

Date: 8th August, 2024

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

Dear Sir/Madam,

Sub: Transcript of Earnings Conference Call of the Company- Q1FY25

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

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings Conference Call held on 5th August, 2024, at 11:00 a.m. for discussing operational and financial performance in 1st quarter ended 30th June, 2024.

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

We request you to kindly take this on record.

Thanking you,

Yours Faithfully,
For Iris Clothings Limited

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Santosh Ladha
Managing Director
(DIN: 03585561)

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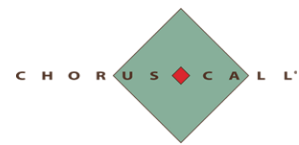
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“Iris Clothings Limited
Q1FY25 Earnings Conference Call”

August 05, 2024



MANAGEMENT: **MR. SANTOSH LADHA – MANAGING DIRECTOR**
MR. HARSHVARDHAN SHARDA – BUSINESS HEAD
MR. NIRAJ AGARWAL – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. ABHISHEK BHATT – E&Y INVESTOR RELATIONS**

Moderator:

Ladies and gentlemen, good day and welcome to the Iris Clothings Limited Q1FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Bhatt from EY Investor Relations. Thank you and over to you Mr. Abhishek.

Abhishek Bhatt:

Thank you and good morning, everyone. On behalf of Iris Clothings Limited, I welcome you all to the company's Q1FY25 Earnings Conference Call. The results and investor presentation are available in our filings with the exchange.

To discuss the business performance during the quarter and outlook, we have with us today, Mr. Santosh Ladha, Managing Director, Mr. Harshvardhan Sharda, Business Head and Mr. Neeraj Agarwal, Chief Financial Officer of Iris Clothings Limited. Before we proceed to the call, a disclaimer, please do note that anything said on this call during the course of the interaction and in our collaterals which reflects the outlook towards the future, or which should be interpreted as a certain forward-looking statement must be viewed in conjunction with the risks the company faces and may not be updated from time to time.

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

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

Harshvardhan Sharda:

Thank you, Abhishek. Good morning, everyone, and thank you for joining us on today's earnings call. During Q1FY25, we experienced an impressive 30% surge in revenue driven by robust demand. Nonetheless, we must recognize that our profit margins have been subdued, largely due to the overhead expenses incurred from rolling out the grand outlets towards the end of June 2024. While this tactical move has temporarily affected our profit margins, it paves the way for an enhanced market footprint and sustained financial prosperity. We remain optimistic about the recovery of our margins in the upcoming quarters.

Commenting on our operational and business review, we are pleased to report that our company's expansion efforts have been fruitful, as evidenced by the addition of five new distributors, bringing our total to 170 in the Q1FY25. Furthermore, we have broadened our product portfolio with the introduction of an exclusive line of winter sportswear for children. This product launch is a testament to our dedication to excellence and ingenuity, and it represents a significant milestone in our mission to become the premier children's wear brand in India.

The feedback from our distributors has been encouraging, and we are eager to deliver both comfort and fashion to the nation's youth through our comprehensive B2B and B2C channels. Turning to our retail division, we are concentrating on growing our B2C footprint via our

exclusive brand outlets, supported by the robust foundation of our manufacturing operations. I am pleased to report that during this quarter, we have inaugurated four new exclusive brand outlets, bringing our total to six.

This growth reflects our dedication to expanding our retail reach going forward. Looking ahead, we remain optimistic about sustaining our growth trajectory in the kid apparel manufacturing segment, with a strong demand for our products, with an expectation to maintain our overall EBITDA margins of around the 20% mark. Our expansion plans include diversifying our product offerings, such as venturing into children's innerwear and various accessories.

Moreover, we have set a goal to launch over 15 exclusive brand outlets in the financial year 2025. As we aim to solidify a stronger foothold in the market, we remain committed to enhancing the shopping experience for families across the country. With a clear strategic direction and a dedicated team, we are optimistic about reinforcing our nationwide market presence and delivering exceptional shopping experiences.

I will now hand over the call to Neeraj Agarwal, our Chief Financial Officer, who will walk us through the Q1FY25 financial numbers. Thank you and over to you, Neeraj.

Niraj Agarwal:

Good morning, everyone. Thank you, Harsh. Thank you all for joining us today. I am pleased to share that we have delivered robust performance in Q1FY25. Talking about the key financial highlights for Q1, our total revenue witnessed a remarkable increase of 30% year-on-year, reaching INR31.4 crores, up from INR24.1 crores in Q1FY24. While our EBITDA for the quarter was INR5.9 crores, slightly lower than INR6.3 crores in Q1FY24, EBITDA margin remained healthy and stood at 19%. Additionally, profit after tax for the quarter was INR2.4 crores, as against INR3 crores in Q1FY24. PAT margin stood at 8% compared to 13% in Q1 FY '24.

To summarize our financial performance, we remain focused in driving operational excellence and capitalize on growth opportunities. With this, we can now open the floor for questions. Thanks.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhishek Agarwal from Prithvi Finmart Private Limited. Please go ahead, sir.

Abhishek Agarwal:

Hello sir, can you please tell me what is the volume for this quarter?

Harshvardhan Sharda:

Hi. So, we have been manufacturing around 25,000 pieces per day with a capacity of say 33,000 pieces per day.

Abhishek Agarwal:

So, this is the optimum capacity what we can achieve, or we can go to 33,000 pieces?

Harshvardhan Sharda:

Absolutely. So, we can push this to say 28,000 to 30,000 pieces as we grow our capacity. That's the optimum.

- Abhishek Agarwal:** So, we have almost reached our maximum capacity. So, what type of growth plan for us?
- Harshvardhan Sharda:** So, the growth plan for next is we are planning a huge factory which will expand our manufacturing operations. So, we are planning a capex in this year and the next year which will expand our manufacturing numbers to almost 4 to 5 times of the current capacity.
- Abhishek Agarwal:** Okay. So, can you quantify the number capex requirement for this and what is the asset turn for maybe this capex?
- Harshvardhan Sharda:** So, we are still working out the detailing, but on an average what we are looking at is a ballpark figure of INR40-50 crores for this capex of manufacturing, which will take our turnover to say INR550 to INR600 crores over the next 4 to 5 years.
- Abhishek Agarwal:** So, considering 4x-to-5x extra from the existing capacity, correct?
- Harshvardhan Sharda:** Yes, absolutely.
- Abhishek Agarwal:** Okay. And what's the sustainable EBITDA margin we are targeting?
- Harshvardhan Sharda:** Sustainable EBITDA margin target is 20%.
- Abhishek Agarwal:** 20%, considering that we are quite a bit aggressive on expansion of EBO side of the business as well?
- Harshvardhan Sharda:** Yes, absolutely. So even with that kind of plans we are quite optimistic that we will be able to maintain the 20% EBITDA margin.
- Abhishek Agarwal:** Okay. Can you provide a revenue mix from domestic and export market?
- Harshvardhan Sharda:** So, our export is approximately 3%-4% was last year and we expect exports to grow to say 5% to 6% this year and all exports are under our own brand already.
- Abhishek Agarwal:** So whatever products we are manufacturing and supplying we are doing in our own brand.
- Harshvardhan Sharda:** Yes absolutely 100%.
- Abhishek Agarwal:** Okay. We are looking for opportunity in that segment for the third-party manufacturing, contract manufacturing.
- Harshvardhan Sharda:** So, we are not aggressively looking for opportunities in that segment, but with the expansion of manufacturing capacity, we will definitely explore to learn something from people around, but not aggressively exploring that opportunity as of now. We want to focus; remain focused on growing our brand and just a big brand to the next level which we have built over the last 20 years.
- Abhishek Agarwal:** Okay. And so, one last thing for our kind of business what is the asset turn generally happen in our business?
- Harshvardhan Sharda:** I will have to recheck and get back to you on that.

- Abhishek Agarwal:** Okay, sir. That's from my end.
- Harshvardhan Sharda:** Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Priyam Poddar from Value Equity. Please go ahead.
- Priyam Poddar:** Thanks for the opportunity. So, I have a couple of questions. We have a product listed on FirstCry and also, we have our own website, correct?
- Harshvardhan Sharda:** Correct.
- Priyam Poddar:** Can you share what would be the revenue mix between the online and offline sales? This is my first question?
- Harshvardhan Sharda:** So, basically if we look at the online and offline segment, online would be somewhere around 8% to 9% of our revenue and the balance would be offline.
- Priyam Poddar:** And out of that online what would be the share of FirstCry vis-à-vis our own website?
- Harshvardhan Sharda:** So FirstCry out of that online segment, FirstCry would be a majority share because they are our big partners that would be a majority share.
- Priyam Poddar:** Okay point taken. And if you can highlight our strategy for both, what is our strategy for the FirstCry and what would be the strategy for our own online medium?
- Harshvardhan Sharda:** So, if I had to talk about strategy, of course, FirstCry is a very good platform as a discovery mechanism. So, I think we will be going ahead aggressively with FirstCry as well because it's a very good discovery platform for our brand, for any consumer who is looking for kids wear and the idea is to get consumers discovered from that platform and eventually move them to our own platform so that they get the wider variety of the goods and a much better experience in terms of buying. So that is the idea of a blend of B2C on the FirstCry platform along with our own platform. That is the strategy that we are looking at.
- Priyam Poddar:** Correct. So, the number of SKUs definitely won't be as large. Our own platform would be having a larger SKUs as compared to FirstCry.
- Harshvardhan Sharda:** Absolutely.
- Priyam Poddar:** Okay. Thanks for the clarity. And if required, I'll be back in the queue for follow up.
- Moderator:** The next question is from the line of Ramesh Desai, an individual investor. Please go ahead.
- Ramesh Desai:** Thank you for the opportunity. Sir, I would like to ask one question on the revenue. So, can you put some more light on the revenue growth achieved during the quarter? So, are we seeing any consumer sentiment change towards the more demand and how much it is the contribution from EBOs, which we opened last year?

Harshvardhan Sharda: So if I talk about revenue, right, this quarter we improved our revenue by almost 30% year-on-year. And we have seen a decent improvement in consumer demand, which has happened in this summer. Because of a delayed summer, April was a lot of conversion in terms of revenue for summer this year. And we see the consumer demand being very, very strong in the coming quarters as well.

So this winter, we are expecting around 30% revenue growth as well. So that is an ideal number that we are looking at. And to answer your next question, since we have opened four stores in like June 2024 right now, like it's been less than almost just two months, so the contribution, of course, is much lower.

We will be able to talk about our contribution from EBOs going forward once we have a full year of EBOs. But then again, we have seen a very good response on the EBO front from whatever we have opened. And we see Q3 especially being festive in the region that we have opened in to be very, very strong. So, we expect a good response from the EBOs as well.

Ramesh Desai: Okay. Thank you. And my next question is on like, what is the current average selling price? And how much volume growth have we witnessed this quarter on Y-o-Y basis?

Harshvardhan Sharda: So current average selling price, if I should talk about, is our average MRP is around, say, INR380, which brings down our current average selling price to INR190 approximately. Because that is the price that we sell it to our distributors at, which is the majority of the revenue. So that would be an average selling price.

Ramesh Desai: Okay. And sir, the last question from my side. So, you guided in the last call that we are getting good response from retailers and in coming quarters, we would be going with the franchising model. So, who will control the operations, inventory management and the pricing? Would it be us or the franchisee? So, can you just explain that?

Harshvardhan Sharda: So, the franchisee model is something that we have been getting advice, but we have not opened up the model yet. We are still working on bringing an optimum model if and when needed. But to broadly answer your question, if we open up the franchise model, we will be the ones who will be controlling the inventory from our end, from the company's end. We will not give the inventory control to the franchisee, because that would dilute the experience of the consumer.

Ramesh Desai: Okay. Thank you for taking my question.

Moderator: Thank you very much. The next question is from the line of Kritika from Sharekhan by BNP Paribas. Please go ahead.

Kritika: Thank you. Sir, a couple of questions from my end. First is with respect to volume growth for the quarter, if we can quantify the 30% growth we have achieved, how much would be the volume and value growth?

Harshvardhan Sharda: So, for the 30% growth that we have achieved, almost 22% to 23% is volume growth. The 7% to 8% would be value growth for this year.

- Kritika:** 7% to 8% is volume growth if I'm not wrong. Is that right?
- Harshvardhan Sharda:** 7% to 8% of value growth. 22% is volume growth...
- Kritika:** 22% to 23% volume growth.
- Harshvardhan Sharda:** Right.
- Kritika:** Next is with respect to the margin. We have said that the sustainable EBITDA margin should be around 20%. So that would be for this year as well we are targeting this because we have seen a very sharp dip in Q1. So any ballpark for this year?
- Harshvardhan Sharda:** Yes. We are very confident that we will definitely maintain the 20% EBITDA margins this year.
- Kritika:** Okay. Sir, due to the EBOs, any other reasons that constituted to sharp decline in the gross margin? Or is it only because of the EBOs or any other reason as well?
- Harshvardhan Sharda:** So, not really. In terms of raw material consumption or any of that, there has been not a lot of movement in the raw material prices. So primarily it has been driven because of the overhead expenses to capture the future growth of the company.
- Kritika:** Okay. All right. And next, we have said that we will be doing around 40% to 50% of the capacity addition. So that would be for this year and next year both? Or how do we plan to phase out in the next 1 to 2 years?
- Harshvardhan Sharda:** So, we are still working out the details. But we are very aggressively looking to expand the capacity which will require investments from this year as well as next year as well.
- Kritika:** Okay. All right. So, this 40% to 50% is combined for both the years. Is that correct?
- Harshvardhan Sharda:** I am sorry. Can you come again please?
- Kritika:** Sir, 40% to 50% that we have discussed is for this year and next year combined. Is it so?
- Harshvardhan Sharda:** Yes. Absolutely. It is the total project.
- Kritika:** Okay. Total project. And with respect to the infant wear contribution, so it was around 10% to 12% in the last year. So how are we seeing it improving? Because we are focusing more on improving the infant wear category. So what is your outlook on that?
- Harshvardhan Sharda:** Absolutely. So this year also we are in line with it and we want to increase the infant wear share. I think this quarter the infant wear share will be around 15%. So, by the end of this year, we would expect infant wear to be around 15% of our total contribution. Total share.
- Kritika:** 18%, am I right? Did I get it right?
- Harshvardhan Sharda:** 15%.

- Kritika:** And this quarter was?
- Harshvardhan Sharda:** This quarter I am not really sure of the exact number, but it would be somewhere around 13%
- Kritika:** Okay. So improvement than last year FY'25.
- Harshvardhan Sharda:** Absolutely. 15% we will definitely achieve this year.
- Kritika:** Okay. And lastly on the working capital days. So for last year it was quite high, and we had mentioned that, you know, it was due to higher inventory. So any improvement in that and what would be it, you know, currently? Have we been able to sell off the inventory?
- Harshvardhan Sharda:** So, what will happen is basically if we look at our inventory, since our denominator, revenue is increasing with the same inventory levels. So that will bring down the number of inventory days significantly by the end of next quarter. Because if we achieve the 30%-35% revenue growth that we are expecting with the same levels of inventory, our overall inventory days will reduce, which will improve our working capital cycle by quite a bit. And we are very confident of achieving that.
- Kritika:** Alright. So that was from my side. So now I will come back to the queue.
- Moderator:** Thank you very much. The next question is from the line of Rohan Shah, an individual investor. Please go ahead.
- Rohan Shah:** Yes. So thanks for the opportunity. So, sir, last year we successfully launched Disney winter wear apparel, right? And this quarter we have introduced winter sportswear. So just wanted to understand how much of an increase in contribution to the revenue are you expecting from this winter wear collection this year?
- Harshvardhan Sharda:** So, this winter sportswear collection, we are launching the product this year. And we want to water test the segment, how the performance has been. And currently what we have received, we have received a tremendous response from our distributors for the winter sportswear. So, in terms of revenue contribution, it's a little early because we have not realized those revenues yet. Because we have just launched it in the distributor market. And over the next couple of months, we will see a response on those products. But it has been an excellent response from the distributors as of now.
- Rohan Shah:** Okay, sir. Sir, could you provide some insights into the new product winter sportswear? Like what unique offerings does it have compared to what's currently available in the market?
- Harshvardhan Sharda:** So that's the idea. If I look at winter sportswear for children, there's not a lot of availability in the market at all. If at all there is any. So, we feel that this is a very good niche that we are targeting. And we should get a good response on this product category.
- Rohan Shah:** Okay, sir. That's all from my side, sir. Thank you, sir.
- Moderator:** Thank you very much. The next question is from the line of Priyam Potdar from Value Equity. Please go ahead.

- Priyam Poddar:** Sir thanks for the opportunity once again. So this is with respect to the EBOs. So as mentioned in our Press Release that we aspire to take our EBOs to 15. So, can you share what are the geographies that these stores are being planned? And is there any size differential that you're looking out for? Or that would be of the same size?
- Harshvardhan Sharda:** So, what we are doing is basically we have picked the numbers from 500 square feet to 1000 square feet. Depending on location availability. So first, let me talk about the zones that we are targeting. As of now, the 15 stores that we are targeting is primarily around the eastern zone. So Calcutta, West Bengal, that is the zone that we are targeting. Apart from that, we are also looking at, say, opportunities in the western side, which is Maharashtra.
- So these are the two states that we are primarily targeting for these 15 stores now. And in terms of size differential, we are looking at 500 to 1000 square feet store sizes. Mostly skewed towards 700 plus square feet store sizes, which we want to test out. So depending on availability, of course, this is the range that we are looking at.
- Priyam Poddar:** Okay, thank you so much. And over a period of, say, 2 years or 3 years down the line, what is our aspirational EBOs count?
- Harshvardhan Sharda:** So if I talk about 3 years down the line, our aspirational EBO count would be around 200 to 250 stores at least in the next 3 years. We are aggressively looking to expand the retail side of the business.
- Priyam Poddar:** Okay, and this would be primarily in West Bengal and Maharashtra?
- Harshvardhan Sharda:** No, we will go across. We will, of course, follow a cluster-based model where we want to focus on a particular region, get the maximum out of that region, and then move on to the next region. So we will do it in a planned way with a cluster-based approach. But then again, we will not restrict ourselves to a couple of states.
- Priyam Poddar:** Correct. And if you can help me understand, how is the journey of a new store and what is the time? Maybe if you can tell the minimum time where we expect one store to break even?
- Harshvardhan Sharda:** So, if I have to talk about the journey of a new store, basically the idea is to, scout for a site, get the furniture of the site done, and get all the products in, and start marketing, especially in and around the store region. And, of course, at a brand level as well. So that is what the journey of a store initially looks like.
- And then, of course, the regular marketing activities happen. It's the regular inventory updates. Every week we are refilling inventory in our stores. So we are setting up a system with a new ERP that we are planning to replenish the stores every week. That is something that we are very particular about, getting the merchandise right at the stores.
- And in terms of break-even, we have just opened four stores. So I would want to wait out to understand how does this perform. But we are looking at a 1 year break-even in terms of numbers as of now from the stores. 1 years to 1.5 years break-even.

- Priyam Poddar:** Okay. And if I can squeeze one question with regards to the revenue per store. If you can tell me what would be the average revenue of the current existing EBOs that we would be having?
- Harshvardhan Sharda:** So average revenue number that we are doing is around INR1000 per square feet per month. So that is a number that we track. So, for example, a 500 square feet store would be doing around INR5 lakhs revenue monthly on an average.
- Priyam Poddar:** On an average basis.
- Harshvardhan Sharda:** Right.
- Priyam Poddar:** Okay. This is with regards to the EBOs. Now coming up to your distribution. As we understand that you are also adding more distributors to your bandwidth?
- Harshvardhan Sharda:** Absolutely.
- Priyam Poddar:** So if you can share, what would be the contribution in revenues of the top 20 distributors?
- Harshvardhan Sharda:** I am sorry. Can you come again with the last bit?
- Priyam Poddar:** Okay. So what would be your top 20 distributors contributing to your revenue?
- Harshvardhan Sharda:** So, the top 20 distributors would be contributing around 30% of our revenue. And it is mostly skewed to the western side of the country. States like Maharashtra, Gujarat, Rajasthan, Punjab.
- Priyam Poddar:** Okay. And given that you would be also looking to expand your distribution base. Can we see that in going ahead that this contribution would be increased by a few basis points?
- Harshvardhan Sharda:** Absolutely. We are very confident about it.
- Priyam Poddar:** Okay. Thank you, sir. Thanks for answering your questions with all the patience. And thank you so much, sir. I'll come back if I have any furthermore follow-ups. Thank you.
- Moderator:** Thank you very much. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Harshvardhan Sharda:** Thank you once again for your trust in us and for being a part of our journey. We look forward to sharing our success with you in the next earnings call. In case you have any other queries post this call or anything remains unanswered, you may please connect to our IR team at Ernst & Young. Thank you so much, everyone.
- Moderator:** On behalf of Iris Clothings, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.