Indo Count Inds

Operator: Good day, everyone. This is the second day of the Bharat Connect conference. I welcome you all to the call of Indo Count Industries Ltd. Today, from the management side, we have Mr. Manish Bhatia, CFO. Before I hand over the call to management, I will lay out the flow of the event. First, we will start with brief introductory remarks from management, followed by a question-and-answer session. Over to you.

Manish Bhatia - CFO: Good afternoon, everyone. Dipali, do we know how many people have joined?

Operator: As of now, 50 participants are present.

Manish Bhatia - CFO: Okay. I cannot see the list of participants.

Operator: You can look at the panelist panel.

Manish Bhatia - CFO: Okay, sure. Good afternoon, everyone. Welcome to the Indo Count session this afternoon. I do not know how much you know about Indo Count. I will briefly explain what Indo Count does and what changes have taken place over the last 2 years, and then we can proceed directly to the question-and-answer session.

As you know, Indo Count was formed in 1988. In 1991, we started yarn manufacturing as an export-oriented unit. In 2006, we moved into forward integration. We started home textiles and bed-linen production and began exporting to the US and other markets. In 2022, we acquired a unit from GSTL in Bhilad, Vapi, and became the world's largest bed-linen producer.

Today, we have a capacity of 153 million square meters. We have capacity for spinning as well as weaving, and most of our products are exported to various countries. We export to more than 50 countries, but our major market is the US. Almost 70% of our exports are to the US. In the US, India as a country has a 60% market share in the cotton bedsheet market, and we have almost one-third of that, giving us an approximately 20% market share in the US cotton bedsheet market.

Two years ago, Indo Count started its journey called Indo Count 2.0, under which we took certain initiatives and created a new line of business called new businesses. The first new business was the brand business. We acquired a brand called Wamsutta, which is a very famous legacy brand in the US and was established in 1846. It is almost a 180-year-old brand today. We acquired that brand in April 2024 and launched it in the D2C segment in July 2024. We have seen good traction for this brand since its launch. It is still in the D2C segment, but we will be adding new channels.

Apart from that, we also took 3 more brands on a licensing basis: Fieldcrest, Waverly, and Gaiam. With this, we have an overall brand portfolio of 4 brands: 1 owned by us, Wamsutta, and 3 licensed brands.

The second part of the new business was utility bedding. We acquired 2 manufacturing companies in the US in September 2024 and October 2024, with a total capacity of 13 million pieces of pillows and 1.5 million quilts. We then expanded this business by setting up our own greenfield plant in North Carolina. That plant went on stream in January this year, in the middle of January. Now, we have a total capacity of 31 million pieces of pillows and 1.5 million quilts.

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Together, these 2 businesses are what we call Indo Count 2.0, and we have a target of achieving a top line of $275 million from these 2 businesses by CY28.

The breakup of these 2 businesses is approximately $100 million from the brand business and $175 million from utility bedding. Apart from that, we have also set a target of doubling our revenue from a baseline of March 25, FY25, of 4,000 crore to 8,000 crore by CY28. Of the 8,000 crore, approximately 2,500 crores will come from the new business, with $275 million converted into rupee terms amounting to approximately 2,500 crores. The core business will grow from the current level to approximately 5,500 crores.

We have a capacity of 153 million meters, as I mentioned. Last year, we produced 94 million meters, whereas the year before that we produced 106 million meters. We are targeting approximately 140-145 million meters, which would represent capacity utilization of almost 90-95%. These 2 businesses together will take us to a top line of 8,000 crore.

Our EBITDA guidance for CY28 is to reach 15% EBITDA on the core business and 15% EBITDA on the utility business. The brand business should provide a couple of hundred basis points more, or approximately 16-17% EBITDA. To achieve this growth and a top line of 8,000 crores, we have already invested, so no growth capex is required for the next 2-3 years.

This year, we announced capex of approximately 250 crores, of which 70-80 crores is maintenance capex. We have also announced 2 other capex projects. One is a ZLD, or zero-liquid-discharge, facility that we want to install at our Bhilad plant, which should cost approximately 85-90 crores. Similarly, approximately 80-85 crores will be spent on the expansion and modernization of our spinning unit in Gokak.

These are one-time investments. Over the next 2 years, we will basically have only maintenance capex. This 250 crore capex will also be spent over 12-18 months, so it will not be spent only in this particular financial year; it will also be spread into the next year. That is all from the business perspective. I open the floor for questions and answers.

Operator: Thank you. Any participant who would like to ask a question can raise their hand or put it in the chat box. We will wait for a minute while the question queue is assembled.

There are some questions in the chat box. The new businesses, utility bedding and the US brand business, reached approximately 400 crore, nearly 3 times last year, and were up 44% quarter-on-quarter, with 32% revenue against 13% a year ago. What was the exact base a year ago, and how much of the growth is due to consolidation of the acquired brand versus organic growth?

Manish Bhatia - CFO: I could not understand that. Can I see the chat box where these questions have been posted?

Operator: This question has come from a client who is not able to participate in the call. I will put the question in the chat box. Can you break down the question into a couple of parts so that I can answer them one by one?

Manish Bhatia - CFO: Okay. I am just going through it. We started this new-business journey only 2 years ago. When you talk about the total achieved, we reached 387 crores in the last quarter. Prior

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to that, in FY25-26, just give me a minute and I will provide the number for last year. It was, I think, approximately 792 crores. Yes, 792 crores was last year, and prior to that it was only 285 crores. FY23-24 was very minimal. This year, we are targeting growth from 792 crores to 1,500 crores.

Operator: We have the next question from Sai Shreyas. Please go ahead.

Saurabh – Systematix: Hello. Am I audible?

Manish Bhatia – CFO: Yes, you are audible.

Saurabh – Systematix: My question is about the core business. I think we have a 150 million capacity and currently we are somewhere around 100 million. Last quarter, our performance in the US business was exemplary; it was very good. However, the volume of the core business is approximately 25-26 million, and it is still flat on a year-on-year basis. To achieve the kind of targets we have, I think we also need a volume growth rate of approximately 9-10%. Could you elaborate on the volume growth rate we are expecting in FY27-28? Were the Q1 numbers subdued, and do you expect an improvement going forward? That is my first question.

Manish Bhatia – CFO: Sai, we produced approximately 94 million meters last year, FY25-26, but last year was affected by the US tariff. Prior to that, we produced approximately 106 million meters. This year, we have a target, or we have given guidance, of reaching between 105 million and 110 million meters. We are on the right path. Quarter-wise volume can go up and down, but on a full-year basis, we are on the right track and will achieve our guidance of 105-110 million meters.

Saurabh – Systematix: My second question is about the UK FTA. It has created a lot of discussion, but in terms of regulation and the diplomatic process, what are the key milestones through which the UK FTA will become a reality and we can see the benefits? Could you highlight the 2-3 things that need to happen and the tentative timeline?

Manish Bhatia – CFO: It takes some time. The UK FTA came into force on July 15. We have already started seeing traction, and traction has increased with both our existing customers and new customers. We already have a presence on the ground. We have an office in Manchester and already export to the UK. Over the next 2-3 quarters, we expect the benefits to start coming in.

We saw the same thing with the FTAs with Japan and Australia. After approximately 3-4 quarters, we started seeing the benefits.

Saurabh – Systematix: My last question is about the US business. This quarter, we reported very good numbers, and you just mentioned the 1,500 crore target. I want to ensure that, with respect to all the targets we have set for the next 2-3 years, there is no deviation in terms of margins or revenue. Are we on track, and are things looking good to achieve those targets?

Manish Bhatia – CFO: As of now, everything is on target.

Saurabh – Systematix: Great. I wish you all the best. This is Saurabh from Sai's team, Saurabh from Systematix. Thank you very much.

Manish Bhatia – CFO: Thank you.

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Operator: There is a question in the chat box about inorganic growth plans through acquisitions.

Manish Bhatia – CFO: I do not see this question in the chat box.

Operator: It is in the Q&A section.

Manish Bhatia – CFO: Just a minute. Let me see. Yes, I can see it. Are there any inorganic growth plans through acquisitions?

No, there is nothing on the board as of now.

Operator: We also have one more question from Dev Mehta in the Q&A section. The EU FTA and UK FTA are potential tailwinds for our sector. However, what is your view on the increasing sustainability and recycling trend, especially EPR norms? How are we positioned?

Manish Bhatia – CFO: Yes, definitely. The EU has stringent rules on sustainability and recycling. We are very well positioned. Last year, we ranked in the top 3 percentile for sustainability on the DJSI Index. We are already improving our numbers in this area, and within 2 years we have moved from 45 to 78 out of 100. We are on the right track in this area as well.

Operator: Operations at the Bhilad facility were temporarily affected by floods, with no financial impact recorded in Q1. What share of group capacity and revenue does Bhilad represent, what is the expected restart date, and what products does it produce?

Manish Bhatia – CFO: The Bhilad flood occurred on July 22 and 23, so naturally there was no impact on Q1. We have already informed you that partial production started around August 10–12. Last week, we also informed you that we had returned to normal production levels.

Bhilad represents approximately one-third of our capacity. Out of the total 153 million meters, Bhilad accounts for approximately 45 million meters. On an annual basis, we do not see any major impact on revenue or profitability. We are very well insured for inventory, plant and machinery, as well as loss of profit. We are working with our insurance brokers and surveyors to submit a formal claim.

Operator: Can another plant absorb some of the Bhilad volume?

Manish Bhatia – CFO: Yes, we have some additional processing capacity in Kolhapur, so some of the volume can be processed there.

Operator: On the utility bedding side, what products make up utility bedding, such as pillows, comforters, and mattresses?

Manish Bhatia – CFO: Basically, only pillows and quilts.

Operator: Who are the anchor customers there, and how large is a single customer program?

Manish Bhatia – CFO: We acquired 2 operating facilities, so they had their own customers to whom we have continued supplying. We have also added some more customers.

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Management: I will not be able to provide you with specific customer names.

Analyst1: What are the customer acquisition costs, return rate, and gross margin in the brand business? How much working capital does it require compared with white-label supply?

Management: Working capital is more or less similar to our core business. Regarding gross profit margin and other details, let the business grow to a substantial size, and we will start providing you with more details. As of now, I can tell you that the business is profitable and we are not incurring any losses in that business.

Analyst1: What manufacturing footprint supports this line—India, the US, or outsourcing—and what capex is needed to reach the FY27 or FY28 target?

Management: As I mentioned, we do not need any growth capex to reach our target of 8,000 crore. We have already invested in both the core business and the utility business. We do not need any growth capex; we will have some normal maintenance capex over the next 2-3 years.

Analyst1: There is one question in the chat box from Prashank. How is the yarn demand outlook? Are current yarn prices sustainable for the next 2-3 quarters, and how do you see the supply side of the industry?

Management: There is sufficient supply. Demand has increased, and I think this is mostly because of China and exports to China, which have pushed up rates. However, we are sufficiently covered. We plan our inventory with at least 2 quarters in mind. On the supply side, there is no major issue.

Analyst1: On the top-customer side, what is the revenue share of the top 5 customers, such as Walmart? How many contracts are annual versus multi-year, and how is pricing reset?

Management: Our top 10 customers account for approximately 70% of our revenue. Normally, we have purchase orders running over a longer period. The agreements are generally for a longer period, such as 1-2 years, but purchase orders are issued quarterly or half-yearly.

Analyst1: How do you see private-label sourcing consolidating, and what is the market share in US home textile imports?

Management: India as a country has a 60% market share in home textile bed-linen products. Out of that, we have approximately 20-22%.

Analyst1: How do you compare with Welspun Living, Trident, and Pakistani manufacturers in terms of cost, quality, service, and customer share? Are competitors entering utility bedding, and what protects your position?

Management: All the financial numbers of these competitors are available in the market, and you can analyze them. We can say that we have been in the market for many years, our quality is good, and that is why we are present in the market.

Analyst1: What is the breakdown of the cost of goods, such as cotton and yarn, chemicals and dyes, power and fuel, labor, and packaging? How have these costs moved year-on-year and quarter-on-quarter?

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Management: It would be better for you to go through our annual report, where proper details are available on all these costs. You can then analyze them.

Analyst1: On the realization side, can you provide realization per meter for Q1 FY27 or the last quarter of FY26 for the core business, and split the quarter-on-quarter change by product mix?

Management: Again, all that information is available in our investor presentation, and you can analyze it. We have provided the standalone business, which is basically the core business, and the consolidated business, which consists of the core business as well as utility. We have provided separate numbers for utility. You can calculate it, but I would still suggest that instead of looking at quarterly realization, you should look at it on an annual basis because there can be some quarter-to-quarter variations.

Operator: We have the next question from Ashish. Please go ahead.

Ashish: Hello.

Management: Yes.

Ashish: There has been some discussion about the tariff on Russia {? code ?} and India being part of that. If it comes, how would the industry and the company be positioned? It could come at any time, or it may not, but it remains a risk factor.

Management: Nobody knows whether it will come or not, or whether it will come at 100% or at a lower level. We will cross that bridge when we come to it. However, you can see that during the last year, when the tariff was at 25%, we still survived. We did not lose any customers or orders, and we have a very good, long-lasting relationship with our customers. Therefore, we do not see any major issue on that account.

Ashish: If the tariff were to be above 50%, or even 50%, how would one navigate that? There would be alternative sources for customers in the interim, correct?

Management: Yes, there would be alternative sources for a customer, but normally, for a short period, customers will not switch to somebody else.

Ashish: During the last hike, which I think was the highest tariff-hike period, what did we actually face? Did the customers absorb it themselves, or did we make the sacrifice?

Management: It was handled on a case-by-case basis, and there was some sharing. For the first 25%, there was no sharing because we were at 25% and other countries were at approximately 18-20%, so there was no major gap. However, when the additional Russian penalty of 25% was imposed, some sharing took place with customers on a case-by-case basis.

Ashish: Secondly, this government incentive scheme, I think, was valid until September. I am not aware whether your company is also availing of it. Could you explain where we stand on this? If there is a tariff situation along with this, I do not know how the industry will navigate it. What is the current status?

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Management: We believe that this export benefit will be extended. As of today, it is valid up to September 30. Discussions with the government are ongoing through our industry forum, and we believe it will be extended because the purpose of the export incentive is that taxes should not be exported. That is the overall logic behind it, so we are very confident that it will be extended.

Ashish: What was the government's logic? Would it be losing that revenue because it was refunding the taxes?

Management: Similarly, the government needs to promote exports, and elsewhere, state taxes and certain other taxes should not be exported. That is the only logic. The government has extended it in the past as well. This year, it has announced it up to September, but we believe it will be extended.

Ashish: What would the extension be? Earlier, it was a block of approximately 5 years, if I remember correctly.

Management: We expect it to be extended again for 5 years.

Ashish: Is there any rationale that the government sees in this? I understand that it creates employment and that exports need to be promoted, but what is the industry's rationale for asking for this extension?

Management: The industry's rationale is the same as I explained. This is not a direct incentive; it is an incentive for a specific purpose. Basically, whatever taxes the industry bears should not leave India. That is the overall logic behind it.

Ashish: The government seems to be comfortable with that logic for now?

Management: I believe so.

Ashish: That would be a great relief for many companies.

Management: Yes, definitely.

Ashish: It would have been an impact of approximately 3% for many of them.

Management: The overall export incentive is between 8% and 10%, depending on the product.

Ashish: What is the sentiment in the US and Europe regarding demand? Every few years there is an inventory issue, but demand seems to be good right now, given the tariff backdrop.

Management: Demand is good. We are now almost back to the previous level, and that is why we have set a target of returning to the March 25 levels, or approximately 105–110 million meters. We are seeing good overall sentiment, and the sentiment is very positive.

Ashish: Is it the same across the board, including garments, bed linen, and everything else?

Management: I cannot comment on garments, but in our industry we are seeing good traction. Overall, I think retail is also growing in the US.

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Ashish: There is no inventory saturation issue that could emerge?

Management: No, nothing like that. It is a huge market.

Ashish: What are you seeing on the FTA? I am interacting with you for the first time, so what kind of feel are you getting on the ground? It is a significant development for Indian exporters, including inquiries and related activity.

Management: As I mentioned earlier, it takes time for this to convert, but we have seen good interest and excitement. Interactions with customers, customer visits, and discussions have increased. Previously, if we met a customer 2 times a year, we are now meeting that customer 4 times a year. These activities have increased, and inquiries have also increased. We believe that all of this will convert into top-line growth with a lag of a couple of quarters.

Ashish: These would be a different set of customers, correct? These would be different chains.

Management: Some will be common customers that we have in the US, or certain customers to whom we are already supplying, and some new customers will also come.

Previously, when we supplied to the EU, our products were costlier by 10-12%. Now we are on a level playing field, so naturally customers will have an additional reason to do more business with us.

Ashish: Would it be fair to expect that, 2 years from now, this could add, say, 25% to the company's top line? Is the opportunity that large, or would it be below or above that?

Management: Growing from 105 million to 140 million meters over the next 2-3 years naturally means that this FTA will play a major role.

Ashish: So it is a reasonably attractive opportunity for the company.

Management: Yes, definitely.

Ashish: Thank you very much.

Management: Thank you.

Operator: We have a question in the chat box from Shreyas. Since FY24, realization per meter in our core business has not grown at all and is approximately 365 rupees. Can you help us understand the reason for this, and what is the outlook for improvement in realization?

Management: Last year was a difficult year, with the tariff, and we had to share some of the impact. That is why realization was under pressure. From this year onward, we should see some normalization in realization. However, it depends on the product, and product mix also plays a role. I would say that instead of focusing on product realization, you should focus more on profitability.

Operator: There is one more question. Is there any possibility of oversupply in the customer market or of price undercutting in the future?

Management: I do not see anything like that right now.

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Operator: Are Chinese suppliers returning to bed linen as tariffs on China ease, and what would that do to your order book?

Management: China is not very strong in the cotton bedsheet market. India, as a country, has approximately 60% market share in the US. Pakistan would have approximately 20-22%, and China has approximately 8%.

Operator: Is there any guidance for FY27 revenue and EBITDA margin?

Management: Yes, we have already given the guidance. The guidance for this year is a top line of 5,500 crore with consolidated EBITDA of 13%.

Operator: The company is shifting from being a single core bed-linen exporter to a broader, brand-led home textile platform. What specific financial metrics, revenue mix, and EBITDA margin would indicate that the pivot has succeeded by FY29 and FY30?

Management: Could you repeat that? I missed the second part of the question.

Operator: The Indo Count 2.0 strategy is a shift from being a single core bed-linen exporter to becoming a broader, brand-led home textile platform. What revenue mix and EBITDA margin would indicate that you have succeeded in FY29 and FY30?

Management: By CY28, we have set a target of doubling our revenue from the FY25 baseline of 4,000 crore to 8,000 crore. Of this, we are targeting $275 million from the new business, comprising brand and utility. In Indian rupees, this amounts to approximately 2,500 crores. Out of the 8,000 crores, 2,500 crores will come from the new business and 5,500 crores from the existing business.

The margin guideline for both utility and core is approximately 15% EBITDA by CY28, while the brand business is expected to generate approximately 16-17% EBITDA.

Operator: Do you have any plans to diversify geographically from the US and UK into other markets?

Management: The US remains a large market, and with the EU FTA opening up, that should be a good opportunity. As of today, we export to more than 50 countries worldwide. The US accounts for approximately 70% of our top line, while the rest of the world accounts for 30%. The rest of the world should grow. In fact, this year also, the rest of the world should grow by approximately 20% for us.

Operator: What is the peak working capital requirement?

Deepali - Arihant Capital: ...usually ahead of the US festive season, and how is it funded?

Management: Normally, we have approximately 100-120 working capital days, and we have sufficient working capital limits with Indian and foreign banks.

Deepali - Arihant Capital: What is the payment cycle with major US retailers? Is it 60, 90, or 120 days?

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Management: It depends on the customer, but as I mentioned, the overall working capital cycle is approximately 100–120 days. Some customers pay immediately or within 15–20 days, while some customers are on a 30–60–day cycle.

Deepali – Arihant Capital: As there are no further questions, we can close the call. On behalf of Arihant Capital, I would like to thank management for sparing the time and sharing insights about the company. If participants have any further questions, they can contact the Arihant Capital team. Do you have any closing comments?

Management: Nothing further. The only thing I would like to say is that you might have seen that, from 24 onwards, with {? Indo Count 2.0 ?}, we have diversified our risk. From a single product category, we now have multiple product categories. From a geographical perspective as well, our dependence on the US at 70% will change over the next couple of years.

Overall, the company is moving in the right direction and has a growth path. We do not need major capex right now, and cash flows are good. I think everything is going well from that point of view. Thank you, Deepali, from Arihant Capital.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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