Date: 2nd November, 2024

To
The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C/1, G Block,
Bandra- Kurla Complex,
Bandra(E),
Mumbai-400051
NSE Symbol - IRISDOREME

Dear Sir/Madam,

Sub: Transcript of Earnings Conference Call of the Company- Q2 & H1 FY25

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings Conference Call held on 29th October, 2024, at 3:30 p.m. for discussing operational and financial performance in 2nd quarter and half year ended 30th September, 2024.

The above information is also available on the website of Company at www.irisclothings.in.

We request you to kindly take this on record.

Thanking you,

Yours Faithfully,
For **Iris Clothings Limited**

Santosh Ladha
Digitally signed by Santosh Ladha
Date: 2024.11.02 18:08:28 +05'30'

Santosh Ladha
Managing Director
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Iris Clothings Limited

Q2 & H1 FY25 Earnings Conference Call

October 29, 2024

MANAGEMENT:	**MR. SANTOSH LADHA – MANAGING DIRECTOR** **MR. HARSHVARDHAN SARDA – BUSINESS HEAD** **MR. NIRAJ AGARWAL – CHIEF FINANCIAL OFFICER**
MODERATOR:	**MR. ABHISHEK BHATT – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the Iris Clothing's Q2 & H1 FY25 Earnings Conference Call. 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 touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Bhatt from E&Y Investor Relations. Thank you and over to you, sir.

Abhishek Bhatt: Thank you. Good afternoon everyone. on behalf of Iris Clothing's Ltd., I welcome you all to the company's Q2 & H1 FY25 earnings conference call. The results and investor presentation are available in our filings with the exchange. To discuss the business performance during the quarter and outlook, we have with us today, Mr. Santosh Ladha, Managing Director, Mr. Harshvardhan Sarda, Business Head and Mr. Niraj Agarwal, Chief Financial Officer of Iris Clothing's Ltd. Before we proceed with the call, a disclaimer,

Please do note that anything said on this call during the course of the interaction and in our collaterals which reflects the outlook towards the future, or which should be interpreted as a certain forward-looking statement. Must be viewed in conjunction with the risks the company faces and may not be updated from time-to-time.

More details are provided at the end of the investor presentation and other filings that can be found on our website www.irisclothings.in. Should you have any queries or need any further information at the end of this call, you can reach out to us at our email address mentioned in the company collaterals.

With that, I would now like to hand over the call to Mr. Harsh. Thank you and over to you, sir.

Harshvardhan Sarda: Thank you, Abhishek. Good afternoon and thank you for joining our earnings call for the second quarter and the first half of fiscal year 2025. We appreciate your presence as we review the Company's performance for this period. I am pleased to report that during Q2 & H1FY25, Iris Clothing has achieved robust top-line growth. This is an outcome of our strategic initiatives which have been meticulously designed and implemented by our dedicated team.

Despite facing challenges with operating margins due to increased input costs, we anticipate that the forthcoming festive period will act as a driver for additional growth, positioning us to achieve robust results in the latter half of FY25. We maintain our confidence in our capacity to bounce back and enhance our profitability.

Commenting on our operational business, we have seen significant developments, particularly in the B2B segment. We have expanded our distributor network by adding five new distributors during the quarter, increasing our total to 173. This expansion is a clear indication of our growing market presence and the trust that our partners place in our brand.

Furthermore, our retail approach continues to demonstrate its strength, marked by the successful launch of 5 new exclusive brand outlets in the first half of FY25 and the notable opening of our 7th EBO during Q2FY25. These new outlets are a significant step forward in our Direct-to-Consumer strategy, providing customers with direct access to our products.

We have implemented a cluster model strategy to enhance our brand presence citywide, starting with store sizes of 500 square feet and going up to around 800 square feet. We have plans to progressively increase store size to 1,000 square feet over time. This strategic expansion of our retail footprint is a clear reflection of our commitment to growing closer to our customers and enhancing their shopping experience with the DOREME brand.

Looking ahead, we remain optimistic about the ongoing expansion of our D2C segment. We plan to launch around 15 stores by the end of this year, with a longer-term goal of reaching 100 stores in the next three years. This ambitious expansion involves launching new stores every quarter, underscoring our commitment to growth and our confidence in the potential of our brand.

In addition to expanding our retail footprint, we are also continuously updating and diversifying our product portfolio. We are excited about the upcoming launch of our new Kids Winter Sportswear products, which is on schedule. This category promises to be an interesting addition to our product range.

And we are also exploring new SKUs to enhance our merchandise offerings. We are very confident in our journey to become one of the largest brands in the organized kids wear segment in the country, and we believe we are well on our way to achieving this milestone in the next few years.

I will now hand over the call to Niraj Agarwal, our CFO, who will walk us through the Q2 & H1FY25 financial numbers. Thank you, and over to you Niraj.

Niraj Agarwal: Thank you, Harsh. Thank you all for joining us today. I am pleased to share that we have delivered robust performance in Q2 & H1FY25. Talking about the key financial highlights for Q2FY25, our total revenue witnessed a remarkable increase of 28.6% year-on-year, reaching INR41.3 crores up from INR32.1 crores in Q2FY24.

Revenue during H1FY25 stood at INR72.8 crores, a growth of 29.2% year-on-year basis against INR56.3 crores reported in H1FY24, while our EBITDA for the quarter was INR8 crores as against INR7.5 crores in Q2 FY24, with an EBITDA margin of 19.5%. EBITDA for H1FY25 stood at INR14 crores as compared to INR13.9 crores in H1FY24, with an EBITDA margin of 19.3% in H1FY25.

Additionally, profit after tax for the quarter was INR3.8 crores as against INR3.6 crores in Q2 FY24, a marginal growth of 5% year-on-year basis. During H1FY25, tax was INR6.2 crores as compared to INR6.7 crores in H1FY24, with 8.6% PAT margin. To summarise our financial performance, we remain focused in driving operational excellence and capitalising on growth opportunities.

With this, we can now open the floor for questions. Thanks.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Aditya form Value Equity. Please go ahead.

Aditya: Thanks for the opportunity, sir. Sir with the with the current capacity utilisation at 25,000 units, what is the maximum scale-up potential? And by when do we expect to achieve this? Considering the launch of the new EBOs, there seems to be a need for enhanced capacity.

Harshvardhan Sarda: Yes, absolutely. So currently, our capacity stands at around 33,000 pieces per day. And we can expand this capacity with an incremental capex of around INR3 crores. For the next two years, we can expand this specific capacity to around 40,000 pieces per day. But since we are looking at going aggressively with the EBO model. And also aggressively expanding the distributor model, we are planning a new greenfield project as well, which will be a capacity expansion which will happen over the next couple of years. And that will significantly increase our capacity.

Aditya: Okay sir one more question. So, we have been increasing presence across the countries. So, if you could give an overview, what is the contribution of the top 5-10 cities in our sales as of now. And given the expansion and the kind of store additions we are looking at, how will this shape up as we scale?

Harshvardhan Sarda: So currently, if I have to talk about our distribution, we can say basically, Maharashtra, Gujarat and Rajasthan contribute around 35% of our revenue. So, those are our biggest states with Mumbai being one of the biggest cities for us in terms of revenue.

Aditya: Okay, sir. Understood. So, that's from my side. Thank you, sir.

Moderator: Thank you. Next question is from the line of Priyam Shah from India Value Capital. Please go ahead.

Priyam Shah: Hi sir. Thanks for the opportunity. So, my first question is a kind of follow-up from the previous participant. You had just mentioned that we had launched EBOs in last year. So, just want to understand, have we reached a break-even for those?

Harshvardhan Sarda: So, the first two EBOs that we did in last year, that has reached break-even this year already. So, after this festive season, we are seeing a break-even in those two stores. That is what makes us confident, and we have launched already five new stores and we plan to add around 10 more in this year.

Priyam Shah: Okay. So, ideally, the break-even, like depending, obviously, depending upon the area, the size of the store. So, can we just for estimation purpose, we say that the break-even happens within a year or 18 months?

Harshvardhan Sarda: We expect the break-even on an average at store level to happen in around 15 to 17 months.

Priyam Shah: Okay. That's helpful. And now, my second question is with regards to, you have a very aggressive pipeline of setting up 100 new stores for the coming two years. So, on an average, how would the ramping up would be happening? So, is it 100-100 like in two years or like, you know, how it would be happening?

Harshvardhan Sarda: So, the ramping up, what has happened is what we are doing at the backend is we are building a strong retail team at our corporate office and expanding. So, we have identified, we want to use a cluster-based approach. So, we have identified five, seven cities across the country and we want to open all our stores in those five cities primarily. So, that is the idea of expanding stores.

But if I have to talk about 100 stores in the next two, two and a half years, we expect it to be somewhere around 40-60 or 50-50, around that number. It's still something that will build as the retail pipeline comes in stronger.

Priyam Shah: Okay. And just my last question, and then I'll come for a follow-up. What was the ASP, that is the average selling price for the last Q2 that we had? And I believe we have experienced a kind of jump in the ASP.

Harshvardhan Sarda: Yes. So, our Q2 ASP at MRP level for us was around 480. But we expect that to go up to 520 by the end of the year.

Priyam Shah: Okay. And that would be largely attributed by the ASP jump, would be of the higher range products?

Harshvardhan Sarda: Yes. So, it will be value additions on the current product range with a few new product categories being added. That is where the ASP jump will primarily come from.

Priyam Shah: Okay. Understood. And just my last question, if you can also highlight, what would be our contribution of infant to the overall revenue mix during the first half of the year?

Harshvardhan Sarda: For the first half of the year, infant would be around 12% of the entire revenue.

Priyam Shah: Okay. Thanks for answering my questions

Harshvardhan Sarda: I agree that is a category increasing very aggressively for us

Priyam Shah: Yes. Thank you. And I'll come back in the queue if needed. Thank you so much.

Moderator: Thank you. Next question is from the line of Kruttika from Sharekhan by BNP Paribas. Please go ahead.

Kruttika: Good afternoon, sir. Thank you for giving me the opportunity.

Moderator: Ms. Kruttika your voice is very low.

Kruttika: Good afternoon, sir. So, I have a couple of questions. First is with respect to the volume growth during the quarter and the first half, if you can throw some light on that?

Harshvardhan Sharda: Volume growth, Kruttika, we'll have to get back to you on that. That is something that I'll get back to you on that in terms of the volumes.

Kruttika: Okay. Sure, sir. And in terms of the festive demand, how has it been so far and going ahead after the festive season, how do you see things spanning across?

Harshvardhan Sharda: So, we had a very good festive season, but then again, the product categories that we primarily deal in, it's not directly related to festive. So, we expect the winter season which was really good. And in terms of retail winter season, we are expecting to be really good with a very, very strong outlook for summer'25 as well.

Kruttika: Okay. That's right. Next, in terms of the margins. So, for first half we have seen margins coming at 19%. So management indicated that margins were impacted due to the increased input cost. So, if you can throw some more light, what is exactly happening? What is going around and how do you see things going ahead? Is this the bottom out or do we expect to see further correction in margin?

Harshvardhan Sharda: We don't expect any further corrections in margin. We are expecting the margins to primarily remain at similar levels, might be grow by a few basis points, but that's about it. We are not expecting, this is definitely not going down below this. It will stay around the same region.

Kruttika: All right. And one more thing with respect to capex that was discussed sometime before. So, Greenfield, any details about the Greenfield expansion or it is just in discussion that will be taken up earlier in a few quarters?

Harshvardhan Sharda: It is in discussion currently. We will update you guys once we have something more to talk about.

Kruttika: Okay. And the expansion to 40,000 pieces per day, that is ongoing or that was also in discussion?

Harshvardhan Sharda: The expansion for can you come again?

Kruttika: We mentioned that with the capex is ongoing.

Harshvardhan Sharda: That is ongoing, yes.

Kruttika: That is ongoing and when do we expect that to get rampup

Harshvardhan Sharda: I think we'll incrementally increase from 33,000 to around 37,000 this year and then go up to 40,000 over the next year, 40,000-42,000.

Kruttika: Okay. So, by FY25, 37000 and then 40,000 by-FY26. Am I right?

Harshvardhan Sharda: 42, yes.

Kruttika: Okay, that is from my side. I will join the queue if I have any further questions.

Harshvardhan Sharda: Thank you.

Moderator: Thank you. Next question is from the line of Navin from Analah Capital. Please go ahead.

Navin: Good afternoon, sir. I am Navin. So, I have two questions. While there has been a slight contraction in EBITDA margin from Q1 to Q2FY25. So, can you please help me to understand the reason behind it?

Harshvardhan Sharda: So, there has not been a big correction. It's a minor correction which is primarily because of season. So, Q1 was still a lot of summer product. Q2 is primarily winter driven. So, there's not a specific reason why the margins have shrunk by a very small basis percentage, but it's primarily due to input costs for us.

Navin: Okay. And my second question is like how is the demand observed during the quarter and are we experiencing any uptick in demand as we approach the festival season?

Harshvardhan Sharda: Yes, absolutely. So, the festival season is almost over now primarily, but we have seen a decent expectation and demand from the market, and we see that growing over the next couple quarters for us as well.

Navin: Okay. Thank you, sir. That's it from my side. Thanks for taking up my question and All the best.

Moderator: Thank you. Next question is from the line of Reshma Jain, an Individual Investor. Please go ahead.

Reshma Jain: Thank you for the opportunity. So, my first question is how are you seeing the inventory moving and what is the target of inventory days for FY25?

Harshvardhan Sharda: So, overall, we are expecting inventories for us to remain at the same levels with increase in top line that we have already experienced of around 28% to 30%. So, we are very confident that our inventory days will come down by around 30% from what it was at the end of FY24.

Reshma Jain: Okay. And also, can you please share the contribution of top 10 distributors to the revenue and in which regions have the 5 new distributors been added?

Harshvardhan Sharda: So, the top 10 distributors for us would contribute around say 25% of our revenue, 20% to 25%. And the 5 new distributors we have added they are scattered. We have added 3 new in Maharashtra and we have added 2 in Uttar Pradesh for now.

Reshma Jain: And what we are targeting in the total number of distributors by the end of this year in FY25?

Harshvardhan Sharda: We are expecting around 185 distributors by the end of this year.

Reshma Jain: Okay. Got it. Thank you so much, sir.

Moderator: Thank you. The next follow-up question is from the line of Priyam Shah from India Value Capital. Please go ahead.

Priyam Shah: Yes. So, thanks for the opportunity once again. So, this is with regards to our D2C business, which we feel that we are focusing a lot on it. So, what are the steps that we are taking so that we would be reaching to the desired aspirations?

Harshvardhan Sharda: So, Priyam, what we have done is we have done a lot of homework in the last 18 months, 24 months where we have built systems in place already for retail. We have built a standard look and feel of the store. So, if you go to any of our stores it all looks similar with the same fragrance. So, a lot of detailing has gone into the stores that we are doing currently. So, we are very confident that since we have done a very strong base work in the last 24 months and with a strong brand recall of ours currently in the system because if I look at it whatever we sell, our realization currently is 50% of the overall revenue.

So, if I am selling INR122 crores eventually around INR240 crores of merchandise is being sold in the markets. So, there is a very strong brand recall in our customers currently. So, it seems like the right opportunity for us to enter the EBO retail segment where we can go directly to the consumer because the consumer actually wants our products. That is a bridge that we are trying to build right now with our D2C business, and we have done a lot of homework on that.

Priyam Shah: Definitely, that can be baked in the numbers that we are seeing. So, there is just one thing that we need to ask is your vision, we see that you are targeting 500 EBOs in 5 years? Is the aspirational right?

Harshvardhan Sharda: That is the big goal that we have.

Priyam Shah: Yes, that is the aspirational. So, how about the team building which is much needed for this aspirational goal?

Harshvardhan Sharda: Absolutely. As we said we are aggressively building the retail team for us. We have brought in multiple people over the last 6 months onto our team. We are looking for more people, more experienced people who have run retail to join us and drive that growth. So, team building will be an absolute integral part of the overall process, and we recognize that and we are already building on those aspects currently.

Priyam Shah: Okay. Just one last follow-up with regards to D2C. So, your products are definitely available in Mumbai. Is there something in the management's thought process that you would be targeting organized retail like malls or something like that?

Harshvardhan Sharda: So, not directly organized retail right away. We are looking at malls, opening stores in malls. We have already done that in and around the eastern zone where we have opened stores in malls. We have also had shopping shops. So, we recently had a shopping shop with LuLu Mall in two of its malls. So, that is something that is an opportunity that we are looking at, but not aggressively going after it because we want to open our stores, understand what the market is and then eventually open up the shopping shop model, but then again if there is an opportunity involved like the LuLu one, we are happy to grab that currently.

Priyam Shah: So, thanks for the detailed answer once again and I wish your team all the best and Diwali greetings from my side. Thank you.

Harshvardhan Sharda: Thank you so much to you all. Same to you.

Moderator: Thank you. Next follow-up question is from the line of Kruttika from Sharekhan by BNP Paribas. Please go ahead.

Kruttika: Thank you for the follow-up opportunity. So, if you can let us know what was the capex for the first half and what is the target for the full year?

Harshvardhan Sharda: So, capex was around INR1.5 crores currently in the first half and we expect it to go to around INR3 crores by the end of the year. This will increase the deposits.

Kruttika: So, this includes the capacity addition that we mentioned and also the maintenance capex together it is INR3 crores?

Harshvardhan Sharda: Yes, the basic capacity addition that we are doing and the maintenance capex.

Kruttika: All right. And also one question related to the margins. So, do we see any impact on margins due to the EBO addition? Do we see that coming up in the next coming quarters?

Harshvardhan Sharda: So, we don't expect the margins to be significantly hit in the coming quarter by the EBO business currently, but we are keeping a keen eye on that, and we expect once we have around 15 stores, 20 stores beyond that, that is when we will see real numbers coming in to the PLFR.

Kruttika: Okay. All right. So, for margins what we see that whatever margins are in H1, it will be likely on the similar base or see growing it by a few basis points for the full year? Am I right?

Harshvardhan Sharda: Yes, absolutely.

Kruttika: Okay. And I missed one point on the infant contribution for H1. If you can please help me out with that again?

Harshvardhan Sharda: Around 12%.

Kruttika: Around 12% for H1?

Harshvardhan Sharda: Yes.

Kruttika: Okay. And also, now with respect to the summer and winter collection off-take cycle, how exactly it goes around? When is exactly if you can help me with that?

Harshvardhan Sharda: So, I'll explain this to you. Basically, summer collection we started manufacturing from now and it will start off-taking by the month of December, mid-December to summer continues to around May and then June onwards we start selling pre-winters and winters which continues until November. That is what an ideal cycle for us.

Kruttika: Okay. And what is that? Is there any significant difference between the summer and winter margins because I think that was what was mentioned for one of the reasons being margin lower in Q2. So, is there any significant difference on the margin?

Harshvardhan Sharda: Not significant, but there is a slight difference with summer margins looking better because of just the ease of producing summer products. The volume is much higher than what a winter product generates.

Kruttika: Okay. That was very helpful. Thank you so much, sir. That's it from my side.

Harshvardhan Sharda: Thank you, Kruttika.

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

Harshvardhan Sharda: Thank you, everyone. Thank you once again for your trust in us and for being a part of our journey. We look forward to sharing our successes with you in the next earnings call. In case you have any other queries, post this call or anything remains unanswered you may please connect to our IR team at Ernst & Young. Thank you so much.

Moderator: Thank you. On behalf of Iris Clothings, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.