



“Indo Count Industries Limited Q3 FY2022 Earnings Conference Call”

February 08, 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q3 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K R Lalpuria, Executive Director and CEO of Indo Count Industries Limited. Thank you and over to you Mr. Lalpuria!

K R Lalpuria: Thank you very much. Good afternoon and a very warm welcome to all of you to Indo Count Industries Q3 and nine months FY2022 earnings call. I hope you and your families are keeping safe and healthy. I have with me Mr. Muralidharan, our CFO and Strategic Growth Advisors, our Investor Relation Advisors. I am happy to connect with you all once again to discuss the Q3 and nine months FY2022 performance.

Let me first explain the industry and business scenario in Q3 and nine months FY2022. During the outbreak of COVID-19, the textile sector has seen a substantial resurgence and expansion in both the domestic and worldwide markets. The sector has made the best possible use of the opportunity as evident by increased activity and exports. Our experience with the first two waves of the pandemic has taught us how to be more resilient in the face of a third wave as well as how to be better prepared for such adversity.

Talking about our key market that is of US, despite supply chain problems, rising inflation, labor shortages, and Omicron variant, retailers delivered a positive holiday experience to pandemic affected consumers and their families. 2021 holiday retail sales grew 14.1% setting a new report. The e-commerce channel continues to experience elevated growth as consumers enjoy the ease of holiday browsing and buying in the comfort of their own homes. In December, the US signed into law legislation that bans imports from China and its region who were concerned about forced labor. As India constitutes nearly 20% of the global cotton market, the supply readjustment on account of this ban has led to more demand for Indian cotton products.



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Along with this China plus one theme, government support by the introduction of Aatmanirbhar Bharat, the PLI scheme, competitive labor, abundance of raw material, strong textile manufacturing infrastructure will further help India to be at the forefront beneficiary of this development.

Now on the company's performance since late November, December with the recurrence of third-wave across our key geographies, we are witnessing lower demand. The intensity in the current month continues and that is reflected in the demand projection shared by our customers. Therefore, we believe that the offtake is impacted.

During Q3 FY2022 in spite of the above challenges, the company achieved a sales volume of approximately 21.1 million meters. Going by the above challenges, the company revises its volume guidance to 75 million-plus meters. The current sales profile has seen a shift to a better product mix and we expect to achieve revenue guidance of approximately Rs.3000 Crores for FY2022.

While the short-term headwinds may persist, we continue to remain positive on the growth opportunities for the Indian home textile industry on a medium and long-term basis and our ability to increase utilization levels and increase thereby increasing our revenue and market share.

Now I would like to highlight on our business strategies to address those issues. We are strongly moving towards B2C and D2C segments through high-quality product offerings across a variety of price points, building visibility through digital campaigns, and leveraging omnichannel and e-commerce distribution. Our contribution from branded business has increased from 10% in FY2021 to 14% in the nine-months FY2022. The fashion utility and institutional contribution has increased from 15% in FY2021 to 19% in nine months FY2022.

E-commerce business contribution has increased from 4% in FY2021 to 6% in nine months FY2022 and Indian home textile business contribution increased from 1% in FY2021 to 2% now in nine months FY2022. We continue to remain laser-focused on increasing our share in the e-commerce and branded business both locally and globally. We are focusing on brand promotion in the US, UK, middle east, and India through our 10 active brands. We believe with innovation and technological capabilities along with licensed brands, patents, trademarks, it will further strengthen our brand offerings to our customers.



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Update on GHCL acquisition: I am happy to share that GHCL has received its shareholders' approval for the transfer of its home textile business by the way of slump sale on a going concern basis to Indo Count Industries Limited.

With this addition of almost 50%, new capacity Indo Count becomes the largest home textile bedding company globally, with an annual capacity of approximately 153 million meters. The new enhanced capacity will fuel growth for Indo Count to efficiently scale and serve a wider spectrum of customers and markets, thereby increasing its global market share.

Update on Brownfield CAPEX: The spinning modernization has been completed and has become operational. We have already spent Rs.109 Crores towards the project. Due to the third wave of COVID delivery of equipment is delayed and therefore there is a slight delay in the implementation of the process house and TOB facilities. These are expected to be operational by Q1 FY2023.

Credit rating upgrade: We are happy to announce that ICRA has upgraded the credit rating for the company's long-term bank facilities and reaffirmed the credit rating for the short-term bank facilities as follows.

For long-term bank facilities, ICRA AA- with stable outlook upgraded from ICRA A+ outlook positive.

For the short-term bank facilities, ICRA A1+ reaffirmed.

On the ESG initiatives, we continue to remain an ESG focused organization with well-defined principles, roadmap, and targets. Indo Count is now a member at United Nations global compact and the company is committed to integrating UNGC's principles into the organizational culture and ensuring building a greener sustainable future. We strive to benchmark among the best in the industry with respect to ESG performance in the home textile industry space. We have developed a business plan 2030 which has identified six pillars of sustainability and has also mapped our operational performance against nine SDG goals.

Now awards and accolades: during the quarter we have received two awards for our contribution towards sustainable environment.



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The first one, sustainable business of the year award for contribution towards various sustainability initiatives like emission reduction, water conservation, utility optimization, power consumption optimization, etc were reviewed by world sustainability, a non-profit organization; advocating for sustainable leadership and based on our performance we have received this award.

Excellence in water management 2021:for our contribution in respect to improving water use efficiency and integrated approach in wastewater management by CII;

Let me now share with you our operational and financial performance.

I am happy to announce that the nine months FY2022 performance is the best in the history of the company

Total income Rs.787 Crores in Q3 FY2022 versus Rs.792 Crores in Q3 FY2021, total income Rs.2292 Crores in nine months FY2022 versus Rs.1852 Crores in nine months FY2021, a growth of 24% on a Y-o-Y basis.

EBITDA of Rs.146 Crores in Q3 FY2022 versus Rs.143 Crores in Q3 FY2021 a growth of 2% Y-o-Y, EBITDA margin stood at 18.6% in Q3 FY2022 versus 18% in Q3 FY2021 an increase of 60-bps on a Y-o-Y basis.

For nine months EBITDA of Rs.442 Crores versus Rs.309 Crores in nine months FY2021 a growth of 43% on Y-o-Y basis. Nine-months FY2021 EBITDA margin stood at 19.3% in Q3 FY2022 versus 16.7% in nine months FY2021 an increase of 260-bps on a Y-o-Y basis.

PAT Rs.71 Crores in Q3 FY2022 versus Rs.93 Crores in Q3 FY2021.

Rs.273 Crores in nine month FY2022 versus Rs.191 Crores in nine months FY2021 a growth of 43% on a Y-o-Y basis.

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

Moderator:

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

The first question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.



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Jiten Doshi: Very good afternoon Mr. Lalpuria. I just want to understand one thing that your average realization has gone up dramatically. If I just look at your revised guidance in terms of the volume growth that has come down by nearly 15% to 20%, but you are more or less talking about achieving an Rs.3000 Crores topline, is this a structural change in terms of going up the value chain? and capacity that you have created about nearly 150 million meters plus can result in an Rs.6000 Crores to Rs.7000 Crores turnover going forward over the next three years?

K R Lalpuria: Yes, we have made strategies for three, four years for the fashion utility and institutional business in order to build our value addition and plus the margins. we have taken many steps in the company as far as raw material hedging, forex hedging and plus marginalizing the expenses; also getting the price rise with the customers and working upon the value-added product mix, so all these factors have helped us improve our margins.

This will be the strategy going forward as well and as we all know there are challenges on the logistic cost side, there are challenges on the inputs cost side, there are inflationary measures in India and also globally, these are impacting the overall business; so as a company we have taken necessary steps in order to work on this and we are consciously investing into the supply chain to see that we serve the customer much better on the value-added side, so our overall strategy into the next phase of growth is to see how we can create value for the company from the margin side and that is the reason the revenues and the topline is maintained and is going ahead in the right direction.

Jiten Doshi: I just want to ask you, in the last quarter with much lower-than-expected volume, have you lost any customers or have there been any big order cancellations?

K R Lalpuria: Not at all, we have seen a momentary dip which we have all observed due to this third wave both globally and in India, so the retailers and the brands were under pressure in order to get their sales up to the level which they expected, but from a medium to long-term perspective, the demand is still there because we are into need-based product and we have seen that the home has become the center stage where people are spending money on the home decor side, so we expect that the things should stabilize in the time to come and the volume should revive, definitely this dip which we all expected on the lines of the third wave and that is the reason we have revised our guideline to 75 million-plus in this year. We will be better off to provide you more guidance on our fourth concall, so we expect things to normalize going ahead in the future.



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- Jiten Doshi:** So, one last question Lalpuria ji that the capacity that you have taken from Gujarat Heavy Chemicals that includes the customer acquisition also right?
- K R Lalpuria:** Yes.
- Jiten Doshi:** Now, is there a very big duplication of customers there or you are sort of getting all new customers in that acquisition?
- K R Lalpuria:** Fortunately for us, there is no overlapping of customers, in our acquisition of GHCL; so there are new customers which we will be dealing with and one more additional advantage is that as Indo Count as a company has a complete product mix wherein you we have sheets and fashion utility and institutional. we are going to extend this product baskets to this new customer as well. We are seeing that going forward there will be good utilization of these capacities and a good resurgence of these customers both in the volume and the value game.
- Jiten Doshi:** So, if there is no overlap you are suggesting that actually, you can do much more business with these customers in the future?
- K R Lalpuria:** Absolutely.
- Jiten Doshi:** Okay, so when do you think you will conclude the acquisition and when will all of this come into play?
- K R Lalpuria:** We believe that it should get over by March 31 and by April 1, we should be having this under our control and in business, so it will start in FY2023.
- Jiten Doshi:** So what is the current turnover of Gujarat Heavy Chemicals topline of that business?
- Muralidharan :** For nine months they have reported revenue of about Rs.556 Crores.
- Jiten Doshi:** So let us say if I annualize that maybe it could be Rs.700 Crores, Rs.800 Crores, so that the entire business along with the EBITDA will get added to our turnover in the coming year?
- Muralidharan:** Yes and there is scope for higher capacity utilization also, so we expect the revenue levels to go up further.
- Moderator:** Thank you. The next question is from the line of Kapil Jagasia from Edelweiss Financial Services. Please go ahead.



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Kapil Jagasia:

Thank you. First of all congratulations on a decent set of numbers in a tough quarter, so my question again on the realizations. Now, in the start of the year probably last year it was a volume that quarter for us, but over the last two quarters in the realizations have taken center stage, so if we look at the annual realizations per meter it has reached around 375 per meter that is an increase of around 20% from last year. though the product mix would continue to improve, do you believe the realization per meter would continue to increase from here like towards in higher levels of 390 - 400 or these are the peak levels as per you?

K R Lalpuria:

So these are not the peak level, because if you look at our Q1 and Q2 realization they are much better than this Q3 realization. So the trend will continue because this is the conscious decision taken by us to trade into higher value-added products and high value-added product mix overall. as you see that we had consciously taken a decision to invest into inventory levels etc, so that our supply chain is not only maintained but we get the raw material advantage also.

So we have hedged our raw material appropriately which has also paid off. Overall, the forex contract rates also helped us maintain and sustain the sales realization. then of course the price increase which was reasonably well received by our customers; so that also helped us to improve our margins and realization., we have our team who has worked hard on all these different distribution base also like B2C, D2C improving our e-commerce license business, our branded business our offerings on the domestic front. So everything is moving in the right direction. so those strategies into various business aspects have provided us the advantage of not only maintaining the better realization but moving ahead; these strategies will definitely prove to be a plus point and will give us better realization in the years to come.

Kapil Jagasia:

In case of the GHCL acquisition I guess the realization per meter was slightly lower there right, so once we merged the businesses together obviously there will be room for improvement but would not that dilute /bring down the realization per meter going forward?

K R Lalpuria:

Definitely we will be providing more insights into how they are handling their customer base, what they are offering in terms of products, how they are taking the price increase' these will all be available to us post-April, so we will be better off in telling you how we will do this and as a home textile player like the largest player...

Kapil Jagasia:

What is your vision for this branded business in terms of revenue or margins going forward?



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K R Lalpuria: We had earlier given indication that we would like to see that the fashion utility and the institutional business and other values in business are almost like 30% of our revenues.

Moderator: The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity. Congratulations on a very good set of margins in these tough times of increasing input cost, so I just wanted to understand your outlook on how the price increases, how are the customers taking price increases in this input inflation kind of scenario going forward, how are your discussions happening on that front?

K R Lalpuria: We had earlier informed that we are engaging with the customers to give them the real insights into the global commodity which is cotton and which everybody is well versed off and the customers have reasons to believe that our cost has gone up which is apparent from all the high future rates as well as the spot rates worldwide, so definitely being a business partner to us they have reasonably accepted our price increase to a large extent and that is what we see fortunately for us improving our margins as well; so we are engaged with them on a continuous basis providing them not only the reasons to provide us the price increase, but offering them additional solution either through distribution means or through product mix or through better providing them insights into how they can improve their market share, so there is a joint responsibility between us and our customers to see how we do not lose out on the market share and maintain it,

Prerna Jhunjhunwala: That is very nice because you are creating a sticky business out there, Sir in terms of raw material hedging that you have spoken in the call earlier till when we assume that this will provide you support if cotton prices remain at the same level?

K R Lalpuria: That is up to two quarters, so we have hedged up to May, June of this year.

Prerna Jhunjhunwala: Q1 is also sorted which is very good news actually in the current circumstances.

K R Lalpuria: That has enabled us to provide you the revenue guideline also.

Prerna Jhunjhunwala: That is nice, so Sir also with respect to other geographies, could you please help us in understanding like US that the market share is very good which other territories will help grow and utilize your increased capacities faster?



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K R Lalpuria:

India is focusing on the FDA's with lot many developed countries where home textile is consumed to a large extent that is EU, UK, Canada, Australia, and many other countries. India is discussing free trade agreement and I think once we get this level playing field the gates will be wide open for us to grab the market share which is pretty low at the moment that is 4%, so all these countries where home textile consumption is pretty high and India is not doing well becomes an easy target for us to improve our scale there definitely and secondly India also is a huge market as our economy is moving from 2.9 trillion to 5 trillion dollars. we expect to make a good brand play in India as well and the consumers are expecting inspirational brands like boutique living and layer and we see a good traction there too and that is why we have informed that in a couple of years we will move from 1% to 3% of our revenue for the domestic market; then the e-commerce growth which we see across borders, this is helping the company to plan licensed brand business as well as the brand business much more effectively. So all these strategies into different distribution, our product mix and of course the health hygiene and wellness which I forgot to say is also helping the home textile industry overall to improve their business into the global textile market; and one more factor like the cotton from Xinjiang which has got banned like 20% of the global cotton has got banned, so that provides a very big opportunity for India to take on the market share which China has created for itself as we all know China today in the global textile trade is 35% of the one trillion dollar global textile trade and even 1% shift of this global textile trade will be almost 10 billion dollars. so it is a huge market share which will get impacted and India is well-positioned with its raw material, labor etc, good government policies on the Aatmanirbhar side plus the brands and retailers looking at derisking India business under China plus one strategy, so all these factors Prerna will help definitely both India and our company to venture into new territories and areas and to grab the market share.

Prerna Jhunjhunwala:

Thank you Sir and congratulations once again for a strong set of numbers. Thank you.

Moderator:

Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar:

My question is regarding the backward integration side and when we have significantly increased the capacity, so what percentage of backward integration you are comfortable considering the current scenario of yarn when the yarn price was subdued and we were having a better margin and high ROCE, now the scenario has changed and overall the yarn prices in the higher side, so how are we going to handle the situation and what kind of backward integration we will be comfortable?



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K R Lalpuria: First of all Sumant with this situation where cotton has increased from 45000 to nearly 75000 I presume you will appreciate that we have handled the situation very well.

If you look at our EBITDA numbers and PAT it shows that we have handled the situation very well because we are flexible. When you have a complete backward integration, you are stuck with your raw material and your operational cost and in today's world with the kind of product mix which you need to be flexible with, you need to adapt very quickly to the changes happening in the consumer behavior side and the market. So we have been following an asset-light model right from the beginning which we have created, where the value addition is more.

we are going with this strategy and that is helping us and in backward integration, we have modernized our spinning currently, so we have already 70000 spindleage; we are adding some more spindleage which we will report to you in our next Q4 call and we are also having some additional advantage on the weaving side where on the acquisition of GHCL's home textile unit, we will have 192 looms and an additional capacity of 45 million in the processing and relevant cut and sew capacities, so with our existing capacities which we have built-in today up to 108Mn we were able to deliver the business very effectively so I think going forward also this strategy would pay off, we are well-positioned globally and we would like to remain with this strategy and see that we are more focused on the front end rather than on the back end.

Sumant Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Bharat Chhoda from ICICI Securities. Please go ahead.

Bharat Chhoda: Congrats on a good set of numbers in a tough scenario sir. Regarding this volume thing, can we expect our volume recovery to happen from Q1 FY2023, and probably the volumes could be closer to 110 million meters expecting 90 from our own capacity and around 20 from the GHCL coming in, so would that be possible in FY2023?

K R Lalpuria: Bharat, we had seen two waves already and we have overcome that challenge earlier, so since last two years we are seeing the pandemic impact, so we have treaded carefully and we have provided one of the best results in spite of these challenges.



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I think the third wave also had a larger impact on the US market and other developed markets like EU, UK and Japan and MENA like middle east countries; I think this is a momentary dip. and as I mentioned both the midterm and the long-term are looking quite positive, because we will return back to normalcy and the markets will stabilize, The retailers have done pretty well on the holiday sales, which is proof that the scale of sales is improving on the retail side which we have also observed on the Indian economy as well where it is expected to grow by almost 9% to 11%

So this is a momentary dip, this should improve the volumes going forward and we are quite positive on to consuming our capacities which we have indicated earlier and the reasons for taking over GHCL home textile business was to provide necessary services and capacities to our growing customers because the big box retailers have also consolidated their position; the small retailers have vanished from the field and their market share has been grabbed by the big box retailers which is also a good thing to see that they will continue to do business because they are serving also essential category. So in times of lockdown etc, their shops are open but this Omicron third wave impacted everybody globally and so it is a momentary dip and once this is over, we hope that we will get back to normalization and we will report better numbers but as far as the volume guidance is concerned we will be better able to tell you in our Q4 call because we are watching this situation

Bharat Chhoda: Okay and Sir I had another question on the debt side like what is our gross debt after GHCL acquisition and also our working capital days are increased in FY2021, how is a working capital days situation so these two things from myself.

K R Lalpuria: As for Debt, as we had mentioned, we are consciously investing into the inventory which paid us also well because we hedged our raw material well in advance to overcome the raw material challenges and the input challenges. So conscious decision to secure our supply chain has paid well; so that is why the inventory levels went up which we had explained in the last two calls. As far as the total debt today is concerned, we are at a level of short-term debt of around Rs.800 Crores and long-term around Rs.100 Crores so Rs.900 Crores total debt and the additional debt which will be created once we pay off you will be reported in the Q4 numbers.

Bharat Chhoda: Okay Sir, thanks a lot.



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- Moderator:** Thank you. The next question is from the line of Abhijeet Anand from Emkay Global. Please go ahead.
- Abhijeet Anand:** On GHCL just wanted to know that nine months of the sales number that you gave was 550, what would be the utilization and margin levels?
- K R Lalpuria:** Utilization is today at around 50% and the EBITDA margin level is around 11%.
- Abhijeet Anand:** What could be the debt on their books?
- K R Lalpuria:** Debt we have not taken up, it is a slump sale on the asset side.
- Abhijeet Anand:** What could be the PAT margin for that business?
- K R Lalpuria:** PAT we do not know yet because the figures are not in the public domain and will be able to better guide you in Q4 call which I already mentioned.
- Abhijeet Anand:** Okay. Secondly, just wanted to understand that we have done very well on the margin front and maybe because of the prompt and judicial decision by the management on the RM side so what typically is our RM and forex hedging strategy if you can just spend a minute on that?
- K R Lalpuria:** Raw material hedging strategy is based upon our order book position, which is normally five to six months and since we are more into replenishment business rather than promotional business, there is a visibility of the projections on the order which are confirmed 60 days or 90 days in advance, so accordingly we hedge our raw material; and secondly because of the COVID pandemic also we had taken conscious decision to secure our supply chain because there was a volatile situation due to lockdowns, there were border blockages and a lot of like dyes and chemical companies were not getting raw material import so all these factors impacted the supply chain time and again; so we took conscious decision to invest into it to see that how we can secure the supply chain and still service the customer, so I think that also paid us very well, so that is the raw material hedging strategy.
- Secondly is about the forex strategy which is also approved by the board that we have almost 60% to 70% hedges from time to time on our order book position and looking at the overall business, but it is a part of our overall income, this we have to report the whatever gain on the other income side, but it is a part of our overall forex strategy.



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For some of the items, the containers were not available on time, so that also had impacted our business to a large extent on the logistic side; so with all this the raw material security in order to provide a committed quantity to our customers we had taken a sound raw material hedging policy.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Just one clarification. You mentioned that we are acquiring GHCL plant it is around Rs.575 Crores and there will not be any debt coming in from there?

K R Lalpuria: Yes, there is no transfer of debt.

Muralidharan: The Rs.576 Crores is, estimated consideration of which partially we will use our cash in the books and partially there will be a debt mainly on account of working capital.

Dixit Doshi: Okay and that would be around Rs.250 Crores to Rs.300 Crores approx.?

Muralidharan: The estimate is around Rs.200 Crores.

Dixit Doshi: Okay, now like my second question is regarding this exceptional item of e-script so how much more e-scripts we would be having at our balance sheet as of today and this Rs.20 Crores write off how much would be the book value of those scrips over which Rs.20 Crores has been written off?

Muralidharan: The book value is around Rs.180 Crores roughly and 15% is the market depreciation we are seeing in terms of value, but these are expected to come up. This is a momentary discount which is going on because people have not understood that the market has not taken to the use of the scrips, the government is trying to facilitate the usage of scrips; we expect this to come back to about 98%, 99% over a period of time, which is normally the case.

Dixit Doshi: Okay Sir. That is, it from my side. Thanks.

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

Aman Madrecha: Sir actually I wanted to ask as we have revised the guidance from earlier 90 million meters to 75 million meters and given that in this quarter we bear brunt of this Omicron effect



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going on, so in this quarter, the volumes that were affected which is Omicron, will there be accounted in the next quarters or they have been already accounted in this quarter and also where are we seeing the realizations going forward, can we expect the same the realizations that were in Q1 and Q2 going forward or are they going to normalize at 360 or 370?

K R Lalpuria: As far as the realization is concerned, we have already answered that the trend is positive for us because we have taken adequate steps on the product mix side and the various other distribution channels where we are promoting a B2C, D2C businesses, so margins tend to be on the positive side for us; going forward we will try to maintain and sustain and it seems to be that with proper hedging of raw material with proper price increase availability from the customer and the forex sustainable rate this will all help us in order to maintain to some extent the realization going forward.

Aman Madrecha: My second question was that because of this Omicron spread in this third quarter, so the effect on volumes have already been accounted or we will bear the brunt in this Q4 of the volumes because of that we have revised a guideline?

K R Lalpuria: We have already revised the guidelines to 75 million-plus that indicates whatever the volume is balance apart from the three quarters that we will perform.

Aman Madrecha: That is all from my side.

Moderator: Thank you. The next question is from the line of Kapil Jagasia from Edelweiss Financial Services. Please go ahead.

Kapil Jagasia: Thank you Sir for taking my question again actually my line was disconnected. Sir just wanted to know on your branded business, As you have provided in your presentation like how big can we become in terms of revenue here and how can be the margins going forward from this business?

K R Lalpuria: The branded business always helps you to derive better margins and that is the objective of promoting a brand because in the retail space we all know the positioning of the product goes like good, better, best, premium and brand.

So the brand is the highest margin driver for both the retailers and the vendors whom they supply this, & who supply these brands to the retailers. So the branded business we aspire to at least be at a more than 30% level approximately to our overall increase revenue going



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forward. That is our strategy which we had built earlier also and we are building that strategy to see that we achieve this goal going forward and plus you see the distribution base like e-commerce etc and the other omnichannel distribution is helping the license brand to get more visibility. In India also that is a very big market which is improving the brand outplay and we expect the Indian brand to improve dramatically going forward because as our economy is becoming pretty strong of US\$ 5 trillion economy. We will see more aspiring consumers, the consumer spending more on home textiles which is growing at almost like 11% CAGR so we expect a very big uptick on the domestic brand side; so both globally and locally we see brand expansion because of our strategies on the B2C, D2C through all the various distribution channels. We hope this traction will help us build more visibility for our brand outplay and thereby improving both our volumes and margins.

Kapil Jagasia: Okay Sir, if 30% we are aspiring from this segment like in fashion utility and institutional business also we are expecting around 30%, so that would take the entire contribution to 60% in the near future or probably in the medium term, so like this will eventually turn to a much, much higher margin probably upwards of 20% in the next five years, would my understanding be correct?

K R Lalpuria: No, you are adding up that 30% because the brand outplay is in fashion utility and institutional business as well so when we reported 14% it means some of it is going to be on the e-commerce side, some of it is going to be on the fashion utility side and some of it is going to be on the domestic front, so our overall brand is like 14%, so that is what we reported, and we aspire this to get increased to 30%; of course, there are some other non-branded items in fashion utility which you have to see from a different point of view.

Kapil Jagasia: Okay, great, that clarifies and Sir one bookkeeping question that you have done provision of around Rs.20 Crores towards a lower realization of its ROSCTL is this for 9M FY2022 or only for this quarter?

Muralidharan: This is for whatever scrips we are holding till September and for the quarter, we have already provided in the books for the quarter.

K R Lalpuria: From the revenue only.

Kapil Jagasia: Okay and would the quantum of this provision at the same level next quarter like we are already into February, so would there be another provision in the coming quarter?



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- Muralidharan:** I think whatever scrip we will have at that time, we will have to assess.
- Kapil Jagasia:** Thank you for answering all my questions. All the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.
- Kirti Dalvi:** Good afternoon Sir. A couple of questions from my side; how much cash do currently we have you said Rs.900 Crores is the total debt that is a gross debt I am assuming.
- Murlidharan:** Approximately we will be having around Rs.280 Crores of a cash in investments so to say.
- Kirti Dalvi:** Okay, so Rs.900 Crores gross debt and Rs.280 Crores is the cash available on the balance sheet right?
- Murlidharan:** Right.
- Kirti Dalvi:** Okay just one more question on the GHCL, when you said Rs.576 Crores payout will happen in the Q4 because of the acquisition part and we will be taking roughly around Rs.200 Crores kind of debt, so our total debt will go to around 1100 or am I missing something?
- Murlidharan:** Correct.
- Murlidharan:** Overall debt will go to 1100.
- K R Lalpuria:** Yes.
- Kirti Dalvi:** Okay, third question, what is the volume be GHCL has done you said 50% capacity utilization they are working for the year as a whole out of 45, so 22.5 million meters or 23 million meters is something we can take it for the year as a whole?
- K R Lalpuria:** Yes around 20 million.
- Kirti Dalvi:** Around 20 million, okay. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Marsal an Individual Investor. Please go ahead.



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- Marsal:** What I am saying in terms of GHCL, what are the currently product mix which are being managed by GHCL and how does this complement to our product, I mean to say that whether the products these are different than our products, if so kindly explain, number one?
- K R Lalpuria:** First I will answer for your first question, The customer base is different and today they are into sheet sets; they are not into fashion utility institutional business, so their customer base is not overlapping with our customers, but the product base which they are exporting is into the mid to high range and definitely there is a room for improvement which we will implement in our strategies going forward, so that answers your first question. The product mix which they are selling currently we tend to improve going forward so that there is a better margin and better realization.
- Marsal:** Second thing that what is our quarter-wise target to increase the capacity utilization?
- K R Lalpuria:** Certainly, we will be able to better answer you in our Q4 concall because once we take over we have already plans in our mind which we will communicate in our next concall clearly that how we plan to better utilize the capacity, how we plan to improve the product mix, how we plan to improve the margin, how we plan to utilize more capacities by bringing in more customers, how we plan to increase the product basket so all these questions we will be better off once we get hold of this in our next concall, we will be able to give you better guidance.
- Marsal:** What about our Brownfield expansion? can we just sustain that like what is month-wise or quarter-wise charge to complete this 18 million?
- K R Lalpuria:** As I had informed like the modernization of the spinning is over, there is some delay due to the machinery on the processing and the fashion bedding unit which we are implementing under this Brownfield capex and it has got delayed a little bit so hopefully by Q1 we should be able to provide you in our next concall about these capacities also and as informed earlier we have already made strategies and plans how to utilize these capacities as well as the new capacities which we have taken over.
- Marsal:** All the best Sir.



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

Abhijeet Anand: Thanks for the opportunity again. As you said we are hedged till May or June from the raw material side, going into May, June as you know cotton prices have obviously been on the rise, what can if we do not have a price hike then can we have a negative impact on the margins?

K R Lalpuria: we are in this business for the last 30 years into spinning and home in-home textile business for last 14 years. We have handled this global commodity very well and we have the desired experience to handle going forward also; and our performance into capacity expansion and business since 2010 in the last decade has been 300%; so whatever strategies which are laid down towards the sourcing of raw material or handling the price increase have paid dividends; so definitely going forward if the prices are a challenge, which it would be to some extent which we all know, then we will cross the bridge as it comes because you see we have handled this situation earlier; also because cotton being a global commodity, it is a very open situation for all the retailers and the brands to understand that there is an increase and this is a universal increase not only for us but for our peer group also and for other countries as well, so the entire competition when it moves into one direction, definitely it is a good case to be presented towards price increase and we are hopeful that since we are engaged with our customers in a better position, we will be able to address this as and when it comes, so we will be better off in our fourth concall to provide you more insights into what that situation would be.

Abhijeet Anand: Thanks for that, but hypothetically what could at price hike today if you look we needed to offset any current cotton price increase?

K R Lalpuria: We are into made to order business, so we are going by cost plus strategies and if we get a reasonable price increase on the raw material side and if the customer obliged we have done our job; hypothetically if the prices go up, we will present the case, we will engage with the customer, we will see how we offer the product mix also because if the consumers are unable to absorb finally, then there would be a tweak in the product also. so those are the challenges which we will definitely cross once we face them but be rest assured that as a company we have a very favorable raw material hedging policy, we are flexible in our approach and with a more consumer-centric approach, we should be able to address this.

Abhijeet Anand: Okay, thanks a lot.



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- Moderator:** Thank you. The next question is from the line of Komal Maheshwari from Anubhuti Advisor. Please go ahead.
- Komal Maheshwari:** Thank you for giving me the opportunity. I wanted to understand on the increase in the debt level which is about Rs.1600 Crores and it has been increased to Rs.2500 Crores may I know the reason for that?
- Muralidharan:** We have taken enabling powers from the Board and the shareholders for increasing the borrowings. This has nothing to do with the acquisition in particular; this is just to facilitate ourselves for future business.
- Komal Maheshwari:** It is just like that you need to have a little bit of limit for to have this much, example if you have Rs.2500 Crores debt limit and then you can borrow like Rs.1500 Crores and Rs.1600 Crores of that, it is like that?
- Muralidharan:** Under the company regulations, we are required to get certain approvals from the shareholders also, so that is the reason why we have taken that.
- Komal Maheshwari:** Okay, there is nothing but GHCL and any other?
- Muralidharan:** Nothing to do with that, this is enabling for future business only.
- K R Lalpuria:** We have cash on books also, so that also we will utilize from the payoff.
- Komal Maheshwari:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen this will be the last question for today which is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.
- Praveen Sahay:** Thank you for taking my question and my question is on the realization which has improved in a good amount, so that is one of the reasons you had given the product mix like of a fashion utility, institutional contribution has increased, so is it the end-user market there the traction of such product has increased itself or it is a phenomenon of a company who is more focused on selling these kinds of products to their customers, so how is the situation?
- K R Lalpuria:** The consumer has to absorb this cost increase in commodity whenever it happens globally, the consumer at the end of the day has to shelve out more money to buy that product, so definitely at the end-use only the price has revised.



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At the retail level also some costly retailers has absorbed just like how they have absorbed the logistic cost.

We feel Sooner or later the commodity pricing will find its own level like how the water finds its own level; so what will happen is the end consumer has to pay more and definitely the companies which are demanding whatever the price increase is realistic and it is sustained, if it goes down, then definitely there will be more competitiveness of course to increase further the market share as well.

Praveen Sahay: Right, but what I am asking, the realization improvement is also because of product mix high realization products, sales has increased in your overall revenue?

K R Lalpuria: Branded yes.

Praveen Sahay: The trend is what like the end-user in the industry or the retail level in the US, these kinds of a products selling on the higher side and that is why your sales in that particular segment has also increased or you are saying that India is gaining a market share in these kind of a products and that is why you are benefiting what is the scenario?

K R Lalpuria: Now the trend only is going up as we know that home has become the center stage of our life and lifestyle, work from home culture; so people are spending more money on the home décor and improving their home lifestyle, so particularly in home textiles we have seen this happening and that is the reason of two the product upgradation I would say has happened; to some extent of course there are price pressures and challenges on how the product mix in the mass market is, because the inflation is also there, but I think we are into need based product where people have understood that cotton being a sustainable fiber they should embrace it much more and that is why we see traction into more organic products and BCI cotton and more sustainable fiber related products getting a good traction; so I think the overall market is looking at being more aware on the health hygiene wellness side, it is spending more money on the product upgradation and that is the reason we see that the market going forward also will embrace a higher value product much more.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. K R Lalpuria for closing comments.

K R Lalpuria: Thanks. With the recent announcement on the acquisition, we remain confident to cater to the growing demand of our products and consequently increase market share. We would



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also continue to focus on increasing our penetration through B2C and D2C foray. With this I would like to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information kindly get in touch with me or SGA, our investor relations advisors. Thank you.

Moderator:

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