INDO COUNT
Complete Comfort

August 14, 2023

National Stock Exchange of India Ltd.
Listing Department
Exchange Plaza,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051

Company Symbol : ICIL

BSE Limited
Department of Corporate Services
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Scrip Code No: 521016

Dear Sir / Madam,

Subject: Transcript of the Investors' Conference Call held on August 08, 2023 for Q1 FY24 Results

In continuation to our earlier intimation dated August 08, 2023 regarding audio recording of the Investors' Conference Call and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of Investors' Conference Call held on Tuesday, August 08, 2023 at 2:00 p.m. (IST) for Q1 FY24 Results.

The transcript is also available on Company's website at
https://www.indocount.com/images/investor/Transcript-of-Q1-FY24-Investors%E2%80%99-Conference-Call-held-on-August-08-2023.pdf

You are requested to kindly take note of the same.

Thanking you,

Yours faithfully,

For **Indo Count Industries Limited**

SATNAM SINGH SAINI
Digitally signed by SATNAM SINGH SAINI
Date: 2023.08.14 18:16:16 +05'30'

Satnam Saini
Company Secretary & GM- Legal

Encl.: A/a

"Indo Count Industries Limited
Q1 FY24 Earnings Conference Call"
August 08, 2023

DISCLAIMER: E&OE - THIS TRANSCRIPT IS EDITED FOR FACTUAL ERRORS. IN CASE OF DISCREPANCY, THE AUDIO RECORDINGS UPLOADED ON THE STOCK EXCHANGE ON 8TH AUGUST, 2023 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 FURTHER, NO UNPUBLISHED PRICE SENSITIVE INFORMATION WAS SHARED/DISCUSSED IN THE CALL.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. MURALIDHARAN – CHIEF FINANCIAL OFFICER – INDO COUNT INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 earnings 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

K.R. Lalpuria: Thank you. Good afternoon and a very warm welcome to all of you to the Indo Count Industries' Q1 FY '24 earnings call. I have with me Mr. Muralidharan, our CFO and Strategic Growth Advisor, our IR Advisor. Happy to connect with you all once again to discuss the Q1 FY '24 performance.

Let me first highlight the industry and business scenario. After a challenging and subdued FY '23, we now anticipate demand revival across global markets due to realignment of inventory levels at the retailers end. In current Q2, we are witnessing incremental business and our order book position continues to improve. Despite 5% volume increase in Q1, we expect to achieve double digit growth in next 3 quarters, thus meeting our volume guidance of 85 to 90 million meters for FY '24.

The long-term growth prospects of the Indian textile industry are intact. As per the trend witnessed in our key markets, we have observed global companies have stepped up efforts to implement the China + 1 strategy of diversifying their supply chain. The key export markets focused on shifting to India for a long-term supply and the government's favorable policies provide scope for textile companies to post robust growth in the long run.

We strongly believe India's textile industry possesses immense potential to achieve the target of $300 billion by the year 2030, fueling economic growth, generating employment opportunities and showcasing the nation's cultural heritage to the world. With a strong balance sheet, financial prudence and laser-focused approach, we continue to remain positive to grab any opportunities in the textile trade.

Now coming to our recent performance and updates.

During Q1 FY '24, we achieved 5% volume growth and clocked 20.03 million meters versus 19.1 million meters in Q1 FY '23.

We have maintained our operating margins for Q1 FY '24 at 17.4%.

Over the last 2 years, we have built capacities through organic and inorganic routes. I'm happy to share that our capex projects are completed as per timeline. With this, we position the company as the largest global bed linen player.

Updates from B2C and D2C segment.

We are strategically moving towards B2C, B2B and D2C segments with better margin and value proposition business. The company is focusing more on enhancing our presence across the digital marketplace and high quality product offerings. Our E-commerce sales are growing and revenue share is improving. Our domestic brands, Boutique Living and Layers, both are getting good traction.

To summarize, I'd like to add that our strategy revolves around adopting a customer-centric approach, which enables us to create innovative products, move up the value chain alongside our customers and increase our market share. This is also the result of several years efforts of work improving the business mix, shifting to higher ticket size and value-added segment.

Let me now talk to you about our ESG initiatives.

Sustainability is deeply rooted in our culture and business operations. Our philosophy which transcends into policy and practices balances the aspiration of being a sectoral benchmark in value creation and corporate citizenship.

On awards and recognition.

I'm happy to announce that Indo Count Industries Ltd. has been awarded the Niryat Shree Gold Trophy. The Niryat Shree is awarded to member exporters of FIEO for achieving outstanding performance in the exports of goods and services.

Now let me share with you our consolidated financial performance.

I'm happy to announce that we have achieved a quarterly sales volume of 20.03 million meters for Q1 FY '24.

Our order book continues to remain healthy and we continue to remain optimistic and expect volumes for FY '24 to be in the range of 85 to 90 million meters.

Total income INR 747 crores in Q1 FY '24 versus INR 722 crores in Q1 FY '23.

EBITDA of INR 130 crores in Q1 FY '24 versus INR 141 crores in Q1 FY '23.

PAT INR 74 crores in Q1 FY '24 versus INR 77 crores in Q1 FY '23.

EPS is INR 3.72 in Q1 FY '24.

Now, I wait for the question and answers.

Moderator: The first question is from the line of Kapil Jagasia from Nuvama Wealth Research.

Kapil Jagasia: Sir, first question is on the volumes as most of the retailers have specified improvement in demand and also a correction in inventory at their end from the last 3, 4 months. Volumes have been flattish sequentially. So I wanted to know like why it hasn't been specified pickup in volumes in this particular quarter. And I know you had specified from next quarter it would be pickup, but my question pertains to this particular quarter.

K.R. Lalpuria: So as we all know, the first quarter is a bit slow in our industry, and even then we have performed well if you compare on a Y-O-Y basis by almost 5%. And as we move ahead, once the demand revival is better, we will perform much better. And due to our order position, we already gave you the guidance of 85 to 90 million meters. So we believe that you should look at us from a full year perspective.

Kapil Jagasia: Okay. Sure, sir. Sir, my next question is on realizations. Now, it has been on a downtrend since last 2 quarters. So like what would be your take on it? Like, would the realizations be at these levels or it would be going further down? What would be your take on it?

K.R. Lalpuria: See, last year like cotton prices were in the range of INR 90,000 to INR 1 lakh. And currently, if you observe, the cotton prices have corrected and gone down. Hence, there is a difference in ASP if you compare on a Y-O-Y basis. Now going forward, yes, certainly if the raw material prices are better, we will be able to hedge our raw material better.

Secondly, the utilization of the capacities will also help improve our margins further. And our entire focus is to see how we can promote more value-added items. This will also help us to evolve and get better margins on our sales. So all these factors will definitely help us improve our margins going forward. And we expect that the average selling prices going forward may improve to a certain extent.

Kapil Jagasia: But sir, if we look at the cotton prices over last 3, 4 months, it has remained stable. And then too our realizations on a sequential basis have dropped by around 6% to 7%. So my question was pertaining to that, like there is a stable commodity cost, but the realizations have gone down. So just wanted to understand on that part.

K.R. Lalpuria: Yes. You should look at the full year, Kapil, when you look at our realizations, because we have been able to provide a margin guidance also of 16% to 18% together with the volume guidance. So you should look at the overall picture for the full year rather than the calculation on a quarterly basis.

Kapil Jagasia: Okay. Okay. Okay, sure. And sir, my final question would be on the debt levels. What would be the debt as on June '23? And what would be your outlook on it by the end of FY '24?

K.R. Lalpuria: See, I think we would be able to give you a better picture at the end of H1. And certainly, you see, as we have been stating earlier to that, whatever free cash flow generation would be is to reduce our debt. So overall, if you look at the year-end, we should be able to reduce our debt by another INR 200 crores.

Moderator: The next question is from Ashutosh Chaubey from Centra Insights.

Ashutosh Chaubey: This is Ashutosh. Thank you for the opportunity. Sir, I have a question with regards to any guidance. I mean, now we have done a lot of capex in the last 2, 3 years organically and inorganically. So with this 153 million meters of the capacity that we have, what do we -- how do you foresee yourselves in the next 3, 4 years? Where do we want to reach as a -- say, on a revenue basis or probably on utilization level basis?

K.R. Lalpuria: See, we have already given a capacity utilization of more than 60% for FY '24. And going forward also, we have given a statement that in the capacity utilization, we will be able to bring about 2x revenues in the next 3 to 4 years. So this is how we intend to move forward.

Ashutosh Chaubey: Okay. Sir, here we are roughly looking for around INR 5,000 crores, INR 6,000 crores of revenue, right? So with this regards, like what are the new markets that we're tapping with this FTA coming in? And I know that the company is probably planning to get into the U.K. and Australia. But how do we see this FTA panning out and -- because we've been talking about this FTA thing for probably over 2 years now. So what is the update on that?

K.R. Lalpuria: See, already we have seen an uptick in demand from Australia and UAE. There, FTA has already been achieved. And currently, like the commerce ministry is working with U.K. and Canada, which should happen in this financial year, which is what our expectation is.

Secondly, you see the company is working upon various strategies. It's not just we are dependent upon the FTA, because we are making attempts because we are market ready with the capacity, we are a customer-centric company, where we do promotions into various business distribution channels, like whether it is e-commerce, whether it is domestic business, whether it is B2C, D2C strategies, whether it is the value-added segment like fashion, utility, institutional, where we are trying to grow our business.

And plus the China + 1 strategy is also helping us to get better market share in the markets apart from the U.S., where things are going to improve in the future. So solely we are not dependent upon the FTA, but it's a company strength. It's positioning. It's a strategy involving various marketing approach. That's what is helping. And our competitive advantage. India as a country itself is positioned with a lot of competitive advantage. So we believe that all these factors together should help us achieve the growth in the coming years.

Ashutosh Chaubey: Okay. Sir, understood. Sir, one just last question. With regards to the home textile business, I just want to understand Indo Count's point of view. I mean, a lot of players in this home textile segment have made a comment that they're not able to pass on the prices and they have to absorb the costs, and that is affecting their margins. But sir, if you go through the Indo Count's statement, there is it very -- you have been able to pass on the prices on a better way than compared to peers. So what is this thing that is helping you to pass on the prices but not the other home textile players?

K.R. Lalpuria: See, we as a company have got core strength, like we have innovation, quality and services, which are our core strength. Our customer-centric approach helps also us into positioning our both product and our marketing strategies around it. We have been building brick-to-brick our distribution channels in various markets like the U.S., U.K. and Dubai. And we also intend to develop various other distribution channels in other markets too as and when the FTA happens.

So continuously, we are working upon innovative ways how to promote our product, get into better creativity and product development and help the customer get its market share, maintaining the competitive advantage. So the value addition which we are trying to do both in goods and services help our company to achieve better results.

Ashutosh Chaubey: Okay. So probably because we have a far better reach and connect to our customers, that is one of the reasons that we are able to pass on the prices. Is it to assume, sir?

K.R. Lalpuria: Of course. We are in made-to-order business, so we have to work around the CRM, that is the customer relationship management. But it's not that only thing. We with such a flexibility, scalability of capacities and our capabilities around it is helping the company to provide a better value proposition. And the product mix, which we are catering to in the bedding side of the business, is a full 360 degrees which we are offering in the soft furnishing side.

So I think with the kind of product basket, with the kind of innovation which we bring to the table, with the kind of service level which we are able to provide to the end customer, all this help us into giving better results both on the volume as well as the value points.

Moderator: The next question is from the line of Hemang Kotadia from Anvil Share & Stock.

Hemang Kotadia: Yes, sir. Congratulation on the good volume and margin front in this difficult time. Sir, where we stand at top of the bed as a percentage of sales currently, like -- or fashion or utility bedding or institutional bedding? And where we have target to reach by next 2 years, basically, by FY '25? And my second question on...

K.R. Lalpuria: Can you speak louder a little bit? Because your voice is...

Hemang Kotadia: Yes. Yes. So just -- sir, first of all, congratulations on the good volume and margin front in this difficult environment. And my first question is on top of the bed, so basically your fashion utility and institutional bedding side. So what is the percentage of sales currently we are getting from that? And target to reach at what level by FY '25 end?

And second question is on the -- what is the premium we are getting on the basically fashion bedding compared to the normal sheet business? Yes, I just want to know.

K.R. Lalpuria: So we have already reported in FY '23 19% of our revenues comes from these 3 segments, which are fashion, utility and institutional bedding. Going forward, we have also invested into a fashion bedding unit completely vertical and world-class state-of-art facility in order to service our customers. So that will also bring us a particular advantage in order to service our customers with better lead times, better product innovation and better shipments.

Now having said that, going forward we will be able to provide you by the year-end, because you should always look at this segment from a full year perspective. And we have already commented that we believe that we should be planning to have at least 30% of our revenue from fashion, utility and institutional bedding in the next 3 to 4 years when we double our revenues. So from that, we intend to see that we develop this business to the extent of 30% overall.

Hemang Kotadia: Right. And on the premium -- on the margin front, any color on that?

K.R. Lalpuria: So absolutely. Like when you add something to a particular product and you do value addition apart from the commodity like the sheet sets that which we supply, definitely, there is a value enhancement. And overall, if you look at the company, we should be able to increase at a company level our EBITDA by almost like, say, 100 to 150 bps through this mode.

Moderator: The next question is from the line of Ashwini Agarwal from Demeter Advisors.

Ashwini Agarwal: Good Afternoon Lalpuria Ji, Good results in a challenging environment. Just a couple of questions. You mentioned that Q1 tends to be a little soft. I just wanted to understand the cyclicality. I mean, why does Q1 tend to be soft? Any particular reason?

K.R. Lalpuria: See, because the -- like the festive season is over. And you see there is only one reason, that is the back-to-college and back-to-school and the vacation. We all fall under this particular season. And there are not major events for the retail to promote their products during this season. So that is the reason you see normally the Q1 tends to be a little bit slower than the other 3 quarters.

Ashwini Agarwal: And sir, is there a fabric mix difference or product mix difference as -- between the fall season and, let's say, what you see in the June quarter, I mean, which adds more value? Or is there some other way to understand the seasonality of your business? So Q1 is weak because there's really no reason for people to be buying new bed sheets or new bedding thing. But fall should be very strong because it's back-to-school and colleges and so on. And then there is gifting in Christmas. So Q3 -- Q2 and Q3 would be the stronger quarters for you? Would that be a fair way to think about it?

K.R. Lalpuria: Yes, you are absolutely right, Q2 is the largest and Q3 is also equally good. But as far as you see the fabric mix is concerned, since we are supplying 70% of core business to the U.S. retailers, mostly it remains static. It's not like -- of course, during the festive season there might be some value additions which may add upon, but certainly it's a continuous consistent product mix which plays their role during the year. Only that the demand during the first quarter is a bit slow.

Ashwini Agarwal: Okay. And sir, just looking out a little bit medium term, somebody else also alluded to it, and you've often said that you want to grow your revenue 2x in 3 to 4 years. In terms of feedback that you're seeing from on the ground in the U.S. and Europe, your commentary suggests that, look, things seem to be okay. But yesterday, there was a results release from a garment maker who seemed to suggest that things are quite soft. So we're getting these conflicting signals from the marketplace. I mean, how -- what are the risks that you see on the horizon, if any?

K.R. Lalpuria: So of course, you see -- post-COVID you have been seeing some sort of uncertainties creeping into the economical stage. And so always you need to be both optimistic and as well as cautious. So cautiously optimistic is the order of the day.

Having said that, you see there are various factors which points that the textile trade overall will improve from India going forward. So India is at a good position. India has got the raw material. India has got the complete value chain. India has performed well. And we, as a company, also have performed well. The category which we are serving is 58% of the market. And the FTAs are around the corner. So this -- all these factors provide a positive outlook.

Of course, we always need to consider somewhere some uncertainties which may creep in. But overall, we feel that going forward it is a positive outlook for both our industry and country and we are well positioned as a company. Our balance sheet is robust and we have the capacity. We have a customer-centric approach. We have built upon various marketing strategies, which are paying off, as you can see. During the tough times also we were able to perform better. So we feel that we are confident enough going forward that our brands, our licenses, our brand recall value and whatever -- which -- where we have been able to connect with the customers is doing pretty well for us.

So I think going forward, we are quite positive about that we can utilize these capacities in the next 3 to 4 years and grow 2x in the coming long term, both midterm and long term.

Ashwini Agarwal: Okay. No, that's great. One final question for me, sir, is that when do you think you'll start spending money again to expand capacity, 2 years from now? Would that be a fair assumption?

K.R. Lalpuria: So we already have capacity, Ashwini, now 153. So our entire focus is how we sweat this asset first. So our focus is to do that. While we say that, we have always maintained that both organic and inorganic opportunities which may come into our way, we certainly as a company would look at it because we are financially well positioned. So we have never leveraged our balance sheet. We have a robust balance sheet number. Our net debt was only INR 589 crores which we reported end of FY '23.

So I think with the kind of positioning, we as a Company should look forward to all types of growths going forward. So we will -- whenever there is a need to spend money judiciously, that there is a reasonable payback and we can justify as an investment and can get proper return on capital and return on equity front so that we keep on track our growth not only by deploying the capital, but at the same time, making a good payback on it. So that's what our entire philosophy is. So as and when the Board will think that there is an opportunity, they will take proper steps to invest into it.

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

Sajal Gupta: Good Afternoon Lalpuria Ji, Congratulations for the set of numbers although you have answered quite a bit of my question, but still I'd like to go through my question. Sir, my question is that you have already demonstrated a good EBITDA and volume growth in the Company. So what is going to be the strategy going forward for this Company?

K.R. Lalpuria: See, the strategy is simple. As I mentioned, Sajal, that our entire focus is to how we set our assets, the capacity which we have built. Because in the last 2 years, we have invested almost INR 1,077 crores. And that we have invested keeping in mind how much debt we should draw. So we drew only around INR 200 crores debt. And we utilize all our internal accruals to build on this capacity and capability. And now we are going to sweat this to make the revenues come from the sales, wherein we can grow the Company's revenue by almost 2x in the next 3 to 4 years. So the entire focus is to sweat the assets to get this revenue as well as keeping in mind not only the volume growth but the EBITDA growth as well. So that is the focus going forward, Sajal.

Moderator: The next question is from the line of Falguni Dutta from Jet Age Securities.

Falguni Dutta: Good Afternoon Sir, I'm new to your company, so pardon my asking this basic question. Sir, what is the level of our backward integration into yarn?

K.R. Lalpuria: See, we have like almost 25% of the backward integration, whereas on the front-end side, we have almost 100%...

Falguni Dutta: On which side, sir? I missed you.

K.R. Lalpuria: On the value addition side, like dyeing, finishing and stitching and the front-end marketing, we have 100% in it.

Falguni Dutta: And sir, when you say 25% in terms of yarn, is it all cotton yarn? Or how is it?

K.R. Lalpuria: Both cotton and blended. We are capable of producing even the blends, like whether it is Tencel or rayon or linen or -- we can blend anything.

And one more thing I'll add, Falguni, here that our entire focus is to spin value-added yarns. We do not want to get into commodity. So the Company's philosophy is value addition, wherever it is. So whether it is a stand-alone investment into spinning or weaving, we focus on the value addition side of the business. So that's what the criteria is towards our investment. We do not want to invest into commodity business.

Moderator: The next question is from the line of Harshil Shethia from AUM Fund Advisors.

Harshil Shethia: Okay. Sir, what I want to understand is, when you said that our whole focus is to expand into value-added products, correct?

K.R. Lalpuria: Yes.

Harshil Shethia: So in terms of expansion, the products that earlier GHCL had were basically majorly commodity products? So what was the rationale of buying into GHCL?

K.R. Lalpuria: So you see, value addition by means of -- there are various ways into adding value to a business. So GHCL was in commodity business when we say was in majorly sheet set business. So they were not into fashion, utility and institutional business. Then they were not into other distribution channels, like say, e-commerce, like licensed brands and areas of developing B2C, D2C channels of distribution.

So these various value additions wherever we do, whether it is product or whether it is service, we have to see where we add value to the customer and providing not only the convenience part, but help him get better value for his product sales. So that is the criteria of value addition, whether it is product or services, so the rationale behind buying are many, as far as GHCL is concerned.

There is diversity of states, so we de-risk from one state to another state. Gujarat is a very well developed industrial state, closer to the port, no overlapping of customers were there. Then they were into new products like say, you know, flannel which we added up to in our product basket. So there is cross-merchandising also to both the existing customer and new customers. Then the value which we got, then there is a land available for expansion. So all these various other factors. And you know, we majorly, the business was a running business.

And the assets were all world-class and state of art. So that, the synergy was very much there. So we grabbed this opportunity and added this to our capacities so that we can service the larger market going forward whenever the FTA happens. So we are market ready also. So all these factors are going to help us create a better value for whatever which we have acquired going forward. So as we spread the assets also, we will be able to spread our expenses as well.

Moderator: We seem to have lost the line for Mr. Shethia. We will move to the next question. The next question is from the line of Pankaj Kumar from Kotak Securities.

Pankaj Kumar: Sir, you said that you're looking to utilize your capacity fully in, say, next 2 to 4 years. So that means there's some incremental 40, 50 million meters kind of volume that you are looking at. So can you help us with a sense in terms of where we will get this volume, with geographies we are targeting where we will get this kind of volume?

K.R. Lalpuria: So you see, currently, our large market is U.S., where we are selling around 75%. And there are duty anomalies in U.K., Europe, Canada, where we need to pay duty where other countries we're not paying duties. So we could not penetrate those markets. And then there are certain other very large developed markets like Australia, Japan, Korea, Russia even to a certain extent, then South Africa, Latin America. So all these countries are still not very much explored.

So we would focus on the non-U.S. businesses, and that's what the Indian government is also focusing by bringing about FTA with EU, U.K., Canada, Australia, UAE, GCC countries, so that it is at an advantage and it can help the textile industry to grow further market share. So I think the strategy for us also is to explore these new countries and new geographies where we can promote our businesses going forward.

So this will come from them. And also, certainly, U.S. too, because the fashion bedding businesses, the utility and institutional where China is dominating is also a case where the China + 1 strategy is happening as we speak. So that also will help us to grow our business.

And lastly, you see India also becoming a $5 trillion economy going forward. So the growth in the domestic business is quite large. And we are also having 2 strong brands, Boutique Living and Layers, which are very well accepted into the domestic market. So we see quite a good uptick in the domestic front, too. So all these markets, this positioning and this various other distribution channels will help us grow our business and consume our capacities to the extent which we are planning.

Pankaj Kumar: So at the full utilization, so non-U.S. will contribute equally? What we will have in the future?

K.R. Lalpuria: Sorry. Come again?

Pankaj Kumar: So when we achieve the full utilization level, so at that level, what would be the contribution from non-U.S. market that you have a target?

K.R. Lalpuria: So we intend to keep like almost 60% U.S. and 40% non-U.S. market.

Pankaj Kumar: Okay. And sir, with respect to U.K. post-FTA, what kind of additional opportunities that you believe that can come to us?

K.R. Lalpuria: See -- currently, you see, unfortunately, the duty factor in the U.K. was 9.6% and it increased to 12%. And of late, what we are hearing that the U.K. FTA will happen sooner because most of the issues have been sorted out by the Commerce Ministry. So there will be a good uptick into the demand from the retailers because India is positioned on to the mid- to high segment only and it is not there into the other segments of the marketplace.

And secondly, on the e-commerce front, on the licensed brand front, too, India is still struggling to find a foot place. So we believe that once the FTA happens in U.K., it will provide us a lot of opportunities to grow our business into the other product categories and other distribution channels as well.

Moderator: The next question is from the line of Cheragh Sidhwa from ICICI Securities.

Cheragh Sidhwa: Thank you for the opportunity, I have a couple of questions from my side. Sir, firstly, just wanted to understand what is the current cotton price inventory which we have in our books? And how many months of cotton inventory do we have right now?

K.R. Lalpuria: So we have hedged around till October when the season starts. So that is what the quantity which we are holding. And as a policy, as you all know that we have been able to maintain our supply chain well in the previous years as well.

Cheragh Sidhwa: Okay. Okay. But currently, the cotton prices are hovering in the range of, say, around 155 to 160 per kg. It will be the similar range of cotton at the moment?

K.R. Lalpuria: At the moment, you see it is around 60,000 So good cotton which we buy, so that is around this range. So it should maintain because there are enough stocks available in the market.

Cheragh Sidhwa: Right, right. Okay. And sir, I just wanted to understand the INR 270 crores capex which we have spent towards the backward integration of commissioning the 68,000 spindles. That is already done, right?

K.R. Lalpuria: Yes, that is completed.

Cheragh Sidhwa: So sir, how much incremental margins should these capacities yield? And when should it start kicking in from, given the INR 270 crores of capex which we have invested? So historically, we have done, say, close to around 53%, 54% kind of gross margins for the full year. So how much would that incrementally contribute, these capacities?

K.R. Lalpuria: Because you see it is almost like 10% of what capacity utilization we need, so it will be very marginal. We haven't calculated it to that extent. It is for more convenience, traceability, transparency to our customers. That is what we have invested into it. And secondly, Pranavaditya was our subsidiary and we had assets over there. It was a old mill. So we rebuilt it with new machinery so that we can help our home textile business with a captive consumption and sweat the assets also of our subsidiary because we amalgamated that company into the parent company.

So this is the reason why we invested into it. And we have fairly a good payback also for this investment. And mostly -- you see, as I mentioned earlier, that out of INR 1,077 crores, mostly our investment has been through internal accruals rather than drawing debt. And we drew only INR 200 crores debt towards all these investments which we did.

So I think the return on capital will be fairly good going forward. And we -- frankly speaking, we haven't calculated that way that I can give you a particular number for that, that it will improve my EBITDA by this much percentage. But certainly, it will contribute to my overall EBITDA margin.

Cheragh Sidhwa: Sure, sure, sir. Got it. And sir, just one last question from my side. So sir, just this year what we have seen is that India has gained significant market share, be it cotton sheets or be it cotton pillow cases. So last year, it was around 50%. This year, it's almost 1,000 basis points higher.

So what exactly has been the reason for that as we have gained market share from both the countries, China as well as Pakistan. So such a sharp jump, like a 1,000 basis point jump, what exactly has driven this, sir?

K.R. Lalpuria: See, as we are all mentioning about China + 1, China has faced dual problems. One is the duty tariff which U.S. increased. And the other was the Xinxiang cotton. So they lost the ground in -- as far as cotton is concerned, into convincing the buyer to buy from them.

Secondly, on the Pakistan front, the supply chain was volatile and their economy is not doing well. So the confidence of placing long-term order is not there on to Pakistan supplier. So both this got impacted in the process, and these were gains made by the Indians. And Indians are already well positioned in the marketplace with a fair distribution base, both in offline and online businesses. And they have serviced the customers well in times of difficulties also. And we have maintained the market share.

So I think the jump was regaining the confidence whenever there was a disruption, because India stood out to supply these goods even in difficult times during COVID. So I do believe that definitely India stands out today among the top 5 countries in exports, and it will definitely gain because of this.

Cheragh Sidhwa: Okay, sir. Because, sir, last year -- actually, what I was seeing last year, we lost market share from 57% -- in CY '21 to CY '22 it was 49%. That would also be attributed to our higher cost of cotton as compared to U.S. cotton. So now with disparity kind of reducing, we have seen again market share going up to 57%, 58%. So is it correct? Definitely...

K.R. Lalpuria: Yes, yes, that is correct. your assessment is correct.

Moderator: The next question is from the line of Pankaj from Affluent assets.

Pankaj Bobade: Sir, just wanted to understand. Since we -- sir, U.S. contributes 75% to our top line. How is the scenario out there for next 2 quarters or going ahead? Has the destocking been completely done? And are the customers ready to refill the channels?

K.R. Lalpuria: See, we see the demand revival, as I had mentioned in my speech too, because of the realignment of the inventory levels at the retail end. So we all knew the various headwinds which we have faced in FY '23. So they are now -- most of them are -- have diminished. And except for the geopolitical situation, which still continues. So there is some uncertainties on the economic front. But most of the other headwinds have diminished.

So that is prompting us and helping us to draw a better guidance, and which we gave as per our order book position that we will do 85 million to 90 million meters in the very first -- in FY '20 -- end of FY '23 only. We gave a full year guidance.

So the things are looking positive as we move ahead, and there would be like sustenance of business going forward unless and until there is some disruptions which may impact. But we don't see that disruptions happening in the near term. So long term the position is intact and India should do well. We, as a company, should also do very well.

Pankaj Bobade: Right. So from 75 million to 90 million meters, so we would be making around 20% more production, right? So would it then get translated into maybe around INR 3,600 crores to INR 4,000 crores of top line, and accordingly, penetrate down the line on bottom line?

K.R. Lalpuria: So I answered that previous question also. You see, last year, cotton prices were higher and they got adjusted now. So there is a difference in average selling price if you compare on a Y-o-Y basis. So certainly, the revenues will not be as proportionate to what the volume growth will be. But at the end of the day, you see it is better that you track the home textile companies on to like sales volume basis and the margin profile basis rather than on the average selling price, because the product mix is quite broad-based and it moves around into different countries and with different cultures and different seasons and different requirements, different consumer experience getting changed.

So there are so many permutations and combinations. So you can never get the right answer when you start calculating the average selling price. What you should focus upon is how much we are able to utilize our capacity and whether we are able to keep our margin intact. That is very important.

Pankaj Bobade: So will it be safe for me to assume better margin in FY '24 as compared to FY '23, given that the demand is intact and the cotton prices are under control, or lower than last year?

K.R. Lalpuria: So we have already given guidance. Last year, we gave a guidance of 15% to 17%, and we have given a margin guidance of 16% to 18%. Now cotton prices, you see, they get adjusted and we have to either pass on or add on. So they get adjusted. But you need to manage your gross margin right. That is what the key to the success is.

Pankaj Bobade: Okay. My last question, sir. We have specialized in bed and bed linen, bed linen-related products. So going forward -- since we have reached 150 million meters of capacity out here, and as and when we utilize it optimally, do we look forward to diversify our product basket?

K.R. Lalpuria: So we have such a huge product basket already and as I had mentioned...

Pankaj Bobade: No, I mean to say a different line, say, from bed linen to, say, bath linen or something else?

K.R. Lalpuria: See, if we are able to provide our stakeholders with a better return on capital, who stops us from investing into organic or inorganic, any product category. We are in home textile business. We are currently focusing on bed linen, which is our forte. We have become globally the largest company on the bed linen side, so on a leadership position. Once we are going through this -- and if we get a good opportunity somewhere, we can always look at it. But as of now, we are focusing only on the bed linen side of the business.

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

Amit Kumar: Just one question at my end. And it's almost been a year since the UAE and Australia FTAs have been in operation. I mean, obviously, difficult, slightly challenging operating period. But what, if any, benefits that you have seen of the FTAs from these markets currently? And just a little bit of outlook for this year would be much appreciated.

K.R. Lalpuria: No, certainly, we are seeing the customers from Australia and UAE are looking positively towards India as a country because of the FTA getting signed. And now we are at level playing field with other countries like even China. So you see we are seeing an uptick in demand. And as we move ahead, we should be able to add customers also from these countries and we should be able to do well. And these countries are with large per capita consumption of home textile. And certainly, this will help us to grow our business in the near future and long term both in these countries.

Amit Kumar: Okay. Any sort of quantitative comment that you can give? So first quarter overall sales growth has been flattish. So I understand, volumes have grown and pricing has declined. But relatively, these 2 markets, have they sort of outperformed in any way? Or you still have to sort of develop that customer base?

K.R. Lalpuria: No, it is -- like just it has happened only just recently this FTA. Because even though when the FTAs were announced, the nitty-gritties of the FTAs take almost 4, 5 months for both the custom department to sort out their HSN code and the duty structure and the mechanism, how they will allow us duty-free assets.

So it takes a little bit of time. So it is too premature to presume and provide you with figures. But certainly, you see there is a good uptick in demand from the customers based out of these countries. And definitely, we will have a good advantage going forward. And in the, say, next couple of years, we should be able to also provide you how we have grown there. Because it takes time towards -- there is a cycle of 12 months when you start with any country or a customer. So it takes time for this to fruitify.

Moderator: Thank you. Due to time constraints, that would be the last question. I would now like to hand the conference back to the management team for closing comments.

K.R. Lalpuria: Thank you. So we remain confident that Indo Count will have sustainable brand-enhancing and margin positive growth in the future. Through B2C and D2C forays, we will continuously strive to increase our market penetration. That is all from my side. For any further information, kindly get in touch with me or Strategic Growth Advisor, our IR Advisor. Thank you.

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