can see that whatever light the sheets are, how you decorate the bed. Particularly in India we do not use it. But if you see our four category of products, I'll just tell you the slide number. Pankaj, see Slide Number 22.

It will give you like a picture of what products which we are like a bedspread would be. The sheet set business is basically when you go to a hotel, you see a flat sheet, a fitted sheet and two pillows. That is the sheet set. Whatever you decorate on the bed or you use it to cover yourself up so that is the bedspread and other filled products and unfilled products.

Pankaj: Well, sir, who all our competitors from domestic market and Indian market who are also in this business?

Kailash Lalpuria: So there was a peer group, those who are present in the home textile business. They are all there in this also.

Moderator: Thank you. We have our next question from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Sir, with lower freight fee rate and with lower cotton prices and better volume in Q4, can you expect the 18% to 20% margin?

Kailash Lalpuria: See, we cannot give a number, Amanji. But certainly you see, as I mentioned, these are positive happenings in the marketplace. If you remember last year we had all these adversities whether it was raw material, whether it was supply chain, whether it was freight, whether it was transit time, whether it was container availability, COVID. So all these adversities were there.

So, if you see in today's context; COVID is behind us, raw material prices have stabilized to certain extent, the freight costs have gone down, the supply chain is better, the customers' pipeline has reduced, and India is becoming more and more important for bilateral trade between developed countries. So we believe that going forward, these are all the opportunities where not only we will be able to build our competitiveness, but our overall growth and our overall margin.

We have been working on cost plus, but certainly when we promote value-added product either in fashion bedding or utility or institutional or licensed brands or through e-commerce licensed brands; certainly they will help us derive better margins.

Aman Sonthalia: That's true, sir. And sir, this earthquake in Turkey, whether it will impact our business in any way?

Kailash Lalpuria: I don't think so. We are also hearing those news, which are very sad news and we are not looking at that angle anyway. And we are still reading between the lines, getting ourselves also acquainted with the loss out there. So, I would not be able to comment on that.

Moderator: Thank you. We'll take our last question from the line of Navin Sharma, an Individual Investor.

Praveen: Hello. Sir, this is Praveen. Sir, my question is also on the Slide 14, which is US market share from Otexa which you have presented. Now it seems Pakistan is gaining market share in nine months, they have gained around 4% market share in nine months. So, what does it explain? What explains this? Is it just because customers are down trading because of inflation and going towards the lower end of the product?

Kailash Lalpuria: No. See, the cotton prices hit almost INR 1 lakh a candy. So, there was an inclination towards blended products, which is polyester cotton. And once you mix polyester, you become a cheaper variety of product because 100% cotton is still a luxury and a higher-end product as compared to a blended product.

Now Pakistan is well placed on the lower end of the market so definitely when price tends to move up, the market tends to move lower down. So, that's why they gained a little bit on to cheaper product because the inflation has shrunk the wallet sizes of the consumer and they focus upon lower end of the product.

So, that's why Pakistan was able to gain a little bit. But also the overall Indian exports were not able to match the expectations because India was positioned into the mid to high end so there is a numerator-denominator impact too. So once the overall volume and value improve and India goes up to say almost 52% to 54% level, automatically Pakistan numbers will reduce.

Praveen: And sir, just this is an idea because inflation is going to — the Fed is going to increase interest rate it seems and this is not going to stop. And so with the recession clear in mind, don't you think that we need to come up with a product train which is say lower to medium range in mind and targeting exactly this market as the wallet share of the customer is reducing?

Kailash Lalpuria: See, certainly we keep on evaluating our product positioning and our product strategy. So, definitely this is a good idea. But you see, we have to see our overall positioning globally and we are positioned into the mid to high level so certainly we'll stick to that. But definitely our Board and we all evaluate this position from time to time and we'll take definitely appropriate action to see that how we can do better into all segments of the businesses.

Moderator: Thank you. I now hand over the floor to the management for closing comments. Over to you, sir.

Kailash Lalpuria: Thank you. I would like to reiterate that the Company will continue to work on value-added growth. Short-term challenges may continue, but the pace of volatility is receding. With FTAs becoming operative along with lower raw material prices and freight rates, we remain confident to cater to the growing demand of our products and consequently increase our market share.

We have invested in capacity additions and are market ready to capitalize on fresh business opportunities. With this, I would like to thank everyone for joining 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 adviser. Thank you.

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