



“Indo Count Industries Limited Q1 FY23 Earnings Conference Call”

August 02, 2022

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MANAGEMENT ATTENDEES:

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

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



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Moderator: Ladies and gentlemen, good day welcome to Q1 FY23 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 the 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 the conference call, please signal an operator by pressing “*” then “0” 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!



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K.R Lalpuria: Good morning and a very warm welcome to all of you to the Indo Count Industries Q1 FY23 earnings call. I hope you and your family are keeping safe and healthy. I have with me Mr. Muralidharan, our CFO and Strategic Growth Advisors, our Investor Relation Advisors. Happy to connect with you all once again to discuss the Q1 FY23 performance.

Now, let me start with the industry and business scenario in Q1 FY23. The quarter continues to be impacted by geopolitical concerns, supply chain issues, high inflationary environment, sluggish demand offtake and an increase in input cost resulting in a number of challenges for the industry and the company. We have been able to navigate the above challenges on the back of strategies adopted by us towards increased contribution from value-added products and customer centricity. We expect the industry situation to start getting normalized in H2 FY23.



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About our key markets, inflation remains the key challenge to consumers and will continue to be an issue during FY23. Due to this, consumers are spending on essential products rather than discretionary purchases. However, as per the latest retail sales data by NRF, US Retail Sales in June 2022 were up 1% from May 2022 and up 8.4% on a year-on-year basis. The domestic demand for home textiles in India is also expected to continue to grow.

On the domestic scenario, the Government of India's efforts on the various treaties and FTA agreements and the continuation of RoSCTL will help us further to move ahead and be a reliable and credible supplier to the global textile market. In view of China Plus One Strategy, we believe the Indian Textile Industry's long-term growth prospects remain unchanged.

Now the future outlook; We believe the downward trend in prices for the new cotton season, easing of



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supply chain issues and measures taken by the respective governments to tackle inflation will be the key factors helping the revival of demand over the medium-term. We anticipate that the forthcoming holiday season will also relieve the inventory backlog from the system.

Our company's performance: During the quarter, we saw various developments. The first one is the acquisition of Home Textile Business of GHCL Limited. We have successfully completed the acquisition of Home Textile Business of GHCL Limited, thus making us the largest global home textile bed linen company. As expected, the integration between the two units has taken place seamlessly. We expect the consolidation synergies to reflect once volumes start to pick up.

Focus on brands, B2C, D2C and value-added products: We are strategically moving towards value-added products which is a better margin and value proposition business. Our partnership with



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Jasper Conran for an exclusive Bed-and-Bath collection has been launched successfully in the international market. Also, enhancing our domestic presence through the various digital marketplaces and advancing towards B2C and D2C segment through high-quality product offering across the right price points. Our brands Boutique Living and Layers are witnessing good traction in the domestic markets.

Now our ESG initiatives: On the sustainability front, we have adopted a scientific approach towards climate action by joining global campaign led by SBTI i.e., Science Based Target Initiatives. We have received approvals from SBTI for emission targets in June 2022. We will strive to achieve emissions reduction by adopting the sustainable practices across the supply chain and all manufacturing units of the company.

Awards and recognition: We are happy to announce that we have been once again awarded



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the gold trophy by TEXPROCIL in the bed linen category for the year 2020-21. This endorses our global leadership position.

Now, let me share with you our consolidated financial performance. Kindly note that Q1 FY22 financial includes ROSCTL benefits of Rs.50 Crores for the period of January 1, 2020, to March 31, 2021. We will compare our performance therefore excluding this income of prior period.

Total income is Rs.722 Crores in Q1 FY23 versus Rs.709 Crores in Q1 FY22, an increase of 2%.

Gross profit of Rs.455 Crores in Q1 FY23 versus Rs.386 Crores in Q1 FY22. Gross margins stood at 63.1% in Q1 FY23.

This higher gross profit is attributable to higher contribution of value-added products and advantage due to better hedging of raw material. We expect gross margin to normalize over subsequent quarters.



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EBITDA Rs.144 Crores in Q1 FY23 versus Rs.128 Crores in Q1 FY22 an increase of 150 bps.

EBITDA margin stood at 19.5% in Q1 FY23 as compared to 18% in Q1 FY22.

PAT, Rs.77 Crores in Q1 FY23 with a margin of 10.6%.

We reported an EPS of Rs.3.91 in Q1 FY23.

That is all from my side, now I leave the floor open for the question-and-answers.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Kapil Jagasia from Edelweiss Financial Services. Please go ahead.

Kapil Jagasia: Congratulations on a decent set of numbers in this environment. Could you please provide us with the break up of GHCL numbers for this quarter in terms of volumes, realization, and margins?



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K.R Lalpuria: This now should be considered as one business and one unit and one capacity because we have acquired this asset in order to synergize our business and whatever ease of doing business and convenience as well as better services; we will inter-twine between the two-manufacturing units to see how we can scale up our efficiencies better and deliver a better business, so we should always look this now as one unit going forward.

Kapil Jagasia: Okay. Just for the organic growth wanted to check how has been organic growth for us in this quarter?

K.R Lalpuria: We have already reported a volume of 19.1 million metres together and going forward also we will start utilizing those assets in a better way. That is the reason we have acquired this asset in order to synergize, so wherever the customer is happy and better productivity and better efficiency we can get from both these units we will inter-twine between these two units to deliver our business.



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Kapil Jagasia: Right. You have already highlighted in your opening speech regarding the fashion utility and institutional bedding and also that salient had increased last quarter to 19%. How is the demand currently for this quarter with high inflation in US; any demand disruption happening here and how has it been for fashion utilities? The salient has further gone up or how is it?

K.R Lalpuria: We are doing better in fashion bedding, utility bedding, and institutional bedding as we have been making efforts for the last three-four years in this area. We are also making efforts in the B2C, D2C, the domestic brand promotions as well as the e-commerce businesses. All our efforts are how we can fragment our business better on the value-addition side and this is what is demonstrated in our results and getting reflected there; that is the effort which we have put in towards value-added business which has started bearing fruits. On the fashion bedding business, we will report in our



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next quarter how it pans when the demand normalizes, but we see positivity in that to going forward.

Kapil Jagasia: Okay, sir my next question is what is the updates on 18 mn brownfield expansion or is that commissioning happening on time. I heard it was expected by Q2, any deferment due to demand slowdown in US, what is the update there?

K.R Lalpuria: We have already updated in our last Con-Call that it is on track and we will be able to complete that in H2 FY23.

Kapil Jagasia: Yes. Last question from my side, any incremental orders have you received so far from neighboring countries like Pakistan or from Australia, Dubai or if some FTA's have been signed recently?

K.R Lalpuria: Come again I did not understand your question.

Kapil Jagasia: Have we received any incremental orders from Pakistan, as you know, there is some turbulence



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over there order shift happening from Pakistan to India?

K R Lalpuria: No, in fact Pakistan rupee has gone down to Rs.240, so as a country economically, it seems to be a weaker country and the retailers and brands would understand about the economy of that country and their security on the supply chain is increasing day by day, so they will always look at countries which are able to maintain the supply chain consistently. As a country, we are positioned very well, and we have performed well. When you compared to the peer group, we always stand out with respect to our supply chain because we are the largest producer of cotton and other fibers too. The raw material situation in Pakistan is saturated and they are positioned at the low end. Going forward, the country will definitely have an advantage and since we are out of India, we will also gain that advantage.



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Kapil Jagasia: Okay. Any incremental orders from Australia, Dubai with whom we have signed FTA, so how is the home textiles market in these regions?

K R Lalpuria: There enquiries have started; because as we have signed the agreement, it is still to be implemented; between the two countries things are getting sorted out and by end of this year it should be implemented in full spirit. We are expecting enquiries from Australia as well as the UAE GCC Countries because we have signed FTAs with them and there are expectations about the other FTAs also with UK and Europe advancing to a better stage and we feel that these are important from Indian standpoint because it will provide a level playing field as well as opportunities to grow our market share in those countries.

Kapil Jagasia: Right. Congratulations for good results and thanks for answering all the questions. I will come back in the question queue. Thank you.



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Moderator: Thank you. The next question is from the line of Pankaj Bobade from Affluent Assets. Please go ahead.

Pankaj Bobade: Thanks for taking my question. Congratulations for excellent set of numbers., Just wanted to understand what is the capacity utilization you mentioned that you have produced some 19.1 million meters of products; what is the current capacity utilization on overall basis and when do we expect to reach the peak capacity utilization, which we have seen last year?

K.R Lalpuria: Currently, we are at 90 million meters and we did 75 million last year. We acquired GHCL, which has a capacity even though 45 million meters, but the acquisition of business was 20 million meters what they were doing; so if you consider 90 million plus 20 million it comes to 110 million meters and since if you divide that by 4 it comes to 27.5 million meters approximately and since we have



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done 19.1 million meters; it is almost 70% of our utilization.

Secondly, the first quarter is always low as far as seasonal business is concerned in our businesses. We expect this capacity utilization to improve going forward and we all know the circumstances which are prevailing as of now, there are so many headwinds, and we see that these headwinds are slowly diminishing. We all expect that the capacity utilization should definitely improve going forward.

Pankaj Bobade: Then if I am not wrong, I was under the impression that we have taken the whole 45 million meters of GHCL.

K.R Lalpuria: It is 45 million.

Pankaj Bobade: But you mentioned that we have taken over just 20 million?



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K.R Lalpuria: No. This is an acquisition, the acquisition we have just completed in this quarter and the first quarter we are reporting; and they had a business of 20 million meters and there were headwinds during this time. Practically speaking if you add this 20 million meters business and what we did last year which was 75 million meters and the current capacity to 90 million meters, the total practical overall capacity needs to be looked upon at 110 million meters.

Pankaj Bobade: You mean to say that they had capacity of 45 million meters, but out of that only 20 was operational, am I right?

K.R Lalpuria: Yes, and this is the first quarter when we are reporting.

Pankaj Bobade: I agree with you on that, but rest 25 million meters what are the constraints for that to get operationalized?



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K.R Lalpuria: Definitely. We have reported that within the next three-four years, because this acquisition is on long-term basis and we have already indicated that the revenue addition and the capacity utilization once we utilize and sweat out this asset will be almost like a revenue of more than Rs.1300 to Rs.1500 Crores to our business and we are also attempting to utilize our capacity; before the acquisition we were at 90 million meters and we were at 75 million meters sales, so we were almost utilizing our capacity to the level of 85%.

Pankaj Bobade: I take your point, I am not disagreeing with you, I just wanted to understand that what are the constraints for this 25 million meters of capacity, which was un-utilized with GHCL to that operational length?

K.R Lalpuria: There are no constraints as such. We have taken this asset because there are synergies between the two capacities and today because of the demand situation and the sluggish offtake, we are unable to



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utilize it fully; going forward, we are quite confident with the set of customers, which GHCL had and which we had acquired and the set of customers, which we have, as well as the different strategies which we have adopted into expanding our business are bearing fruits. We are quite confident, and we strongly believe that going forward we should be able to utilize this capacity, and as I informed earlier in my answer there are FTAs getting signed wherein these countries India is having a very low market share and we are not at level playing field. The moment these huge markets open up, we are market ready and we are able to then increase our market share and our overall revenues.

Pankaj Bobade:Is the situation, which we had last year arises, where there was steep demand for home textiles, would be we able to run our GHCL, we are already running our domestic capacity but GHCL capacity to fullest extent of 90% capacity, producing around



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40 million meters out of 45 million meters of capacity?

K.R Lalpuria: We are all hoping and we are all working towards it as I mentioned. The capacities will take some time to utilize; it is a long-term strategy, it is not a short-term strategy.

Pankaj Bobade: Are those 25 million meters of capacity not available for production now?

K.R Lalpuria: Yes, of course we will be able to bring about that business just because of the sluggish demand offtake we are unable to utilize the capacity to the similar levels.

Pankaj Bobade: Okay. Second thing regarding the inflationary situation in US, what my understanding is that the inflation has reached its peak, what are your current readings on the ground?

K.R Lalpuria: The respective governments are trying to tackle the inflation and what we hear about is that apart from



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inflation the sluggish offtake is because of the inventory pile up. As the inventory pile up releases, the normal demand would return and we expect that the normal demand should start flowing in from Q3 onwards; and the optimistic side also is that the holiday season is in front of us; what we feel that the government is trying to tackle the inflation and we hope that with revival of the demand, things should start moving in the right direction.

Pankaj Bobade: Okay, thank you sir.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Good morning, congrats on very good set of numbers considering the challenging situation both on the raw material and the US market. Few questions, first on we were planning a capex of 70,000 spindles, so what is the status on that and



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overall if you can update any other capex for 2023 and 2024?

K.R Lalpuria: This capex is on track as I mentioned. The first phase is expected to be completed by this financial year 2023 which is what we had reported and we are expecting it to complete by December so, it will be operational before 2023.

Bhavin Chheda: What exactly you are doing in this first phase?

K.R Lalpuria: We are installing almost 25,000 spindle.

Bhavin Chheda: Okay. How much we are spending this year and next year?

K.R Lalpuria: Totally, we will be spending Rs.270 Crores as what we had reported earlier and this will be spent during this year with a mix of debt and internal accruals. The internal accrual will be around Rs.95 Crores and the debt would be around Rs. 175 Crores.



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Bhavin Chheda: Okay, this Rs.270 Crores is entirely we are spending in FY23?

K.R Lalpuria: Yes, mostly.

Bhavin Chheda: Okay, and mostly it is 25,000 spindles capacity?

K.R Lalpuria: No, the 25,000 spindles is first phase, the balance 45,000 spindle is the second phase. Overall, it will be 70,000 spindles.

Bhavin Chheda: Okay, and this Rs.270 Crores is for entire 70,000 spindles?

K.R Lalpuria: Yes.

Bhavin Chheda: Okay. My next question was on GHCL capacity because what my understanding was at the time of the acquisition and the presentation then that the 45 million fabric processing, 30 million cut sew and 12 million weaving. you mentioned 20 million in your opening remarks. What is the mismatch there?



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K.R Lalpuria: It is 45 million metres only. The capacity what you have mentioned is correct, but when you calculate the capacity utilization, I meant to say because we acquired a business only in this quarter and practically, because there was a business of 20 million only, they were operating at 50% at their capacity utilization. So practically I was considering that 20 million, if I add up to my capacity utilization and currently where I am at 90 million meters, I was totaling it up to 110 million meters because I will scale up capacity utilization further going forward, which we have also mentioned that this is a medium-term and long-term strategy for the company. By acquiring this 45 million metres, we intended to increase from 20 million to 45 million metres going forward, that is what our inclination is and what is what I mentioned.

Bhavin Chheda: 153 million meters what we had spoken about in the earlier calls and our meetings also, when would



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that actually you can utilize or ready capacity of 153 million meters?

K.R Lalpuria: From first quarter FY24.

Bhavin Chheda: From Q1 24, your run rate can be based on that capacity, obviously the demand has to be there, but capacity available would be 153 million meters?

K.R Lalpuria: Absolutely, right.

Bhavin Chheda: Okay, and what is the current gross debt and cash in the book?

K.R Lalpuria: That we will provide you offline.

Bhavin Chheda: Okay no problem. Last question on the current numbers, if we were holding inventory because what I am trying to gauge is GHCL quarterly run rate was between Rs.170 Crores – Rs.200 Crores with 10% margin and if I try to knock that number then your reported margins come roughly to 23% to 25% odd, which looks substantially higher, was there any inventory benefit because obviously there



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have been lot of price hikes and cotton prices have been going up, so this particular quarter were we holding any low-cost inventory and that benefit has come into margins or these are sustainable margins of 20% odd?

K R Lalpuria: I have been mentioning about that as a company, we are consciously investing into the supply chain, if you must have heard our previous call and as a policy we are hedging our raw material properly that benefit definitely of lower cost inventory is there in these results. Secondly, the benefit of higher value-added product has also got accumulated in this quarter, that has also helped us to some extent; then the forex gain also is coming through. In this particular quarter, our margins have bettered and that is the reason you are seeing this higher level of margin, but definitely this margin will moderate out to certain extent going forward. Our entire focus to promote value-added product is bearing fruit, whatever we have been doing in order



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to promote fashion bedding, utility bedding as well as our B2C, D2C and license brand and the domestic brand promotion are all helping the company to realize much better.

Bhavin Chheda: Sure. Any volume and margin guidance would you like to give for FY 23 as you used to give earlier the same, but obviously considering difficult environment it is difficult, but any sense of business target for this year on volumes and margin front?

K R Lalpuria: As you have already answered, the things are very uncertain at the moment and they are very fluid.

Bhavin Chheda: That is why I am asking internal target.

K R Lalpuria: Yes, that is why you will see it prevents me not to mislead you, but as a company as you see we are focused players. We are working upon very hard and trying to be more efficient to our customer base and our customers are also responding. As the market starts responding, we are quite confident to



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build up and utilize our capacities and sweat our assets.

Bhavin Chheda: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhineet Anand from Emkay Globals. Please go ahead.

Abhineet Anand: Thank you for the opportunity. Last few years, if I recall 2021-22 and even this year there has been lot of ups and downs in terms of raw material in demand, which has led to very different type of gross margin and EBITDA margin. I just want to understand from a medium-term perspective given the product profile that we have and now we have added some part of GHCL, what could be a normalized gross margin be; leaving all the demand scenario or where cotton is, let us assume cotton stabilizes at 65,000-70,000 and demand is back to normalized numbers. Next two years hence or one and half hence where do you see a gross margin of



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the company based on the product profile that we have?

K.R Lalpuria: As I mentioned Abhineet, that we are focusing on the value-added side of the business, which are bearing fruits and there are other areas also, in the distribution channel we are trying to scale up our operations, so that we can be closer to the customer and based on our service levels, we derive advantage out of it; all these are paying off now. The gross margin will be decent going forward and will also depend upon the new season because as it pans out today the futures are traded at 65000, but we need to see how the rain fall is whether there is issue on the supply chain side due to the boll worms, pesticides etc. We need to wait and watch and observe the situation even though we are optimistic about it, but they will moderate from this level to certain extent, we are quite positive to at least sustain as per our last year.



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Abhineet Anand: This you are saying for the current year, we will sustain compared to last year or in a normalization situation?

K.R Lalpuria: Yes, we are focusing on that only. We are trying to build our business accordingly so that we maintain our gross margins, that is the whole point.

Abhineet Anand: Thank you. Second thing is as you are rightly emphasized as well we have invested in value-added products, as of today what is that percent in terms of as a whole revenue wise how much is this value-added product and what incremental margins we get compared to simple bedsheet versus the value-added product on that? Thank you.

K.R Lalpuria: There are different types of value additions which we do. The value addition as I explained is one on the product side, secondly on the positioning side, third on the segmentation side, fourth on the supply chain side, and distribution side. There are various kinds of value additions, which we are trying to



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scale up and bring about a dramatic change in our overall sales strategy and sales and marketing strategy and that is paying off. We are a complete solution provider and not just we believe into supplying a product to our customer. So definitely this solution will have better margin than our normal businesses; and when you ask that what kind of a margin do you get from a normal product, it is somewhere between 8 to 10% which we derive additionally on a normal product. The entire focus of the company since the last three-four years has been to promote these value-added businesses and we are getting success in that.

Abhineet Anand: Thank you; those were my questions.

Moderator: Thank you. The next question is from the line of Aman Madrecha from Augmenta Research. Please go ahead.

Aman Madrecha: Good afternoon and thanks for the opportunity. I wanted to ask in the initial quarter the Indian



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market share in the US imports of cotton fell from around 59% in FY2021 to 50%. What could be the market share currently, is it at the same level or it has increased and when this market share shifting?

K.R Lalpuria: You rightly mentioned that for the moment, Indian exports have taken a hit because of the raw material costs and they have come down to a certain extent and because the overall numbers look a little bit weak our percentage level are also down as compared to Pakistan and China to a certain extent. Also, because the raw material, cotton, which has increased to this level, there were options available for the buyer to shift into different fibers and different product mix, where India do not enjoy the advantage as such, that is in MMF.

Going forward, we are confident that the way how India is positioned due to the China Plus One Strategy and these Xinjiang Cotton fiasco, we will be better able to service the brands and retailers and that will give us once again the market share, which



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had momentarily dipped. We are confident as a country and as a company to scale up our market share going forward because what we also see that the cotton coming back and quoting at the level of Rs.65000 in December futures. All these happenings going forward will certainly help us to derive a better market share, not only in the US but also the FTAs in different countries will help us gain market shares over there which currently we are not able gain. We hope we are confident that this market share should revive.

Aman Madrecha: Okay, just a follow up on this, how has been the market share currently, has it increased or at the same levels, if you have the numbers handy?

K.R Lalpuria: What we saw in May, it was around 53% as per OTEXA data, but June numbers are still awaited and once they are out definitely we will be able to report those numbers and you would also see some uptake in that.



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Aman Madrecha: The second question as you mentioned that we did around 19 million in case of volume in this quarter and if you look at the realization, the realizations are coming at around Rs.368 per meter, despite sluggish demand and inventory build up with global retailers, we have been able to maintain the margins or the realizations. As I understood that we are focusing on the branded further, we are moving onto the fashion utility side. How is the order enquiry or the order book standing as compared to last year same period, just some sense on the orders from retailers?

K.R Lalpuria: As what we are focusing on the value addition side, some of the order book positions have changed as we compared on a year-on-year basis definitely because we also have not picked up the commodity business this quarter because of the raw material hike as well as the demand sluggishness, so we have left some commodity businesses. Going forward when things normalizes, we will add up



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that depending upon the strategies which we adopt. The margin profile which we are trying to achieve depends on lot many factors; it depends on the product mix, the market demands, depends upon what intend to supply to the customer, depends on the raw material prices and various other factors. Being a global company there are many global impacts which puts pressure on both the margin supply as well as the demand. Those we are trying to tackle and going forward we are quite confident that we should be able to maintain our value-added businesses.

Aman Madrecha: Okay. One more question currently for example as yarn prices have also replaced, what has been our inventory versus strategy. Are we on a wait and watch mode or we are gradually acquiring and building up the inventory for the coming H2, what is our stand from that?

K R Lalpuria: We are hedged till next two quarters fortunately and that will definitely pay off as a company to us



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and post that as we all see that the prices are reducing and the futures are quoted at a lower level. We are all waiting to see how the crop comes up. The sowing is better, the rain fall is better and what we hear about that the cotton crop yield also will improve. This will help us to make available the required cotton to the main consumer, definitely the prices will normalize and that will also help us to formulate our strategy going forward for the next financial year.

Aman Madrecha: Okay and coming back to my previous question, highlights of the realization. As you have mentioned that from now I am considering GHCL and perform as same entity, but how is the realization from the GHCL operations is it lower, some broad view on the realization from the GHCL capacity?

K R Lalpuria: We are focusing on that as well how to scale up that business to a better productivity level overall and with the kind of customer base, which we have



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and what GHCL has, we have found positive responses from our customer accepting this and they look upon to us for solution today. Definitely, the margins at GHCL what we acquired are currently low, but going forward our all emphasis in how we can sweat those assets and make better margin out of that, that is what we are focusing upon and given the strategy what our company has been following so far, if we are able to implement that at the GHCL level, we are very confident to scale up their margin too, which will be one margin for the entire company.

Aman Madrecha: Okay, thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Komal Maheshwari from Anubhuti Advisors. Please go ahead.

Komal Maheshwari: Thank you so much for giving me an opportunity. Most of the questions have been answered, but still I do have few questions to ask.



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The first question is on the capacity utilization and you just explained the calculation on the basis of that we come up at 70% capacity utilization, but is it fair to say that since 25 million ton that we are not using inflation concerned and on the basis of total capacity of 135 million ton that we have including GHCL plus Indo Count, so on a quarterly basis we are getting at 34 million ton, that was giving the capacity utilization of 57 or 58%, is it fair to say that we are we are at 57% or 58% of capacity utilization level?

K.R Lalpuria: Technically you are right, but we have to see from a practical standpoint. When we acquired these businesses there are two situations, one is you invest into a capacity and the other is you acquire some business. Now, this business has been acquired in this quarter which was at 20 million meters against 45 million capacity and we have mentioned that as a company we have acquired this from medium-term and long-term and we will



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utilize this capacity; we will build this business going forward in the next two–three years, that we have already explained and the revenues from this capacity utilization will be an additional to the extent of Rs.1300 to Rs.1500 Crores, we had already explained. Now, we are at 90 million meters capacity today, we are scaling this up to 108 million meters, which will happen by the end of FY2023 as I mentioned in my earlier answer. Now, with all practical reasons, if you consider this 90 million meters and the 20 million meters business which we have acquired we were again 90 million meters at 75 million meters which was 85% of the capacity utilization. Now, this 20 million meters capacity business which we acquired if you add up to this 90 million meters in the first quarter, if we are at 19 million meters, if you divide that 110 by 4 you get at 27.75 roughly and we are at 19 million meters, so it is fair to say that we are at 70% utilization as a business. Technically you are right at 135 million meters.



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Komal Maheshwari: Okay I do have another question on the comprehensive income, which comes at Rs.48 Crores which says that item that will be re-classified to the P&L; majority of is coming because of the foreign exchange loss?

K.Muralidharan:These are in respect of MTM on unexpired contracts.

K.Muralidharan:Usually these are notional and will adjust itself into the P&L and carry forward also according to the position of exchange hedge we have periodically.

Komal Maheshwari: Okay, and current position of the hedge?

K.Muralidharan:We have delivered an exchange rate of about 78.50 , we have realized this quarter.

Komal Maheshwari: Okay, thank you so much for giving me an opportunity and all the best.



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Moderator: Thank you. The next question is from the line of Harshil Shethia from AUM Fund advisors. Please go ahead.

Harshil Shethia: Thanks, can you just break up the volumes of 19.1 million meters into how much was from Indo Count capacity and how much was from GHCL capacity?

K.R Lalpuria: Yes, I have already mentioned you have to look it jointly now as one company and one business because for all practical purposes we are trying to build upon the synergies between the two units and see how we can achieve more efficiency and productivity when we deliver to a customer. You have to take this as one company now and one volume.

Harshil Shethia: I understand your point. I just want to understand how is GHCL being scaled in terms of acquisition where are we in terms of the processes and I understand that you said that the product of GHCL



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are well accepted with Indo Count customers, but just to understand the whole process of integration what is going and what is not going?

K.R Lalpuria: It is a long-term and medium-term strategy as I explained to integrate the two companies together, to scale up to what we desire as a business and definitely as I have mentioned in my speech also that the integration is happening seamlessly between the two companies and the customers have also accepted it and they are quite hopeful and very happy to deal with us going forward and they are showing positive signs to increase their business with us and that prompts us to say that we will be able to utilize that capacity going forward very well. That is the reason we have acquired this because we wanted to be market ready when the FTAs get signed and we are also looking at the demand increase in all major markets going forward. As home has become the center stage and because of the scale up like the China Plus One



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Strategy and the Xinjiang Cotton, India as a country is also better positioned where brands and retailers are de-risking their business to a second source, which is apparent and whenever we enter a meeting in today's world with a customer, they do mention about shifting their business from China, so those are positive signs. Also, the quality, which this GHCL unit has been making is very well accepted by the customers and we are further scaling it up to see that how we can increase our product profile from there and see that how we can sweat the assets going forward and utilize that capacity that is no concern for us. Because we have made a strategy to see how we can scale up our business going forward in all directions whether it is domestic market, whether it is overseas market, whether it is omni channel distribution, whether it is brands and license, so there are so many avenues open to us to scale up our businesses and those are bearing fruits because we have been working upon



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this for the last three-four years and that is why those getting reflected in our results.

Harshil Shethia: Okay, and second thing if you can just give a three-to-five-year vision, where do we want to see our business to be in the next three to five years?

K.R Lalpuria: We had already mentioned in our earlier Con-Calls that as a company, we would like to in the next three to five years double our revenues at decent margins and we are working towards it and that is part of our strategy to acquire GHCL because this had a complete synergy with our businesses and GHCL was also operating on a good quality basis and having good customers, which were not overlapping, there was a good addition of assets and businesses only thing the circumstances today are certainly difficult at the moment, but as I mentioned we are quite hopeful that it should get normalized from third quarter onwards and we should see our business moving up in the right direction.



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Harshil Shethia: Thank you.

Moderator: Thank you. The next question is from the line of Riya Mehta from Aequitas. Please go ahead.

Riya: Thank you for giving me an opportunity. I wanted to ask two questions. First would be what would be percentage of the value-added products this quarter and how much margin or how much EBITDA would be attributed from that and how much would be inventory gain for us?

K.R Lalpuria: We had reported in our earlier Con-Call that our fashion bedding business is almost 17% of our business, which is the value-added business. Secondly we are doing 10% of branded business in our revenues which also overlaps in our fashion bedding businesses. Our e-commerce business would scale up to 8% plus where we have an opportunity to promote license brand business. Our domestic brands businesses both Boutique Living and Layers are scaling up to 3% plus going



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forward. All these branded businesses, distribution business, omni channel etc., are providing us the necessary value addition. As I mentioned in my earlier statement that our focus is entirely to fragment our business, not to focus upon more commodity business, but to rather scale up our value chain and see that how we can derive better margin and provide better services and for that our company is regularly investing into innovation, research and development, new technology, digitization to scale up the service level to our customers, which is helping also us to see that we become a one-stop shop for our customers; that is providing them the necessary confidence and we have performed as a company; if you see our investment in the last four years, a constant growth of 15% on our revenues. All these are motivating us to see that we scale up our value proposition, we scale up our competitive advantage and being a debt-free company almost we are seeing that how we can invest more into customers and market to



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see that we gain more market shares going forward in the value-added business.

Ria: Okay, that would be great. My second question pertains to what would be percentage of inventory gains in this quarter?

K.R Lalpuria: This we will be able to provide you later, but that we will provide offline.

Ria: Okay, but if you could just give a directional sense on it?

K R Lalpuria: As you know that there is a sluggish offtake and in order to service business, we need inventory and as a company we have been investing into inventories. Secondly, we have advantage getting reflected into our quarter also in form of gross margin, which you can observe very well. Next, in order to service the business also like for example when we promote e-commerce we need inventory, when we promote domestic business, we need inventory, when we promote distribution in the US we need inventory,



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when we promote in the UK distribution we need inventory.

We have to service the businesses where we need to invest into inventory to provide the necessary supply chain security to our customers, that is what is making us as a company to invest into the supply chain. We are looking up to this as an opportunity to build business and to improvise our competitive advantage overall; plus the funding of our today's business in exports is also at the rates prevailing in India minus the interest equalization are at a lower end, that is also helping us to finance the business. If I invest into say 5.5% into inventory I get 18 – 19% EBITDA on my resultant business what is wrong in that.

Ria: Yes, completely understand. Also, directionally since you are saying that the cotton future prices are reduced at 65,000 odd levels whereas the current levels of 86,000 – 87,000 the current prevailing levels, are you seeing any orders or any



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enquiries at these current level because industry says there is no such order booking which is happening right now. What is your take on it?

K R Lalpuria: As I mentioned earlier we are hedged for the next two quarters and this has arrived lower levels than what the current candy price is. Going forward as you rightly mentioned that levels are being quoted for December futures at 65,000; we are waiting and watching the situation very closely and we are updating our customers, communicating with them more and more to see that they have a full track of the trend which is following and we take them into confidence to see how we can jointly make a business plan and scale up our business to gain their market share in their own market.

Ria: Okay, and from demand perspective I wanted to have a sense on since US is drying up, US and Europe we are seeing some slump. In this coming next one – two quarter apart from inventory getting



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clustered, what other headwinds or tailwinds do we see in the export market?

K R Lalpuria: As I mentioned, even in the US, the retail is doing well; only the discretionary purchase is not there, which the end customer was doing sometimes back. The inventory built up happened because of the mismatch in the supply chain because the goods arrive delayed post the holiday seasons and that is why they carried up and then the third wave of the covid knocked down a couple of months' sales and this accumulated inventory they are getting a traction, as of now, as we speak, slowly and the demand, we can see that getting revived in the third quarter hopefully, this is for the US market.

The US market do have inflation, but we all believe that the inflation will be tackled by the respective government going forward in FY24. This year of course the inflation would be there, but looking at the holiday season, the demand should revive by the third quarter. In the other areas like UK,



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Europe, we are looking prospectively towards the FTAs getting signed, but whatever market share is existing, they are all believing in Indian supplies, as India is well positioned in raw material and they feel that because of the disruptions happening due to China Plus One Strategy and the cotton coming out of the Xinjiang area, their reliance on India has increased substantially and that is what is more positive for all other countries to source out of India. Now, there are only five countries in the world supplying textiles; the major ones are China, India, Pakistan, Bangladesh, and Vietnam. We all know that Bangladesh and Vietnam do not have the desired raw material, whereas Pakistan's raw material is saturated, this leaves China and India where China is facing the China plus one strategy and overall cost competitiveness decrease. The advantage is India and the Indian government has also realized that in order to build up employment they should invest into this core textile sector. So, they have come out with various schemes like the



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PLI, the Atmanirbhar Bharat, the MITRA park and the RoSCTL continuity for the next two – three years. These are all signs by the government that they are taking positive steps in order to support the textile sector and this will definitely go a long way once the FTAs are signed for the revival of market and India building up market share similar to what China has gained. We all feel positive going forward as far as the demand is concerned in some of our major markets like US and the other developed markets like EU, UK, Australia, GCC countries, South Africa, and Latin America. So, we feel quite confident that going forward, as a country, as a company we are well positioned and should do well.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to the management for closing comments.



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K.R Lalpuria: 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 advisors. 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.