

Date: 9th November, 2023

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

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 Tuesday, 7th November, 2023, at 10:00 a.m. for discussing operational and financial performance in 2nd quarter and half year ended 30th September, 2023.

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
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Santosh Ladha
Managing Director
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“Iris Clothings Limited
Q2 FY '24 Earnings Conference Call”
November 07, 2023



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

MODERATOR: **MS. SONIA KESWANI – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to Iris Clothings Limited's Q2 and H1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Sonia Keswani from Ernst & Young IR Practice. Thank you and over to you Ms. Keswani.

Sonia Keswani: Thank you Michelle and good morning everyone. On behalf of Iris Clothings Limited, I welcome all of you to the company's Q2 and H1 FY24 Earnings Conference Call. You would have already received the results and the investor presentation, which is also available in our filings with the exchange. To discuss the company's business performance during the quarter gone by and the outlook going forward, we have with us today, Mr. Santosh Ladha, the Managing Director; Mr. Harshvardhan Sharda, the Business Head, and Mr. Niraj Agarwal, the Chief Financial Officer of Iris Clothings.

Before we proceed with the call, a disclaimer. Please do note that anything that is 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 construed as a certain forward-looking statement, must be viewed in conjunction with the risks the company faces and may not be updated from time to time.

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

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

Harshvardhan Sharda: Thank you, Sonia. Good morning, everyone. I am Harshvardhan Sharda, the Business Head at Iris Clothings Limited. We appreciate your participation and your interest in our esteemed company.

Let me start by highlighting the key developments in the quarter that has gone by.

First, we are extremely proud to share that we have opened our first Exclusive Brand Outlet, known as EBO, in Calcutta towards the end of last quarter. After that, we followed that up with another EBO in Kolkata again last month. These EBOs have been set up basically to showcase our complete range of kids' wear and enhance our brand recall among the consumers. The performance of these stores has been promising since the first day and the ongoing festive season in Calcutta has further boosted the demand. We intend to keep leveraging this opportunity and we plan to come up with at least three more stores in and around Calcutta in the next few quarters.

Our pan-India distributor network continued to expand as we added seven new distributors. We strengthened our presence in states like Maharashtra and West Bengal and made good inroads in the northeastern states of Nagaland.

On the product side, we have been seeing immense traction in infant wear and expect this to contribute materially going forward. We estimate a revenue contribution of around 15%-20% from this vertical by FY24. We are seeing a similar traction starting to pan out in the Disney-designed apparels as well, along with a stronger, robust growth in the sportswear vertical too.

Now coming to our capital expenditures for this year, we have guided a capex of INR3 crores for FY24, out of which we have already employed around INR1.4 crores in the first half. This capex has primarily been towards machinery to expand capacity and the furniture for our two stores that we have opened as well.

Now for the benefit of the larger audience, I would like to give a short brief about our company, what we do and what is our background.

Incorporated in 2004, Iris Clothings Limited is a rapidly expanding company specializing in children's apparel with end-to-end in-house capabilities, given its strong focus on designing, manufacturing, branding, and selling garments. Our products are marketed under the renowned brand DOREME, which was successfully launched in 2005. When we had just started off, DOREME found its market through a distributor-retailer network, headquartered in Mumbai. However, since then, we have gained substantial popularity through positive word-of-mouth publicity. Our brand has also garnered widespread recognition in the retail chain due to its outstanding quality and the stylish collection. Along with that, our consistent ability to introduce new products featuring diverse designs, we cater to a broad range of clothing needs for infants, toddlers, junior boys and girls, ensuring that their indoor and outdoor requirements are met.

Now coming to the distribution side, our brand has had good presence in 25+ states across India, with Maharashtra, Rajasthan, Gujarat, and NCR being our key markets. Our network of 150+ distributors has been expanding consistently quarter-on-quarter. While most of our sales happen through this distribution network, that is our primary distribution model, we also have an online presence through our own direct-to-consumer platform, www.doreme.in, and we also sell through e-commerce channels like FirstCry.

Coming to the manufacturing side of things, we currently operate out of four key manufacturing sites based in Howrah in West Bengal. The entire process of garment manufacturing is completed in-house, right from design development, cutting, printing, stitching, finishing, quality checks and packaging. So basically, we are an end-to-end in-house manufacturing system. A manufacturing infrastructure that is strongly backward-integrated enables us to be cost-efficient coupled with effective quality control. As of now, our installed capacity stands at around 33,000 pieces per day, out of which we are currently utilizing around 25,000 pieces per day in the past quarter.

I will now hand over the call to our Chief Financial Officer, Niraj Agarwal, who will walk us through the Q2 FY24 financial numbers. Thank you and over to you, Niraj.

Niraj Agarwal:

Thank you, Harsh. In Q2 FY24, our total revenue stood at INR32.2 crores, up by 1.2% year-on-year basis. This growth was primarily driven by volumes. However, the impact on price limited our revenue growth. During the quarter, we passed on the benefit of low raw material prices to our customers, which ended up impacting the price.

EBITDA was at INR7.6 crores in Q2 FY24, up by 11.8% year-on-year basis. EBITDA margin was 23.5% against 21.3% in the same quarter last year and 26.3% in Q1 of FY24. The Q-on-Q drop in margin was due to increase in employee expenses on account of additional hiring at the back-end to support our new stores and to ramp up production.

Apart from this, profit after tax stood at INR3.7 crores in Q2 FY24, while PAT margin was 11.4% versus 11% in Q2 FY23 and 12.7% in Q1 FY24. Here again, the Quarter-on-Quarter drop was due to increase in finance cost. We have begun building inventory for summer collection wear a month prior than usual, as we foresee robust demand in Q4 FY24. In line with this, we expect finance costs to reduce by FY25 onwards.

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

Moderator:

Thank you very much, sir. we will now begin the question-and-answer session. We will take the first question from the line of Harmeet Desai from Pendulum Investments. Please go ahead.

Harmeet Desai:

Thank you for the opportunity. So, firstly on the guidance, I just wanted to check, what is the kind of revenue contribution that you are expecting from the stores in FY24 and FY25?

Harshvardhan Sharda:

For FY24 & FY25, we are looking at a revenue contribution of around 7% to 8% in the coming years from the stores.

Harmeet Desai:

And if you can share further updates on D2C business, so the website part. It was launched a few quarters ago. I wanted to understand on revenue and margin front of this business.

Harshvardhan Sharda:

So, the D2C platform revenue wise is not significantly contributing as of now. But the presence is expanding because right now, once we start opening stores the omni-channel advantage that we will get from our distribution, from the stores and our presence on the e-commerce platform, on the www.doreme.in platform. That will help with revenue. But as of now, it is not significantly contributing to the revenue or margins.

Harmeet Desai:

Okay. And sir, just one doubt which I had on this D2C part is that, would parents be willing to order the clothes online because the size is always a problem for kids?

Harshvardhan Sharda:

I understand that, but since we are a brand which has been in the market for quite a while now and we have been maintaining standard sizes across. So, with brand confidence growing, sizing is pretty much standard. So, I am pretty sure that going forward, this will become a good revenue channel for us and for the market as well. We are very positive on the D2C side.

Harmeet Desai:

Okay. And sir, recently we had seen one press release which was saying of upcoming EBOs in and around Kolkata. So, any plans to open the stores in other states?

- Harshvardhan Sharda:** So, as of this year, we are taking a cluster-based approach where we want to open five to seven stores in and around Kolkata and eventually open up in other states as well in the coming years.
- Harmeet Desai:** Okay.
- Harshvardhan Sharda:** So, definitely we have plans to open stores in different states, but not this year, we will plan this in the coming years in 2024, 2025.
- Harmeet Desai:** Sir, on the technical front or the manufacturing front, I wanted to understand that kids manufacturing being a labor-intensive business...
- Harshvardhan Sharda:** Yes.
- Harmeet Desai:** ...In many parts of our country, many companies are facing labor issues. So, where you are sitting right now, geographically, how do you feel you are placed and regarding the employee availability or labor availability, how is the scenario, sir?
- Harshvardhan Sharda:** So, geographically, the place where our units are located, thankfully we have not faced any labor troubles and the abundance of labor around our factory. So, we don't find it very difficult to get labor, even if there is some kind of friction. Since we have a lot of these women, it helps us boost our time of labor across the year. So, we have not faced a lot of troubles and we don't see that happening in the coming times.
- Harmeet Desai:** Wonderful. Going forward, sir, I just wanted to check once more on the export countries which you are currently exporting and also the order book status and the Y-o-Y order book status. Has it been increasing?
- Harshvardhan Sharda:** So, this year, by the end of this year, we will definitely see some kind of growth in our exports because there are a couple of countries stores which are in the pipeline in terms of the order book and we definitely see a 5% to 7% revenue contribution from exports from last year's 3% to 5%.
- Harmeet Desai:** And what are the countries which we are targeting specifically for exports?
- Harshvardhan Sharda:** So, countries we are doing Mozambique, we are doing Saudi Arabia, we are doing Dubai, UAE across. We did a small shipment to Portugal as well, Zambia too. So, primarily the Middle Eastern and African countries and definitely Nepal which is a good market for us.
- Harmeet Desai:** So, the idea is still to be dominant as a domestic player?
- Harshvardhan Sharda:** Yes, that is the primary focus still. We see robust demand in the domestic segment going forward.
- Harmeet Desai:** And lastly, as an investor, I would like to understand what are the plans for the company for coming three to five years? So, is there any capex which you are planning or how the company will pan out from today? What is your plan? I just wanted to check.
- Harshvardhan Sharda:** So, going forward, if you have followed our company for the past year, what we have done is we have built a lot of bases throughout the company to grow on. So, multiple pillars, we launched

sportswear, so we are expanding our product category, we are expanding distribution by launching our own store and so there are more pillars that we have created in the last four or five years.

Going forward, we want to build on those pillars and we look at a much stronger growth rate in the next three to four years. So, in the next three to four years, we are targeting a revenue of say INR300 crores, INR250 to INR300 crores. For which we will need a capex to expand our production but we are still working on what kind of capex will be needed and exact timing of that capex. So this is the overall broad plan.

- Harmeet Desai:** Understood. So, if I have further questions, I will join the queue.
- Harshvardhan Sharda:** Thank you so much.
- Harmeet Desai:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Chintan Shah from Systematix. Please go ahead.
- Chintan Shah:** Hi, good morning sir. I wanted to ask, can you give me the split between the revenue from online channel and offline, percentage wise?
- Harshvardhan Sharda:** So online, if we consider FirstCry and our own platform, in total, it contributes around 7% of our revenue.
- Chintan Shah:** 7%, okay. So, maximum is coming from the offline channel?
- Harshvardhan Sharda:** Yes.
- Chintan Shah:** So, this infant category, the thing is that the size of the kid increases rapidly after week-on-week. Are you getting any repeat orders? Do you have any data on that?
- Harshvardhan Sharda:** Yes. So, we are not really collecting data, but from whatever we hear from our distributors. The good thing is, once we have captured the infant at a very young age, they eventually become our repeat customers till they turn 16, 17. Because a lot of our marketing is because of our product, our product quality. So, if we capture them at a very young age, they usually tend to be our customer at least till they turn 16 or 17. So, that is a huge advantage that we have by creating the infant category as well.
- Chintan Shah:** And is there any effect of like, see you are doing 23% EBITDA margin this quarter and historically you have been in the range of 18% to 20%, right? Yes. So, in this quarter also the Diwali effect is in the next quarter. So, is there any possibility that next quarter you will be doing better sales, like in number term, if you can give, sir? If you can elaborate on this.
- Harshvardhan Sharda:** So, what we are seeing is since January to March quarter, the Q4 is where we will see the new summer season coming up, which will have a robust growth in terms of our margins and our revenue, both. So, we are seeing a big advantage in the Q4 coming up in terms of revenue.

- Chintan Shah:** Okay, so Q4 is the strongest quarter for you?
- Harshvardhan Sharda:** Yes. We have already started production, so we are building up inventory so that we can manage the demand at the Q4 level.
- Chintan Shah:** Okay. Yes, that's it from my end. Thanks a lot.
- Harshvardhan Sharda:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Samyak Sapare from Wealth Tree Capital. Please go ahead.
- Samyak Sapare:** Thanks for the opportunity, sir. Having some questions. So, this is with regards to our EBOs. Can you state what was the revenue that we garnered from this segment?
- Harshvardhan Sharda:** So, from the EBOs, we launched last month, right? So, September end was our first store and October first week was our second store. Both those stores, in total, we did around INR12 lakhs for almost 500 square feet stores, which is in line with expectations. We see this growing going ahead as well.
- Samyak Sapare:** Okay. And if you see this, infant category growing. So, how much revenue did we get from this vertical during this H1 and Q2 FY '24?
- Harshvardhan Sharda:** So, H1, Q2, in total, I think we have done around 15% from the vertical already. And we look forward that by the end of the year, we'll look at around 20%.
- Samyak Sapare:** Okay. A good scope of improvement from here on?
- Harshvardhan Sharda:** Yes. We are seeing strong demand in this segment.
- Samyak Sapare:** Okay. And again, continuing the same segment, what would be the typical price range for this segment line? And how would be our margins? Are they normal, like, what we get from other business? Or this would be a bit higher margin?
- Harshvardhan Sharda:** So, the margins for this is usually a little higher. And the price range ranges from around, say, INR160 to INR640.
- Samyak Sapare:** Okay. And if we can just give a range of margins that would be helpful? Any ballpark range?
- Harshvardhan Sharda:** Ballpark in terms of EBITDA numbers or...
- Samyak Sapare:** EBITDA margins for infant wear?
- Harshvardhan Sharda:** EBITDA margins for infant wear comes somewhere around 24% to 25%.
- Samyak Sapare:** Okay. And my last question, like, would our margins be similar for all the products? And if we can categorize, what would be our typical high margin products and low margin products?

- Harshvardhan Sharda:** So, margins usually from product-to-product. But our highest margin products are usually frocks. So, the infant frocks that we do for kids from zero to five years, that is usually a higher profit margin. And sets that we do, infant sets, pyjama sets for kids, that is usually a higher profit margin.
- Samyak Sapare:** Okay. So, thanks for the detailed answers and your patience. And I'll be joining the queue if I have any other further clarification.
- Harshvardhan Sharda:** Great. Thank you so much.
- Moderator:** Thank you. We'll take the next question from the line of Karan Sanwal from Niveshaay. Please go ahead.
- Karan Sanwal:** So, thank you for the opportunity. My question is like, what is the cost of setting up the EBO that we are planning? Like, we have set up two and then we'll be setting up total five in this year. So, what will be the total cost of this EBO?
- Harshvardhan Sharda:** I'm sorry, can you repeat? What will be the total cost of the EBO?
- Karan Sanwal:** Yes, cost of setting up the EBO? Like, there will be a capex that will be involved and then inventory...
- Harshvardhan Sharda:** On average, for every store, for an average size of the store that we are looking at, we look at somewhere around INR20 lakhs to INR25 lakhs per store. So, if you open up five stores, it comes to around INR1.25 crores.
- Karan Sanwal:** Okay. And how much inventory do we do we have?
- Harshvardhan Sharda:** So, usually we keep INR10 lakhs to INR15 lakhs of inventory per store.
- Karan Sanwal:** Okay. And also, we have highlighted in our PPT that our raw material prices have corrected. So, we have passed on the cost. So, would we be taking any other further price cuts in our...
- Harshvardhan Sharda:** No, I think right now we are not taking any price cuts. Instead, we are improving our average sales price. So, we are improving our prices.
- Karan Sanwal:** Okay. Also, can you share the volume and price growth data for the quarter? Separately, volume and price growth?
- Harshvardhan Sharda:** In terms of volume, as we said, we are doing somewhere around 25,000 pieces per day in terms of production as of now, which is what the volume has been. We do not have the exact volume numbers on sales as of now.
- Karan Sanwal:** No, I am just talking about the growth of this volume for the year-on-year, for the quarter?
- Harshvardhan Sharda:** That is around 10% in terms of volume growth.

- Karan Sanwal:** Okay. And also, if you would be comfortable sharing the average selling price across all categories, if you could, for the company, basically, on a consolidated basis, and how it has moved over a period of, let us say, one years to two years?
- Harshvardhan Sharda:** So, if you see, the average selling price of our company has moved from 350 to 400. And going forward, we look to push it to around 500 by the end of the year.
- Karan Sanwal:** Okay. So, this winter wear that we have in the third quarter, that would be a high price item, right?
- Harshvardhan Sharda:** Yes. Winter wear is usually a higher price item.
- Karan Sanwal:** Does it contribute to the margins? Does it have a higher margin as well, or is the price are higher?
- Harshvardhan Sharda:** We definitely have better margins, but not this year, because we have some carry forward inventory from last year, which we are selling at a discount, so it does not have better margins. But going forward, we see winter wear in the next year to be a much better margin contributor.
- Karan Sanwal:** Okay. And I missed the guidance that you have given. So, if you could share it again, the EBITDA margin that we are expecting two - three years down the line?
- Harshvardhan Sharda:** So, we see EBITDA margins improving from 21% to, say, it will stay in the 21% to 23% going forward. That is a stable margin number that we are looking at.
- Karan Sanwal:** In the revenue front, what revenue are we targeting in three years down the line?
- Harshvardhan Sharda:** Three years down the line, we are looking at INR250 crores to INR300 crores in terms of revenue.
- Karan Sanwal:** Okay. And one last question. You have given the revenue contribution from top five cities. So, I just wanted the clarification that these cities keep on changing. So, do we see any absolute reduction from any of the cities that we mentioned?
- Harshvardhan Sharda:** I am sorry, I did not get your question. Can you repeat that?
- Karan Sanwal:** So, the question is, you give the top five contributors city-wise for DOREME. And the name of the city keeps on changing quarter-on-quarter. And that is fair enough. But I just wanted the clarification that on a full year basis, have we seen any reduction in contribution from any cities? Or that the percentage...
- Harshvardhan Sharda:** Not really. We do not usually see any reduction on a city basis per se. It is just that one city outperforms, the other on some quarters depending on seasonal variations there.
- Karan Sanwal:** Okay. Thank you so much and all the very, very best.
- Harshvardhan Sharda:** Great. Thank you so much.



Iris Clothings Limited
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Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Harshvardhan Sharda: Thank you all for joining the call today. We hope we were successful in answering your queries. 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. Have a great day, everyone.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Iris Clothings Ltd., that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.