INDO COUNT

Complete Comfort

June 02, 2022

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 Earnings Conference Call held on May 30, 2022 for Q4 & FY 22 Results

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of Earnings Conference Call held on May 30, 2022 for Q4 & FY 22 Results.

The same is also available on Company's website i.e. www.indocount.com

You are requested to kindly take note of the same.

Thanking you,

Yours faithfully,

For **Indo Count Industries Limited**

Indo Count Industries Limited

Amruta Avasare
Company Secretary & Compliance Officer
Membership No.: ACS 18844

Encl.: A/a

"Indo Count Industries Limited
Q4 FY22 Earnings Conference Call"

May 30, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th May 2022 will prevail

MANAGEMENT: **MR. K.R. LALPURIA – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER - INDO COUNT INDUSTRIES LIMITED**
MR. K. MURALIDHARAN – CHIEF FINANCIAL OFFICER - INDO COUNT INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY22 Earnings Conference Call of Indo Count Industries Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not 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. Good afternoon and a very warm welcome to all of you to Indo Count Industries Q4 and FY22 earnings call. I hope you and your family are keeping safe and healthy. I have with me Mr. Muralidharan, our CFO, and Strategic Growth Advisors, our Investor Relation Advisors. We are happy to connect with you all once again to discuss the Q4 and FY22 performance.

I am pleased to inform that the Board of Directors have selected Price Waterhouse Chartered Accountants LLP as the company's statutory auditor in place of the retiring auditors.

Let me start with the industry and business scenario in Q4 and FY22. We ended FY22 on a good note as we constantly improved our performance despite a wide array of external challenges. Given the conditions, we focused on building our brand and executing efficiently resulting in constant double-digit revenue growth over the past two years and a significant market share and penetration gains throughout our portfolio we have clearly strengthened our product portfolio and customer connect. Despite ongoing cost pressures on a global level, we have chosen to increase our investments in brand building rather than sacrificing the long-term health of our brand equities to manage short-term challenges.

Now let me talk about the market scenario. The logistic challenges have amplified due to the COVID situation in China and the Russia Ukraine war. Not only the cost has gone up substantially the transit time to the market has increased by almost 2 to 3 weeks. The retail ecosystems mismatch supply and excessive inflation have hampered sales in the key regions due to this pressure we expect sales to be challenging in the current year as people are cautiously buying discretionary products.

Cotton prices have skyrocketed because of the drop in domestic output and the current geopolitical crisis. Further, the consumption of mills has increased leading to good demand in the international market post the Xinjiang cotton ban. The government decision to remove import duty on cotton since September is a positive step. Additionally, free trade agreements with Australia and UAE will further open up opportunities for Indian textile. Similar discussions with the UK, Canada, and EU are progressing very well. More importantly, in the discussions with UK textile is part of the early harvest discussion and therefore quick resolutions for Indian textiles can be expected.

Now on the company's performance: We have recorded 17% revenue growth in FY22 despite the above challenges and have achieved the volume guidance of 75 million meters. We have also achieved the margin on revenue guidance overall. This is despite the logistical and inflationary pressures faced throughout the year. We have been able to meet the margin guidance for FY22 and we have followed a disciplined hedge policy for raw material.

Additionally, we strategically move towards value-added products which is at a better margin and overall value propositions to our customers and business. Other contributors to our growth in FY22 include branded business, e-commerce, and our domestic business. A combination of this allowed us to weather the storm.

At Indo Count, we are market-ready with strong capabilities wherein we can capitalize and sweat our assets further. We are strongly moving towards B2C and D2C segments through high-quality product offerings across varied price points, building visibility through digital campaigns, and leveraging omnichannel and e-commerce distribution. Our contribution from branded business has increased from 10% in FY21 to 14% in FY22. Fashion, utility, and institutional contribution has increased from 15% in FY21 to 19% in FY22.

E-commerce business contribution increased from 4% in FY21 to 7% in FY22 and the Indian home textile business contribution increased from 1% in FY21 to 2% in FY22. We continue to remain laser-focused on increasing our share in the eCommerce and branded business both locally and globally.

Now update on our GHCL Home Textile business acquisition: I am happy to share that we have completed the acquisition of GHCL Home Textile business and with this acquisition, Indo Count becomes the largest home textile bed linen company globally with an annual capacity of approximately 153 million meters.

We are confident that this foray will successfully meet our long-term aspirations and create value for our global customers and all stakeholders. We see synergies with respect to supply chain, procurement, and enlarge customer base in developed countries with respect to this acquisition. With this acquisition, we have added new brands to our existing portfolio, and we believe with the innovation and technological capabilities of the acquired brand, patent and trademark will further strengthen our brand portfolio and offering. We are leveraging joint capabilities of design, innovation, and products to improve the go-to-market strategy and look forward to adding an untapped customer base that will help us gain more global market share.

Now let me update you on the Brownfield capex: we had announced the modernization of spinning capacity with compact spinning technology. This project is completed. The increase in home textile capacity from 90 million meters to 108 million meters, this capacity will be operational by Q3 FY23 as we have to add balancing utilities equipment. The capex will commensurate cut and sew facilities and the top of the bed capacity is under good progress and we expect the facilities to be operational in H2 FY23.

We have also announced a new capex to enhance our spinning capacity at our subsidiary, Pranavaditya Spinning Mills Limited. The proposed capex will be towards an additional spinning capacity of 68,000 spindles. We plan to spin value-added specialized yarn products. We would incur a total capex of Rs.270 Crores which will be funded through a mix of internal accruals of about Rs.95 Crores and debt of Rs.175 Crores. The project will be completed by Q4 FY23.

Now information on the ESG initiative: talking about sustainability, our team's commitment and efforts helped us release our first ESG report which is a big milestone in the direction of a sustainable world. We are constantly working to contribute to the global sustainable development goals through initiatives in energy, efficiency, waste management, water management, and maintaining the highest standard of government and conduct in this endeavor.

Indo Count is now a member of the United Nation's Global Compact and the company is committed to integrating UNGC's principal into the organizational culture and ensuring building a greener sustainable future.

During the quarter Indo Count has received two awards the best of Bharat Awards 2022, our Brand Boutique Living has been chosen by the Editorial Board of Exchange for Media and Impact Connect as a winner of e4m Pride of India, the Best of Bharat Awards 2022. This award was given to the brands that have demonstrated leadership, strategic accomplishment, creativity, and constant innovation in their product, processes, and marketing practices. Export award by the State of Maharashtra we received a Gold Trophy from the Government of Maharashtra towards our exports.

Now let me share with you our consolidated financial performance.

I am happy to announce that the FY22 performance is the best in the history of the company.

Total income was at Rs.690 Crores in Q4 FY22 versus Rs.705 Crores in Q4 FY21, total income Rs.2,982 Crores in FY22 versus Rs.2,557 Crores in FY21, a growth of 17% on a Y-o-Y basis.

EBITDA margin, this increased 411 BPS on Y-o-Y accordingly margin came at 19.1% in Q4 FY22 versus 15% in Q4 FY21. EBITDA grew by 25% on Y-o-Y basis accordingly EBITDA came in at Rs.132 Crores in Q4 FY22 versus Rs.106 Crores in Q4 FY21. For FY22 EBITDA margin of Rs.574 Crores versus Rs.415 Crores in FY21 a growth of 39% on a Y-o-Y basis. EBITDA margins stood at 19.3% in FY22 versus 16.2% in FY21 an increase of 305 BPS on a Y-o-Y basis.

PAT: We witnessed a growth of 48% on Y-o-Y basis and therefore achieved Rs.85 Crores PAT in Q4 FY22 versus Rs.58 Crores in Q4 FY21. For FY22 we recorded the highest ever profit at Rs.359 Crores versus Rs.249 Crores in FY21 a growth of 45% on a Y-o-Y basis. PAT margin stood at 12.4% in Q4 FY22 versus 8.2% in Q4 FY21. However, PAT margin in FY22 annually stood at 12% versus 9.7% in FY21 an increase of 228 BPS on a Y-o-Y basis.

Net debt: Net debt as on March 31, 2022, stood at Rs.906 Crores. This debt increased during the year as we had made a conscious decision to invest into the supply chain to ensure the security of supplies to our valued customer.

For FY22 our ROE stood at 22.6% while our ROCE at 21.4%.

The board of directors has recommended a final dividend of Rs.2 per equity share of the face value of Rs.2 each that is at 100% dividend subject to the approval of shareholders at ensuing annual general meeting.

Now considering the near-term challenges owing mainly with the end customers and the logistic issues there are many moving pieces and therefore we believe it will be more prudent to guide on sales volume in subsequent earnings call. Similarly, on margins, there are headwinds around raw material, energy, and logistic cost which refrain us from giving a guidance. Needless to say, it will be our endeavor to continue our work on healthy profitability on the back of hedged raw material and currency and our continuous effort to improve the overall product mix and our customer base.

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

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

Kapil Jagasia: First of all, a big congrats on a decent set of numbers. Sir my first question is one of your competitors had mentioned the demand shift from home textiles to apparel since the economy has now opened up there is a visible decrease in this work from the home scenario which was earlier the case. So, in this scenario how confident would be with this increased capacity of 153 million meters, and where we would land up in terms of capacity utilization for FY23 and thereby in FY24?

K.R Lalpuria: See the demand has deferred only in home textile, it has not shifted, so there is no structural shift as far as demand is concerned that we are observing. It will continue only. It is a matter of time that once the inventory get released and the geopolitical situation improves and in India once you see that the raw material prices stabilize as the new season start I think the home textile will certainly have a good demand going forward and over and above you see we as a company are also working upon very bullishly about the home textile front where India is positioned as a country very strongly and that is clearly visible from the past data how China is losing market share. Definitely, India is strategically well placed.

We as a company are strategically well placed and we hope that once this situation improves in the key regions definitely it will help us to grow our business there and sweat our assets and we have worked on long-term and medium-term both strategies to see and how we can grow our business through various marketing strategies.

Kapil Jagasia: Just one related question to this like in your presentation the home textiles market share especially for the cotton sheets has declined from 57% in the previous year to 50% now on a YTD basis so if we look at the breakup here Pakistan and also China has gained market share whereas this India’s market share has actually declined. So I guess even they would be facing the same supply chain issues, so any reason you know of the share being shifted to those geographies?

K.R Lalpuria: See first of all you see India is positioned into the mid to high market segment like they are positioned into the lower segment and whenever there is inflation, whenever there is a blockage, we being a need-based product, the mass merchants does well over the departmental store and specialty stores at retail. So definitely you see since they were serving these product categories in that market their share is maintained in absolute number, our absolute numbers have gone down,, therefore, their percentage seems to be higher.

Kapil Jagasia: Okay got this thank you so much and my next question is EBITDA margins for this full-year FY22 is at 19.3% so would this be the peak margins for us and would we be able to maintain this going forward or like we feel it is sliding down to the range of 17%, 18% which we used to achieve earlier so your inputs on this?

K.R Lalpuria: As I mentioned we refrain from giving margin guidance so far because there are so many moving pieces but yes, of course, we are quite bullish because we have acquired this home textile business of GHCL and we are looking at medium-term to long-term strategy. We are all looking for this year alone. So in three, four years we will sweat our assets and see to it that even we achieve only on newer millstones in businesses because all our strategies are towards value addition like B2C, D2C, eCommerce, and domestic brands, so there are a lot of opportunities and once India signs this FTA with UK, EU, and Canada and now it has already signed with Australia and UAE which we will put in place in the next three, four months, I think India will have a very good market share getting developed in these countries where we have been eluding our market share because of the level playing field so I think the opportunities are huge India is well-positioned as I mentioned. We have our strategies in place and that is performing well for us which is apparent from both the year financial numbers in FY21 we grew by 26% and this year we grew by 17% so if we have proper growth definitely we will be achieving newer milestones in both value and margins.

Kapil Jagasia: That is great Sir thank you for the elaborate answer. One last question from my side and it is a bookkeeping question the spinning division revenue and EBITDA for FY22 if you can provide?

K.R Lalpuria: We will provide you offline.

Kapil Jagasia: Sir with this expansion in this spinning facility like what would be the potential revenues from this division?

K.R Lalpuria: It will be for captive consumption and again I was going to add because currently what we are spinning we are utilizing most of it is in-house so there is a very negligible volume in that spinning business leftover and in this new spinning mill also will be utilizing 100% for captive consumption.

Kapil Jagasia: That is clear. Thank you for answering all my questions. Thank you, Sir.

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

Aman Madrecha: Thanks for the opportunity. Sir just can you elaborate on what is the current demand scenario in the US also like one of our competitors mentioned that despite the ban of Xinjiang cotton there are supplies of this Xinjiang cotton into the USA and the demand from China products is again back. So, can you just highlight upon the same?

K.R Lalpuria: See first of all you see you need to understand that this is a voluntary mute as far as demand from the large US market is concerned the reason being because we all know that there is a mismatch in demand and supply that the goods reaching out there it is almost 8 weeks now and the retailers are unable to plan their buying or sourcing properly and so the inventory levels have gone up and that is the reason they have not reordering very quickly and secondly because of the inflation in this areas due to the geopolitical situation and the price rise on the raw material side as well.

So once this gets released, I think the markets we being in of need-based products will normalize and the demand would start accelerating we have a holiday season in the coming fourth season so we are all expecting that the holiday seasons to be good and the retail as such in April in the US has increased by almost 4% so and the demand is like we feel that should get back. Now about the China situation as I explained earlier China Plus One strategy is clearly visible and now with this Xinjiang cotton ban it is only amplifying because they will not be able to utilize their cotton towards exporting to the developed nations like the US and UK and EU many of the retailers are projecting that they will not use cotton coming out from this area and one of the reasons for the cotton raw material prices to go up this season is also because a lot of demand is coming from China towards both raw cotton and cotton yarn.

So, I think things should stabilize and we clearly see that the buyers and the retailers are derisking their business to a second source which is happening only this is a momentary sale where we need to overcome all these different challenges which are accumulated at one time. So, once they will get released, I think we are back to normal.

Aman Madrecha: Thank you.

Moderator: Thank you. The next question is from the line of Pankaj Bobade an individual investor. Please go ahead.

Pankaj Bobade: Thanks for taking my question. Sir, I hope the new acquisition has been consolidated by now?

K.R Lalpuria: Yes. The acquisition is completed by now on April 2, 2022.

Pankaj Bobade: On April 2, 2022, so in the balance sheet which it has been released it would not be included right?

K. Muralidharan: No, it will not be included.

Pankaj Bobade: I had that discrepancy because, in the balance sheet at March 31, 2022, it shows Rs.332 Crores of noncurrent assets as against Rs.7 Crores on March 31, 2021. So, I was just thinking whether this was the goodwill of any sort or what sort of there is content?

K. Muralidharan: I will explain, that some advances have to be given for acquisition, so we had given some advances to GHCL that is reflecting there.