"Indo Count Industries Limited Q2 and H1 FY25 Earnings Conference Call"

November 08, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 08th November 2024 will prevail." Further, no unpublished price sensitive information was shared/discussed in the call"

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 Q2 and H1 FY'25 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 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. K. R. Lalpuria – Executive Director and CEO of Indo Count Industries Limited. Thank you, and over to you, Mr. Lalpuria.

K. R. Lalpuria: Thank you. Good afternoon, and a very warm welcome to all of you joining us for Indo Count Industries Limited Q2 and H1 FY'25 Earnings Call.

I am joined by our CFO Mr. Muralidharan and our Investor Relations Advisor.

We hope you had the chance to review the financial results and investor presentation available on the stock exchanges and our Company website. Also, I would like to greet everybody a Saal Mubarak.

Let me first take you through the industry dynamics that are going on currently:

The U.S. retail market has shown a positive shift with retail sales picking up in September after a slower pace in the previous months. While the sector has faced some challenges due to ongoing supply chain and logistic issues, we remain encouraged by the resilience of the market, especially and particularly with the holiday season approaching.

Notably, imports of bed linen from India to the U.S. continue to rise, signaling sustained demand from retailers and omni-channel platforms despite these temporary obstacles.

Looking to India, the Government's continued focus on enhancing international trade and the Indian economy is positioning the country for a long-term growth in the textile sector. Free trade agreements with key markets such as the Australia and the UAE along with the growing China Plus One sourcing strategy are strengthening India's appeal as a major manufacturing hub.

With the ongoing new cotton crop season, we expect stable domestic cotton prices, which will support our operation and help manage input costs effectively. Overall, we are optimistic about the demand of our products, and these favorable industry trends create a solid foundation for Indo Count as we continue executing our growth strategy.

Beginning of Version 2.0 for Indo Count, positioning for future growth.

I am pleased to share that Indo Count is embarking on a transformative phase of Version 2.0 in our journey. This new phase marks the next chapter in our evolution focused on our strategic foundation and positioning the Company for sustainable long-term growth.

We are building on our leadership position by investing in a diversified product portfolio, targeting premium and branded segments and enhancing our omni-channel capabilities. The emphasis of this phase is on scaling up in high potential segments such as utility, fashion and institutional, all of which are expected to drive growth in the coming years.

By making this targeted investment, Indo Count aims to accelerate its revenue growth while expanding its market share presence in premium product categories. We expect the contribution from the brands to add almost US$100 million to our top line annually over the next three years, solidifying our position in the premium segment and this will create further opportunities for more value generation.

Strategic acquisition building the foundation for long-term growth.

We are also significantly expanding our footprint in the utility bedding segment. This is demonstrated by recent acquisition of Fluvitex Inc., USA and Modern Home Textiles, both key players in the U.S. quilt and pillow market. These acquisitions establish our manufacturing footprint in U.S. to 13 million pillows and 1.5 million quilts with a combined annual revenue potential of US$85 million at full capacity.

These acquisitions not only strengthen our presence across critical U.S. regions including the Midwest and West Coast, but they also expand our customer base without overlapping the existing clientele of our new businesses. This positions us to capture new growth opportunities and further enhance our return on investment.

Our vision is to continue building this business, whether through organic or inorganic expansion as we see substantial growth potential in the U.S. utility bedding market.

CAPEX and investments for growth

In line with our growth strategy, we are continuing to invest in our business. CAPEX estimated for FY25 was originally Rs. 165 crores. However, due to the additional strategic acquisitions and investments, we have revised this CAPEX for FY '25 to Rs. 413 crores. This will be funded through internal accruals and debt equally.

The solar energy projects and zero liquid discharge system will be taken up for implementation in FY '26.

Awards and recognition

I am pleased to share that Indo Count has recently been honored with several prestigious awards recognizing our commitment to excellence and sustainability. Vastra Ratna Award, (Global Achiever). Mr. Anil Kumar Jain, our Executive Chairman was conferred this esteemed award for his outstanding contribution to the Indian cotton textile sector at the TEXPROCIL's 70th Jubilee Celebration in October 2024. This award was presented by His Excellency, the Governor of Maharashtra.

Home Excellence Award.

In September 2024, we were recognized for demonstrating excellence in expanding our business as well as our ongoing investment in sustainability and corporate social responsibility by HSPA, New York, USA, the Apex Association for Home Textiles in the US. This award was given to our Executive Chairman Mr. Anil Kumar Jain and Mr. Mohit Jain, our Vice-Chairman.

CSR Appreciation Award.

In July 2024, Indo Count received this honor from the CSR One Decade Celebration Council in recognition of our decade-long commitment to impactful CSR initiatives.

Best Wastewater Treatment Initiative Award and Best Environment Friendly Initiative Award. At the Global CSR and ESG Awards in June 2024, we were recognized for our industry-leading efforts in environmental sustainability and wastewater management.

Financial Performance, Impact of Strategic Investment.
Volumes

Sales volume for Q2 FY '25 stood at 27.8 million meters and H1 FY '25 stood at 53.1 million meters.

Total Income

In Q2 FY '25, our total income stood at Rs. 1,045 crores. For H1 FY '25, our total income rose by 12% to Rs. 1,995 crores, up from 1,780 crores in H1 FY '24. The sales volume and revenue drop on Y-o-Y basis on account of supply chain issues. This is also the reason why the inventories have increased in the last 6 months. As the supply chain situation normalizes over the next couple of quarters, we expect better uptick and normalization of inventory levels.

EBITDA

Our EBITDA for Q2 FY '25 is Rs. 166 crores with an EBITDA margin of 15.92%. Similarly, EBITDA for H1 FY '25 stood at Rs. 320 crores with a margin of 16.03%. On account of upfront costs and additional expenses related to human resources, brand promotion and creation of necessary infrastructure for new utility bedding business, there has been an impact of 150 bps on our overall EBITDA.

PAT

Our PAT is Rs. 82 crores for Q2 FY '25 against Rs. 114 crores in Q2 FY '24. Similarly, PAT for H1 FY '25 stood at Rs. 159 crores compared to Rs. 188 crores in H1 FY '24.

EPS

Our EPS for Q2 FY '25 is Rs. 4.12 and H1 FY '25, it is Rs. 8.05.

As of 30th September 2024, our net debt stood at Rs. 1,045 crores with a net debt-to-equity ratio of 0.48x. The debt levels have increased to the funding secured for recent acquisitions in addition to funding the higher working capital requirement of the business. We expect to see the working capital days normalize by the year-end.

Now, I open the floor for the question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Jatin Damania from Swan Investment. Please go ahead.

Jatin Damania: Sir, just want to understand now, as you alluded in your opening remarks that our volume declined because of our supply chain issues and which resulted into increase in the overall inventory. So, can you quantify in terms of the million meters how much inventory has been increased? And is there any deferment of the order or the shipment to next quarter?

K. R. Lalpuria: So, that is the sole reason, you see, because of the additional shipments which were supposed to happen and bring the inventory levels down, instead you can observe from the increased inventory levels appearing in the P&L, which have increased for deferment due to the supply chain issue will get liquidated in the coming quarters.

Jatin Damania: But sir, can you able to quantify in terms of the million meters, I mean, the shipment which got delayed in terms of the million meters?

K. R. Lalpuria: No, there were two accounts of the additional tariffs and the shipments which were supposed to happen which could not happen due to the supply chain issue, it was close to around 2.5 million meters.

Jatin Damania: 2.5. So, 27.8 million metres could have been almost around 3 million meters.

K. R. Lalpuria: Sorry, come again.

Jatin Damania: 27.8 million meters that the volume we did will be, which we did is 30 million meters because 2.5 million meters has been deferred in the month of October.

K. R. Lalpuria: Correct.

Jatin Damania: And secondly, now we have given a guidance of 110 to 115 million meters in our last call. Now if you look at the first half volume, so to achieve our lower end of the guidance we normally will be requiring 20% volume growth in the second half. And if you look at our last two years' numbers, third quarter is generally a weak quarter despite the holiday season. So, how much confidence are we in terms of achieving the guidance?

K. R. Lalpuria: See, as I mentioned earlier too, we are on track. So, as we progress, we should be able to better guide you, and I think we are on track at the moment for the guidance, which may result into achieving the lower end of the guidance.

Jatin Damania: And in terms of the margin, I mean, you have already lowered your guidance to 15%-16%. So, for the second half or for the next year, how shall one will look at the other expenses? Because your brand acquisition will probably add 185 million U.S. dollar in next three years. So, going ahead, how shall one look at the overall other expenses and the employee base for the Company?

K. R. Lalpuria: So, , you see, these are some additional expenditure which we are investing into towards human resources and infrastructure and other things which will continue because we have acquired two companies and we would like to also build the branded segment. So, this will continue at the same pace, and that is why we have given a revised margin guidance of 15% to 16% because we were impacted in this current H1 to the extent of 150 bps. This will continue, and that prompted us to give you the revised margin guidance. So, this investment will start paying off in the next four years. And as we grow our business, which we have acquired and the branded business which we are promoting, there will be an uptick on the margin side. So, we will be able to better provide you by the year-end a margin guidance for the next year.

Jatin Damania: That's all from my side. I will come back in the queue again.

Moderator: Thank you very much. The next question is from the line of Palash Kawale from Nuvama Wealth. Please go ahead.

Palash Kawale: Sir, my question is related to the acquisition. So, sir, what kind of margins can we expect from the new acquisitions? And again, if you could just explain what kind of capital requirements would be there for the new acquisitions? Since the facilities are built out of Euro, would it be a leaner capital? And again, one more question is, what was the basis of the valuation for the acquisition? If you could explain that, that would be really helpful.

K. R. Lalpuria: So, as far as the first question is concerned, the margins are similar to what we are earning today. So, it will be in the range of, say, around 16% for the acquisitions as well. And as we sweat the asset, we should be able to draw in better results as we move forward and add more value to the overall operation as well as the product range. So, this answers your first question.

The second question, the valuation has been done with respect to both its assets and the business and the customer base. So, it is taken on the basis of how much business which we are adding on, what is the current EBITDA level, as well as what are the customer base. So, it is a combined call. And that you can see as a goodwill in our balance sheet also.

Palash Kawale: Thank you for that. And sir, would these new facilities will be used for the Wamsutta brand?

K. R. Lalpuria: To some extent, yes, in the future as we are studying and the Wamsutta brand with a longer-term strategy, and we have given this to an agency to see that how the brand recall value will help us promote this brand to the retailer. One of the part would be to promote this resource into Wamsutta brand in the future as well.

Palash Kawale: And sir, I think you said that US$100 million annually can be expected from the private brands. So, is it fair to assume that the rest of the revenue you can generate from your existing brands, or you will be continuing to acquire new brands? And any more acquisitions in terms of facility or anything planned in the near future? Is management still looking for new acquisitions?

K. R. Lalpuria: So, as far as the branded business, we are clear, this will be an additional revenue in the next three years to the extent of US$100 million over and above the core businesses we are having. So, that answers your first question.

As far as acquisition, see, we as a Company are a growing company and we look for opportunities as well that we acquire these two businesses because the utility business was up for grabs, and that is why we invested into it. And we look forward to seeing that when we need to invest into the business which makes proper sales and proper capital allocation with a proper rate of return on investment, we will do, the Board will take appropriate call as and when the proposals comes to the Company. So, we are in the growing mode.

Palash Kawale: And sir, is it possible to quantify the pillow and quilt capacity at the Indian facility currently?

K. R. Lalpuria: The pillow and quilt facility at what we have acquired, we have stated that 13 million pillows together can be produced in the U.S., and 1.5 million quilts can be produced additionally to the pillows. So, this we have already defined, and we have also defined that the peak revenue from both this facility would be around US$85 million. And as we move ahead, we will sweat this asset because there are opportunities available in the utility bedding business.

Palash Kawale: Sir, I asked about the Indian facility. So, is it possible to quantify the capacity at our current facility in India? How many pillow cases or quilts do we produce right now?

K. R. Lalpuria: We are already producing for our sheet sets, this pillows in India. So, there is no problem producing in India as well, and we have the desired capabilities and capacities to produce as much pillows as we can in the Indian capacity. There are two pillows for every sheet set which we supply. So, we are already producing pillow and supplying. So, we can always add that. I hope I have answered your questions.

Palash Kawale: Yes.

Moderator: Thank you very much. The next question is from the line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead. There is no response. We will take the next question, which is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: I have two questions. First, what is the thought process behind acquiring manufacturing facility in the U.S.? So, because the cost of production in India would be much lesser in terms of Home Textiles than in the U.S. So, earlier we acquired some brands that was very good, but what is the thought process behind acquiring the manufacturing facility in terms of Modern Home or Fluvitex? Second, I wanted to understand, okay, if you can answer this one first.

K. R. Lalpuria: Gunjan, thank you for the question. A good question. See, the utility bedding business in particular, the pillows are light in weight, and they are fluffier and full of fiber. And they occupy a large volume in a container. So, the logistic cost if you supply from India will be much, much higher per unit cost, whereas if we produce in the U.S. to the retailer's distribution center, it will be less. And the duty factor and the logistic cost will get compensated by the additional labor cost.

Plus, this is the business of distribution and that is the reason, say, in the U.S., why utility manufacturing is scattered around the major areas like the East, West, the Central part, the South and the Midwest. So, they put on plants over there in order to distribute the goods effectively to the customers, and the retailers also would not like to carry that on shelves for a longer period. So, they cannot wait for a gestation period of 45 days for goods getting shipped from here. And the logistics cost are prohibitive. So, that's the reason they are filled in there and distributed. That's the way the business is being carried out there.

The current utility business is in the hands of the private equity and the private equity is focusing upon their financials rather than on the business strategies. So, this particular section of the business is up for grabs, and that is the reason because India can supply the shells and fill it there, it is a large opportunity for us to capture. And that is the reason we and in the peer group also, people are seeing this as an opportunity and investment of U.S. footprint.

And secondly, the manufacturing in the U.S. is also helping into addressing the geopolitical issues because there is so much volatility into supplying filled products over there. So, that is the reason we have invested into the U.S. manufacturing base to supply these point of sales and the customer also at the end prefer into buying from factories who are closer in the U.S., who are onshore in the U.S. So, that is the way the business is transacted.

Gunjan Kabra: So, you are saying that the margins will continue to remain the same. It's not that because of the high labor cost there, it will get offset by the logistic cost and it will not impact a lot in terms of margin?

K. R. Lalpuria: Yes, of course, because you see, it's like the margin will continue to be similar to what we earn today, and our expectation is how we can add more value through the branded approach to see that how we can further strengthen our margin, both operationally as well as through our marketing techniques.

Gunjan Kabra: And also wanted to understand, so what's the revenue that these companies are doing right now, and how much like what capacity utilization are they operating at right now, and in how much time we will be able to ramp it up in terms of when Indo Count takes it over?

K. R. Lalpuria: So, as far as Fluvitex is concerned, it is operating at 50% capacity, and as far as Modern Home is concerned, because it started this year only, it is operating at 35% capacity. So, this we should be able to ramp up to 75% in FY '26.

Moderator: The next question is from the line of Dipesh Agarwal from UTI AMC. Please go ahead.

Dipesh Agarwal: My first question is if I look at the additional cost which is coming due to the branded business acquisition, that seems to be 15 crores per quarter since last two quarters which takes up the total amount to roughly 60 crores of annual cost increase. How much of this would be an upfront cost and how much of this would be a recurring cost?

K. R. Lalpuria: So, as I mentioned, you see, the entry levels which has gone up, those are the additional cost which we are incurring through interest on the working capital and the additional cost which we have maintained. So, the recurring cost will be more or less similar to what we are investing into the expenses which we are incurring except for some logistic cost which might be reduced.

Dipesh Agarwal: No, my question is with respect to branded business, we would be making some investments, right? There could be some upfront cost and some would be the recurring cost as you spend on the marketing every year or the employee cost. So, if you can tell us what is the quantum of upfront cost which would be non-recurring?

K. R. Lalpuria: No, see, the manpower, and the logistic cost and the brand promotional expenses will continue. Now we cannot quantify because the brand promotion will depend upon how and which customer we promote the brand. The manpower, of course, will continue.

Dipesh Agarwal: Sir, the other thing is if I look at inventory, the jump seems to be quite sharp. I mean, if I look at on a Y-o-Y basis versus last year's September quarter, that's up almost 50% plus and even versus March quarter, 25%. Even if I account for 2.1 million shipments delay, that doesn't reconcile the increase such a sharp amount. Can you help us understand what happened more on the inventory side?

K. R. Lalpuria: See, there are two things happening on the inventory front. One is the transit time is increasing to the U.S. because of the Red Sea issue.

Second is the availability of the containers at the right moment.

The third is because of the volatility and geopolitical uncertainties, we are also trying to pre-pone some of the shipments which we are doing to the customer in order to secure their supply chain. So, there is an investment into the inventory onto various accounts, plus we have been carrying the cotton till the season ends. The season has just started, and we also import a lot of cotton which are branded.

So, all this adds up to, you see the inventory levels and plus the increased activity because the volume and the value, the revenues are going up because of the increased activity also, there is additional working capital and additional inventory level to be carried upon. So, those are the investments which we are doing. And as I mentioned, once they get normalized, we will come back to the normalized level as what we had projected at the beginning of the year.

Dipesh Agarwal: So, basically we account for our sales only when they reach to the customer warehouses and the transit period which is sitting in our inventory. Is that understanding correct?

K. R. Lalpuria: Yes, to some extent, whatever we deliver to the US company, as per the Inco terms, you know, the DDP and the shipment we do on those terms when they get delivered, the sales are being booked.

Dipesh Agarwal: So, effectively higher inventory also means possibly in second half we could have a higher sales.

K. R. Lalpuria: Yes, to some extent, yes, but whatever inventory which I mentioned in my opening remarks are going to get liquidated because of the additional transit goods as well as some goods which were in the process of shipping out. So, once they happen, the inventory level will normalize.

Dipesh Agarwal: And sir, lastly, if you can share the existing revenue and EBITDA numbers for Fluvitex and Modern Home. I understand you are guiding $85 million incrementally, but what is the existing number they are doing?

K. R. Lalpuria: See. Fluvitex as a Company is doing close to US$25 million with an EBITDA level of 16%, and MHT has just started this year. So, it is getting up to speed. And as I mentioned earlier that it is operating at 35% capacity utilization. So, as we move ahead, and with our product portfolio and with our kind of management and plus supplying them the shelves to certain extent, we should be able to ramp up both the capacity utilization as well as some margin saving.

Moderator: Thank you very much. The next question is from the line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead. Since there is no response, we will move on to the next participant. The next question is from the line of Palash Kawale from Nuvama Wealth. Please go ahead.

Palash Kawale: Sir, your average realizations have kind of bounced back and have remained stable for last 3-4 quarters. So, can you expect like 5% CAGR for the next 2 to 3 years given the cotton prices remain stable? Is it a fair assumption to make?

K. R. Lalpuria: See, we are working always towards improving our margins because it should come through operational means, it should come through our brand promotion, it should come through higher scale of businesses which we are attempting on the fashion bedding and other, the product categories.

So, it is fair to assume that it should improve from here, but a dramatic you see improvement has still to be seen from whatever you see volatility and other uncertainties we see around as India is also progressing in economy, there is inflation. And there the interest cost which we were getting interest subvention 2% has been withdrawn by the government from July onwards. So, that's why the interest cost has gone up. The labor cost is moving up. So, you see, there are a lot of balances which we need to do while we stay competitive and we try to earn a better margin.

So, our endeavor always would be to see how we add value to our entire product mix and see that how we sell to better customers and how we can optimize our cost moving forward. So, those are the endeavors which we are always attempting to do, and that's what you would also see that we have been able to maintain our margin to 16% in spite of additional expenses which we have incurred into various accounts which were one-off. So, I would only say that, you see, whatever Investments which we are currently doing into every activity will start paying off, say, in FY '26-'27. So, we are quite optimistic about moving ahead in order to both grow our revenues as well as our margin.

Palash Kawale: Thank you for that, sir. And sir, you mentioned that you can get to 75% utilization for newly acquired capacity in FY '26. So, even if I take a conservative number, is it possible that you will reach 350 to 400 crores additional revenue from these entities next year, apart from what you are doing in India?

K. R. Lalpuria: Yes, that's what it means. You have answered my question.

Moderator: Thank you very much. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Sir, just wanted to understand with these acquisitions and pillow cases that you are doing now, is it only for U.S. market or it will be used for other markets as well? And you mentioned about the cost advantage that is there by setting up facility over there, but at the same time, how will the logistics work in terms of fabric procurement or whether it will be procured from India, your units, or it will be procured from nearby destinations?

K. R. Lalpuria: No, you mean to say the supply chain like the shells or?

Prerna Jhunjhunwala: No, not the shells. Both the shell as well as the fillings.

K. R. Lalpuria: Yes, so, you see, there are options available to us. So, if it is economical, mostly we will try to see how we can support the supply chain from our shells. So, the endeavor would be that, but if there are certain special fabrics which are much more competitive, like, say in synthetic or blends where other countries are also very competitive, so we will treat this as a separate profit center.

Because this acquisition has been done through our Indo Count Global our U.S. subsidiary, so we are treating that as a separate profit center. And we will see to it that wherever there is competitiveness apart from cotton where India is competitive, we will outsource that from either nearby countries or from the same country because this fiber is also available in the U.S. and from other countries as well. So, that answers your question, but our Endeavor would be to utilize our capacity initially if it works out on the price level.

Prerna Jhunjhunwala: And this acquisition, suddenly you and peers both have started doing this pillow acquisition. So, anything specific that is happening in pillow, which we should know, or is it just coincidence?

K. R. Lalpuria: No, you see, it's a coincidence. Basically, these companies were doing well and as we have been growing our business in fashion, utility, institutional, which I have been mentioning every quarter and every year. So, we have been focusing on to see that how we develop these three segments particularly which are correlated to the Bedding segment.

So, we are a focused player, and when it comes to say pillow, it is part of the bed linen segment. So, once we were investing and growing the utility, fashion and the institutional business where pillow forms a part, it just so happened that we went ahead with this acquisition in order to grab this opportunity and the customers were also not overlapping. So, as a business decision we have taken this.

And as I mentioned earlier, the utility bedding business because of the logistic issues and because of the supply issues and the China plus One issue is there where China was dominating, we saw this opportunity, and we went ahead and did this acquisition. So, that much I can say.

Now we will focus upon this category because we are a focused company on the bed linen side. So, definitely pillow form part of this overall category, and we will focus upon it to see how we can scale it up.

Prerna Jhunjhunwala: And sir, the cost structure in the businesses are increasing now with respect to logistics cost like freight or container cost or maybe also Indian cotton prices are expensive to international cotton price because of import duty and government interference. So, how are the margins of the core business apart from whatever investments we are doing is impacting our business for future growth, but how are the core margins behaving now and are looking for future?

K. R. Lalpuria: See, that's what I mentioned, Prerna, in my earlier answer. You see, there are challenges, of course, on the margin front because as the Indian economy is growing and the inflation in India is growing, there are challenges we being in manufacturing here. We are incurring cost, but our entire endeavor of the company is to see that how we move into the value addition segment.

Now the value addition segment when we say are the fashion, utility, institutional business which we have been saying upon all these four, five years where we have strategically moved into from our core business of sheet which we have also demonstrated in our investor deck, that we are entering into a target market of $11 billion, which China was dominating. So, you see there is a big opportunity out there in order to scale up our business in those activities where there is a better target market instead of moving into a smaller target market area in other product category.

So, definitely you see, we see that we need to balance out through value addition means to better customer, better product mix and see how we can operationally excel into producing more competitively as we move ahead. So, this is the balance which we have been doing on as a company and we are investing into automation, into technology, into our talented people, team etc., and see that how we can market effectively in the market place still keeping our margins intact and grow from there. So, this is what we are attempting to do.

Prerna Jhunjhunwala: And last question, sir. This Indian capacities, given the current scenario and new businesses, when do we see full utilizations coming in?

K. R. Lalpuria: See, we have already like started this journey when people asked us about our GHCL acquisition, and if that doesn't have happened, we would not be answering this question today. So, it has worked on well for us, and the capacity which we have drawn is like world class to the extent of 153 million meters.

Now we already have given guidance, and we are like see that looking at the trend and looking at the business wherein we are walking in the future, we are confident that, say, by FY '27 we should be able to utilize the capacity till March '27.

Moderator: Thank you very much. The next question is from the line of Dipen Shah who is an individual investor. Please go ahead.

Dipen Shah: I had a couple of macro questions. You mentioned in the opening remarks that the situation in the export market is improving. If you could just give us some more insights into whether the destocking is completely over and when do we expect the restocking to start especially with relating to the season which comes after the festive season, that is after the Christmas? So, would you have some more visibility into how the first half of the next calendar is spanning out for you? That is the first question.

And the second question is, there were some news reports though unconfirmed that the Red Sea issue is getting solved over the last 2 to 3 days. Would you have some insights on that, maybe some ground realities, if you could help us on that?

K. R. Lalpuria: No, second question I was not able to pick up, Dipen.

Dipen Shah: There were some unconfirmed rumors that Houthi have declared a ceasefire and the situation in the Red Sea could improve from here on. So, is that something which you are also seeing? Because that is a very important part of our cost which has impacted us over the past few quarters.

K. R. Lalpuria: So, to answer your second question, we haven't heard about that as a confirmed report yet from both, the shipping companies as well as informed resources at our end. But if you have that information, you can share with us. But I would here submit that the freight cost in general have toned down a little bit. But still the supply chain transit time is still there due to the Red Sea issue, which has impacted everybody's working capital to the extent of almost 25 days more. So, one has to consider that.

As far as the demand is concerned, as I mentioned in my opening remarks, there are positive steps taken up by the U.S. in form of reduction in the interest rate, which has put in a positive tone in the overall market, and which has helped companies to regain their confidence that the Federal Government is inclined to take positive steps to make the business happen. And now we have the elections also over. So, we will see to it that these are behind us and proper policy formulation, which are forward-looking, should help the business to improve from here, because once the administration starts working in the form of improving the economy, which they would, this is what our belief is, and definitely it will improve the overall situation and environment of the market.

Now whatever we are seeking from our customers, the destocking is over. So, there is no question of any stocks being carried over. And that's the reason you see we had given an indication of improved guidance on the volume side which is also happening from our results also, which you can see that on volume wise we have got 9% almost. And if we would have been able to normalize our inventory levels, it would have been further up.

So, to answer your question that demand is improving, I can only say that if the Red Sea improves, it will be a big relief for all of us as exporters. It should be helping us in the positive direction. Definitely, the cost will come down, and the overall environment of the situation would improve providing us more opportunities to export to different countries and to different markets.

Moderator: The next question is from the line of Simranjeet Bhatia from Almondz Financial. Please go ahead.

Simranjeet Bhatia: Sir, I have three set of questions. Can you guide us, when we are going to see the peak level of debt, total debt in the company in upcoming years. And because currently gross debt is close to around 1,400 crores, so when we are going to see the peak level of debt?

Second, can you give some guidance when we can fully absorb the expenses, which we have incurred for the acquisition in upcoming quarters?

And third, as we are hearing a lot of things on the U.S. economy with Trump elected as President, that the way we are going to go for the tax cuts and the government borrowing is bound to increase, and there is some deportation of the people from the U.S. So, as per the reports, this will lead to increase in the inflation in the U.S. economy. Are you seeing that in 2025? Will the increase in inflation in the U.S. economy will impact your business to some extent? These are the three questions.

K. R. Lalpuria: So, I will answer you the third question, which you asked. So, it will be appropriate to mention here that let Mr. Trump take offices by end of January 2025. Then he will start formulating the policies. I can only say that with the current Prime Minister, India enjoys a good relationship, and there is a positive outlook, which we hear in the entire media, that India has got a better relationship and which India always enjoyed with the U.S., whichever government was there. But this will be better off. That's what people anticipate and we also anticipate the same.

As far as duty is concerned, I already answered that once he takes offices, we will be better off into saying that how the policies will be worked out towards addressing the overall economy. But I think futuristic, is a forward-looking president, strong in economical order and should definitely help the businesses to grow. So, that's what his agenda which he has spelled out during his election campaign. So, this is your answer to the third question.

As far as the expenses are concerned, we have already mentioned that these are initial expenses wherein, you know, we are trying to promote our brands which we have acquired and which we have licensed for. Our attempt is to see how we can sell our product mix into the branded segment wherein we have elevated to the premium and branded segment that regarding the positioning of these brands in the market place.

So, once we start getting results which we would from FY '26 onwards, we have already indicated that our branded sales would start coming in from Q4 onwards to certain extent, and it will ramp up in the FY '26. And plus, the assets where we have invested in, we had hired human resources to handle the U.S. manufacturing and the marketing as well wherein these revenues also from the acquisition will start coming in FY '26 which I already mentioned which will be to the extent of 75% of our capacity utilization. So, this will also help in to pull in certain expenses. So, the expenses will start reducing by, say, FY '27, it will be coming into full absorption. So, as far as the expenses are concerned, I have answered your second question.

The first question is about the overall debt. So, as I mentioned in my earlier statement also, the inventory level has moved up. So the working capital has moved up because of increased activity and because of certain spill over due to the supply chain issue. I have also mentioned that this will normalize towards the end of the year.

To a certain extent, a certain investment into working capital will still remain, and if you can very well observe that there are so many uncertainties and volatility in the world. Just now certain question was there about Red Sea, the Houthi agreement happened and there is then this container issue is there, the freight issues are there, the transit time issues are there.

So, we are addressing as we move ahead all these activities in the normal business course, and once they normalize to certain extent, which we all hope so, it will help us into reducing our overall debt. And as I mentioned earlier too, we are a growing company. And as I mentioned, we are walking through Version 2.0 of Indo Count where there is a transformation happening that we are entering into new product categories, new businesses and new manufacturing set up.

So, this all will help us into drawing further revenue in FY '26 and '27, and as we indicated in FY '24 that we will double the revenue. We still are on track towards that. So, I can only say to that that once we start drawing in revenues through our assets and the sweating of this asset will help us not only reducing the expenses and the debt but the overall situation and improving our margin profile.

Moderator: The next question is from the line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead.

Surya Narayan Nayak: Most of the questions have been answered. So, only one question is that how the branded segments of estimates of around 20 to 22 million meters of sheets that you are planning to add up or ramp up in the next three years. If you can throw some light on that.

K. R. Lalpuria: See, what we have mentioned, Mr. Narayan, is that we will be able to draw in revenues to the extent of US$100 million in the next three years, and this will start from, say, this Q4 of this year, FY '25, and will ramp up in FY '26 and '27.

Now, the question of utilizing our capacity is concerned, as we had earlier also conveyed, that these are across product categories in the brands which we are promoting. So, it is not only bed sheets, but bed linen are a part of this overall matrix.

We are also supplying in the brands like bath, curtains, windows, rugs and other accessories. So, it will formulate to, it will be to see how much we utilize our capacity from here in India. So, once we ramp up this sales in FY '26, we will be better off to tell you how much capacity utilization will be through our branded sale. So, we will be better off then, Mr. Narayan, to tell you that.

But our Endeavour, as I mentioned to the earlier questioner also, will be to see that how we utilize our capacity from the branded sale over here in India. Wherever there is a cotton outlay, we should be able to do that because India is competitive in cotton. Wherever there is synthetic material, India is 38% expensive to China. So, this is where I am coming from.

Surya Narayan Nayak: So, my understanding is that at around the current price level, we will be getting a volume of around 20 to 22 million meters. So, just now if we can assume some percentage maybe 10, 30, 60 ratios, so that is kind of possible for next three years because the current, another point is that current utilization is hovering around 73%. So, we could be heading towards 70% utilization this year. So, because brands could be asking for different set of patterns and designs, so will it affect the overall utilization anyway?

K. R. Lalpuria: It will definitely. As I mentioned, wherever there is a cotton and wherever our product which will be consumed by the brand, definitely it will add on to capacity utilization. But we cannot mention in million meters as of now because this will ramp up later.

Surya Narayan Nayak: And sir, given your CAPEX program of around 413 crores and you have migrated some of the like ZLD and solar projects to FY '26. So, what could be the debt levels we can think of to repay because some of the debts are related to the acquisition that has come? So, are you thinking of repaying any debts on the longer side, long-term side?

K. R. Lalpuria: Yes, of course, because as we draw in internal accruals, definitely our endeavor will be to reduce our overall debt. Because the interest rate have normalized now to almost like 7.5%, it is costing us due to withdrawal of the interest equalization scheme by the government. So, the company would always see to it that how from an internal accrual it can invest into growth wherever there are opportunities and also at the same time, manage the inventory and the working capital efficiently, and third is to reduce the debt.

Surya Narayan Nayak: And sir, in the working capital side, I agree that to some extent due to the supplying chain issues, the inventory level has spiked maybe around 15 to 17 days and overall it is around 27 days gross basis, gross working capital. So, what can you see that now due to the crisis getting resolved near term as the media reports are suggesting to pan out, I mean, for FY '25 and FY '26, the rest of the part of the FY '25 and FY '26?

K. R. Lalpuria: So, you see, there are two issues here. One is the increased activity on the overall business. So, that is increasing our inventory level on an absolute term, number one.

Number two, because of the volatility and the supply chain issues you see, it is adding on to goods and the process also of supplying through our U.S. offices will also increase the transit time, you know, and that is the reason it is hurting on the number of working capital days to the overall inventory level. Because we can only book sales once it is delivered over there in the U.S. And that itself has increased by almost 20 days.

So, what we anticipate in the future going forward is, if the logistic issues normalize, we definitely will be able to reduce, as I mentioned earlier, and normalize the inventory level by the end of the year.

Surya Narayan Nayak: And sir, regarding the certain expenses that has come in as legal expenses and other things, so, you in opening remark you said some expenses will be still built in. So, as an exceptional item, so how much we can attribute to the initial expenses of the acquisition?

K. R. Lalpuria: So, it will be hard to say, because you see, those are not very large and substantial. But the overall expenses towards human resources, towards the infrastructure creation of the brand like the showrooms, etc., then investing into initial pre-operative expenses to acquire the asset. So, all these are summed up together. And that's why you see we reported that immediately.

And I answered that question also that apart from logistic, the other will be recurring to in the nature like the human resources and brand promotional expenses, because our endeavor is to promote the brands and to promote the new acquisition which we have done, they are product mix. So, it will continue to certain extent. But the good thing is that once the revenue stream starts, they will be able to absorb this expenses. Now, because the revenue has not started, it is straight away eating up our EBITDA.

Surya Narayan Nayak: And sir, regarding the peak revenue of the acquired assets roughly around 700 to 800 crores of revenue, that is onshore, so how much differential in the logistic cost from Indian operations going there vis-à-vis onshore operations supplying to the U.S. market?

K. R. Lalpuria: So, that's a difficult question to answer because, you see, there are many kinds of pillows and quilts which are offered into different weight structures. So, we cannot calculate that what would be the freight difference if we supply 700 and 800 crores from here. It will be quite substantial because if you see that in a container you can just stuff 2,500 pillows, and it costs you almost like $6,000. So, how you justify that? You cannot sustain that.

So, you see, we need to relook at the overall business model which is being pursued by the existing player out there, where this is a gain for distribution and manufacturing in the USA, and this is the preference by the customers that they need the manufacturing closer up to their distribution base. And that's what we have to ventured into, and that's what we did. So, it should be looked from that angle.

Surya Narayan Nayak: And regarding CAPEX, sir, regarding the acquisitions drives that have been made since last couple of quarters, so, shall we mean that it is at the moment a pause mode or still something is agreeing? That is from my conception.

K. R. Lalpuria: No, you see, we are studying the utility bedding business overall, because now we have acquired two facilities, which is one on the Midwest and the second is on the West Coast. So, we are seeing how it will pan out. And as a company, you see, the Board will take appropriate call that as if the opportunity arise, we will go into both organic and inorganic means of investing into the business because the business opportunity is there and that we need to capitalize properly.

Surya Narayan Nayak: Just last question is that now what would be the threshold utilization level of Indian operations you see before you plan to set off or, let's say, expand the Brownfield operations maybe in Bhilad?

K. R. Lalpuria: So, I already mentioned that by March '27 we are anticipating to utilize our current capacity, and the Board will take appropriate call. Once we have completed FY '26, there will be visibility of what expansion we should do and where.

Surya Narayan Nayak: The threshold utilization level I am asking?

K. R. Lalpuria: It should be in the range of around 145 million in textiles. You can't reach 153. So, it should be in the range of, say, 144, 145 should be considered in my view depending upon again the product mix. So, 90% or 95% of the capacity utilization once it reaches, the Board will take appropriate steps.

Surya Narayan Nayak: And sir, the yarn side, do you see any softening going forward because we see certain other countries like Turkey and Vietnam, some kind of slow down happening. So, do you think those things will be favorable for us going forward?

K. R. Lalpuria: No, I already mentioned that, you see, India is considered as a manufacturing hub now both post-COVID and post all this logistic and geopolitical issues. And we all mention about China Plus One, which is happening. We can all realize through the OTEXA data that their market share has reduced dramatically in various products. And plus, the overall environment to deal with China, Chinese supply chain is getting more and more difficult, which is favoring you know countries which are producing textile.

And in my previous call also, I mentioned that there are five major countries producing textile: China, India, Pakistan, Bangladesh, Vietnam where Bangladesh, Vietnam are labor arbitrage. Pakistan has got a saturated supply of textiles, and they do not have more investment coming in, modernization coming into textile because of their economical condition. China everybody is speaking about their market share is pretty large.

So, the only market share which will fall into the lap of countries are like India, because India has got a complete value chain to support the supply chain. And securing the supply chain is the future is becoming much and much important to the retailers because they do not want to lose out on their shelf the material so that they lose the customer at the end.

So, India promises then the supply chain, as well as India has performed in the past in home textile by grabbing the market share to the extent of 60% in sheets and 45% in towels. This proves that our competitiveness is intact. And going forward, India is investing into textile more and more with the government support. This should help us to ramp up our competitiveness more and grab more market share from the other countries. So, definitely it's a positive thing.

Moderator: Thank you very much. Due to time constraints, this was the last question. I would now like to hand the conference over to the management for closing comments.

K. R. Lalpuria: Thank you. I would like to reiterate that Indo Count is positioned in its next phase of growth Version 2.0. Our strategic investment in utility bedding and premium brands are driving our expansion. While these investments are temporarily impacting our margins, we are confident they will create a more diversified and robust business over time. We continue to focus on generating strong shareholder value through our ongoing investment and efforts to improve operational efficiencies, sustainability and market share. Thank you.

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