



“Iris Clothings Limited
Q4 FY2022 Earning Conference Call”

May 02, 2022



MANAGEMENT: **MR. SANTOSH LADHA – MANAGING DIRECTOR – IRIS CLOTHINGS LIMITED**
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Moderator: Ladies and gentlemen, good day and welcome to the Q4 & FY22 Earnings Conference call of Iris Clothings Limited. 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 Ms. Sonia Keswani from Ernst and Young IR practice. Thank you, and over to you Ms. Keswani.

Sonia Keswani: Thanks Neerav and good evening, everyone. On behalf of IRIS Clothings Limited, I welcome all of you to the Company’s Q4 & FY22 earnings conference call. I am Sonia Keswani from Ernst & Young IR Practice and we manage Investor Relations for Iris Clothings. You would have already received the Q4 & FY22 results and Investor Presentation which is also available in our filings with the NSE. To discuss the company's business performance during the year and outlook, we have with us today Mr. Santosh Ladha, Managing Director and Mr. Niraj Agarwal, Chief Financial Officer of IRIS Clothings Limited.

Before we proceed with 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 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 addresses mentioned in the company collaterals. With that, I would now like to hand over the call to Mr. Santosh Ladha. Over to you, Sir.

Santosh Ladha: Good evening everyone. I am Santosh Ladha, the Managing Director of Iris Clothings Limited. Thanks for taking the time out to participate in our maiden Earnings Call.

I am pleased to inform you that despite the challenges faced in the year gone by, our revenues in FY22 grew by 26.7% YoY, driven by growth in sale volumes & new product launches.

However, since this is going to be my first interaction with most of you, before we delve into discussing our performance and developments, I would like to take a moment to talk about our Company.

Iris Clothings Limited is a fast-growing kids’ apparel company that is engaged in designing, manufacturing, branding, and selling garments. Our products are sold under the brand – DOREME, which was launched within a year of starting the business in 2005. DOREME started its sales through distributor-retailer network based out of Mumbai. Since then, the brand has been steadily gaining popularity from word-of-mouth publicity. It has also gained acceptance in the retail stores given its high-quality and stylish range of collection and our ability to continuously

launch new products with varied designs. DOREME offers a wide range of apparels for infants, toddlers, and junior boys and girls that suit both their indoor and outdoor requirements. This includes – frocks, T-shirts, shorts, trouser, pyjamas, tops, shirts, among others.

Our brand has good presence in 26 states across India with Maharashtra, Rajasthan, Gujarat being our key markets. We have over 125 distributors for selling our garments and this network is expanding as we speak. While most of our sale happens through their distribution network, we do around 10% of sales directly through online e-commerce channels like FirstCry. Our company has attained good brand recall and growth through online channels, and we believe online could be an important channel for further growth.

We currently operate out of four key manufacturing sites based out of Howrah in West Bengal. Our entire process of garment manufacturing is completed in-house including designing, development, cutting, printing, stitching, finishing, quality checks, and packaging. Therefore, a manufacturing infrastructure that is strongly backward integrated enables us to have better control over quality and the cost efficiency. Capex done in FY22 led to an increase in our installed capacity from 27,000 pieces to 30,000 pieces manufactured per day. With this additional capacity, we aim to manufacture between 24,000 to 27,000 pieces per day by FY23 from the current level of 22,500 pieces.

Moving to our business updates in FY22, we launched our infant wear vertical in December last year. We will also be launching an accessories line in this vertical wherein mother bags will hit the market in May 2022 and the rest of the items by June 2022. The same month will also mark the launch of our sportswear vertical.

On the domestic front, we expanded our reach to another five Tier 2 & Tier 3 cities across Uttar Pradesh, Kerala, Punjab and Rajasthan. While on the export front, we sold our shipments to countries in Middle East and South Africa.

For FY23, our capex targets will be 3 Crores, which will increase our installed capacity by 10% by end of fiscal year. I am pleased to announce that on the technology front, we will be launching our B2B platform for wholesalers in May 2022, which will enable easy order booking and stock keeping. Our much-awaited B2C e-commerce platform will go live by June 2022. We believe our new product launches coupled with technology advancement will give us a significant head start and set us for a good growth as we enter the new financial year.

To talk about our strategy ahead, we will be growing our business in four fronts; one we will continue with our innovation-driven strategy and keep launching new products. We will be focusing on undergarments, sportswear, and innerwear segment where we can see strong growth prospects. Two, constantly add new markets in both domestic and international locations. While in India, we will keep increasing our footprints in Tier 2 and 3 cities; globally, we will be targeting newer regions in Middle East, Africa and West Asia. Moreover, to increase our visibility among trade partners, we will be participating in various industries exhibitions and

trade shows. Three, would be to increase our market share in existing markets by strengthening our network. And four, grow our online business along with our offline business.

I think the opportunity that we are tapping, being a homegrown company with a brand, in an era that is so brand conscious is huge. On top of that catering to the kid segments that does not have a lot of domestic brands makes that opportunity even huge.

I will now hand over the call to Niraj Agarwal our Chief Financial Officer who will walk us through the Q4 and full year FY2022 financial numbers. Thank you and over to you Niraj.

Niraj Agarwal:

Thank you Santosh ji. Good evening, everyone. In quarter four financial year 2022, our revenues stood at Rs. 32.8 Crores, which is up by 10.2% year-on-year. EBITDA was at Rs. 5.2 Crores down by 2.5% year on year and EBITDA margin was 15.9% against 18% in the same quarter last year. This was mainly due to increase in raw material prices and is expected to normalize in the first half of FY23 as the pass through happens via price hikes. Our profit after tax stood at Rs. 2.5 Crores up 18.6% year on year and PAT margin stood at 7.6% against 7% in Q4 FY21.

Our full year revenue crossed Rs. 100 Crores for the first time and grew by 26.7% year on year basis to Rs. 111.8 Crores. This was despite the second wave-induced lockdowns that ceased operation in our largest market in India in the first quarter and another hit in the third quarter wherein we refrained from selling our goods due to the expected GST rate hike from the council that impacted all the domestic suppliers. Our EBITDA stood at Rs. 21.6 Crores up by 25.8% year on year. EBITDA margins were at 19.3% up by 17 basis points. Net profit stood at Rs. 10.1 Crores, which is a whopping 55.3% growth year on year and PAT margin of 9.1%.

With this, I think 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 Jay Singh, an individual investor. Please go ahead.

Jay Singh:

Just a few questions. The first one you said you are doing about 10% sales through online right now, what is the road map for increasing the online business contribution. Do we have a target for like three to five years down the line?

Niraj Agarwal:

Yes, we have our target for online business. At present, we are doing this online business with FirstCry, but in June 2022 our website will hit B2C market and within three years we have a target of around Rs. 50 Crores for this market in revenues.

Jay Singh:

Okay, great. Thanks for answering that. One more followup question. Do we have any plans to optimize our overheads because if we are earning more from our online platform, I am assuming the margins will increase; Correct?

Niraj Agarwal:

Definitely, in the online market, the margins will increase.

- Jay Singh:** Okay Sir. Do you have any projections or is there like an internal system of margin that you are expecting over medium term?
- Niraj Agarwal:** First year we cannot say that margins will increase. First year the margin will go down if we say in terms of online, but by the coming years like this year we are targeting lower margins from online, but next year we can target around 20% to 30% margins from online.
- Jay Singh:** Okay got it. Thank you so much for answering the questions and congratulation on the results.
- Moderator:** Thank you. The next question is from the line of Rashmi Modi from Gantavyam. Please go ahead.
- Rashmi Modi:** Hi, congratulations Sir on a good set of numbers. I just had one question in mind. You have a target capex of around Rs 3 Crores for the coming year, which will increase the production capacity by 10% as you have mentioned in your presentation, so could you please elaborate on how we expect to gather the figure, is it through internal accruals or we are looking out to take on more debt for that.
- Santosh Ladha:** It is totally from the internal accruals.
- Rashmi Modi:** Okay great. Thank you so much Sir.
- Moderator:** Thank you. The next question is from Rushi Jain individual investor. Please go ahead.
- Rushi Jain:** Good evening, Sir. Can you please throw some light on who are our domestic competitors and how are we planing to compete with them?
- Santosh Ladha:** There is no domestic competitor at present. Given, the kind of products that we are manufacturing & selling, I don't think we have any company that can be called a competitor.
- Rushi Jain:** Okay, Good. Are we planning to set up any new manufacturing facilities in the near future?
- Santosh Ladha:** Not in a year, maybe after two to three years. Because from this facility we can have a revenue of Rs. 300 Crores, so we should wait for two years then only we can set up a new factory.
- Rushi Jain:** Thank you Sir. Thank you so much.
- Moderator:** The next question is from the line of Jay Singh an individual investor. Please go ahead.
- Jay Singh:** Another question. You had mentioned that we were planing to expand into tier 2 and tier 3 cities. Can you just give a rough colour on how our current market segmentation is, how much focus do we have, what are the existing?

- Jay Singh:** I was wondering what is our rationale for expansion. Why are we not focusing only on the big cities, why are we moving out?
- Santosh Ladha:** Our products are made for Tier 2 and Tier 3 cities, selling there is more economical.
- Jay Singh:** Also, as a follow up, I was wondering how much of the revenue are we expecting to come from the smaller cities?
- Santosh Ladha:** Today, around 90% is contributed by Tier 2 & 3 cities. Like we are operating out of Calcutta, but we do not have any numbers in Calcutta, only 1 to 2% contribution comes from Calcutta. But if we talk about Jaipur, Bhillwara, Kota and cities like that, we have 7 to 10% of market. So, I think money is flowing more from Tier 2 & 3 cities.
- Jay Singh:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Pooja Sharma, an individual investor. Please go ahead.
- Pooja Sharma:** Hi, thank you so much. Just wanted to understand little bit on the cost side, so raw material cost, I am guessing cotton is your raw materials, and its prices have been increasing. So, how much can we pass on and when? Will the pass through happen at the end or beginning of the quarter? Could you just throw some light on that?
- Santosh Ladha:** Pass through doesn't happen immediately but towards the end, on a seasonal basis. Also, we don't do any current purchases, so the current raw material that we are using was bought in the months of January and February.
- Pooja Sharma:** So, like there are season wise sales for winter season and the summer season. Is there a difference in margins also?
- Santosh Ladha:** Margins are high in winter season.
- Pooja Sharma:** You will be able to pass on the raw material cost, let us say in Q1 or Q2?
- Santosh Ladha:** Definitely. As I said, say the pass through for the raw materials purchased in January and February happens in March and April and then, we can easily pass it on to our customers.
- Pooja Sharma:** Then in that case, as we saw the margins got corrected this quarter, so I am assuming this was because of the raw material increase.
- Santosh Ladha:** Yes, raw material prices increased. The stock that piled up in March had high raw material costs, which led to a decrease in margins. But when we go to the market to sell these in Q1FY23, we will be able to recover these costs easily by passing on that price to the customers.



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- Pooja Sharma:** On a long-term stable state basis, can we assume to be about 18 to 20% range, is that a fair assumption?
- Santosh Ladha:** EBITDA will be 18 to 20%
- Pooja Sharma:** Got it. Alright. Thank you for taking my questions.
- Moderator:** As there are no further questions. I now hand the conference over to the management for closing comments.
- Santosh Ladha:** It gives me immense pride at what we are building and the scale we are growing it. I would like to thank you all for joining into the call today. I hope I was able to address your questions in the best way possible. If you may have any other queries post this call or anything remained unanswered, you may please contact to our IR team at EY. Thank you once again.
- Moderator:** Thank you very much. On behalf of Iris Clothings Limited that concludes this conference. Thank you for joining us you may now disconnect your lines.