"Indo Count Industries Limited Q3 FY15 Earnings Conference Call"

February 12, 2015

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY15 Earnings Conference Call of Indo Count Industries Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performances and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. Now, I hand the conference over to Mr. K.K. Lalpuria – Executive Director of Indo Count Industries Limited. Thank you. And over to you, sir.

K.K. Lalpuria: Myself K.K. Lalpuria from Indo Count. Good Afternoon and a very warm welcome to everyone. Along with me I have Mr. R. Sundaram – Chief Financial Officer and Company Secretary, and **SGA– Our** Investor Relations Advisor. I hope you have received our "Results" and "Presentation" by now, or those who have not you can view them on our website. Before we move on to the financial section we would like to update you all on the outlook of the Textile industry.

The Textile industry holds significant presence in Indian economy, it contributes around 14% in industrial production, 4% of the country's GDP and 12% of the country's merchandise exports. It has grown over the centuries to become the second largest textile manufacturer in the world after China. However China is losing its competitive edge in textiles due to various reasons. Whereas the Indian textile industry has shown sustained improvement over the period. The Indian textile industry looks very promising, by both strong domestic consumption as well as export demand. It has the potential to double its size over the next few years, if it continues to focus on value addition, improved efficiency, modernization, and integrated operations. With consumerism and disposable income on the rise retail sector has experienced the rapid growth. US and European Union continue to remain primary markets for Indian textiles. India's growth in exports can largely be attributed to the steady growth in demand from the US market being the largest market. Gradual improvement in US economy, employment rate increases, improvement in the housing markets are positives signs for strong demand growth in Home Textile segment.

The centers "Make in India" campaign, is expected to push India's exports of textiles and apparel into US market which is largest single market. India is at an added advantage due to various reason the comparative advantage of skilled man power and cost of production number one, abundant raw material such as cotton, wool, silk and jute and all other textile raw materials, favorable policies instituted by the government and the support, changing lifestyle demand for quality products. The TUF scheme for modernization and up gradation is also continued and we hear that there soon will be declaration providing amount for disbursement. Provide credit at reduce rates and capital subsidies like the interest subvention. We would also like to highlight that our competing countries are facing challenges like increased labor cost and power cost, focus on domestic market, and moving towards higher value addition industries in China a major competitor for India, also the currency appreciation in Indonesia, the labor unrest in Asian competitor Cambodia and the various safety concerns in Bangladesh. As well as the other social economic causes prove to be advantageous to India. To give you some idea on the market size based on the statistics from US department of commerce office of textile and apparel short form OTEXA. The total global imports in US for the year ending November 2014 is around $107 billion, out of this the Made Ups constitutes around 17%. Which amounts to almost $18 billion in values terms. China, India, Pakistan, Turkey, and Vietnam are amongst the top five players exporting Made Ups to the US which aggregates almost 85% of the total exports. The global imports of Made Ups into the US grew by 3% in the year ended November 2014. India exports around $2.9 billion worth of Made Ups to US and is showing a record growth of 9% against the competing countries which are growing at a lower rate except Turkey.

China grew by only 1%, Pakistan by 2%, and Vietnam by 6%. In 2014 for the first time since 2006 India's exports to the US are more than two times its imports and 70% of the total revenue in the Indo Count as you know is generated from US exports. Indo Count is at better position to capitalize on the growth opportunity being an integrated Home Textile company with state of art manufacturing facility. Strong customer relationship, wide range of products, ability to innovate new products, global presence, and being focused in the Bed Linen segment adds on to our opportunities. Further from our existing product that is sheets sets, we have expanded our product portfolio into institutional Linen, Utility bedding and fashion bedding. But again in the bedding area itself. So we are remaining focused in this area. For this we expanded our manufacturing capacity by over 50% from from 45 million meters to 68 million meters per annum. The capacity will be operational by the end of Q4 FY15. On the global front to penetrate deeper into the markets with the higher production and wider range which we currently have. We have set up subsidiary in UK and have also formed a joint venture in Australia to expand into Australia and other South on the Oceanic countries.

Now I would like to hand over the line to Mr. R. Sundaram to update you on the operational performance of the company for the first nine months of FY15 and the December quarter.

R. Sundaram: Thank you Mr. Lalpuria. Hello friends good afternoon this is Sundaram, the CFO and Company Secretary. I will just run through the bridge financial highlights for the quarter three and also accumulative to up to December.

The revenue for quarter three increase from 374 crores to 428 crores. A growth of around 14.5% as a company as a whole. However, the Home Textile grew from 270 crores to 376 crores a growth of 39%. Similarly for the nine months' period, the company revenue grew from 1088 crores to 1223 crores, growth of 12.4%. The Home Textile during the same period grew from 776 crores to 995 crores a growth of 28%. So from the quarter three and also cumulative quarter three although the growth of the company as a whole is lower because of discontinuation & tapering down of the electronic division and also because of the reduction in the spinning volumes butThe Home Textile is the trend setter and future growth parameters. The growth on account of Home Textile were witnessing improvement with demand of Home Textile products across the geographies especially US due to additional disposable income for the US family. The demand revival in US retail market has lead improvement in the realization and bettering our product mix. On the material cost the Home Textile material cost in Q3 was 195 crores as compared to 144 crores in the previous year and for cumulative three it is 527 crores as against 445 crores. As a percentage of revenue, the cost has come down from 57.4% to 53% during the nine month period thereby reducing 440 basis points in the reduction of material cost, this is one of the main reason for improvement of Home Textile margin.

Now, I will come back to EBITDA. The EBITDA of our Q3 grew by about 70% from 48 crores to about 82 crores. The EBITDA margin expanded by about 627 points on year on year basis from 12.9% to 19.2%. The improvement in EBITDA is mainly on account of reduction the material prices as I mentioned earlier and the balance 1.87% coming as a reduction as other expenses, operational efficiency, higher realization, better product mix are the key contributor for the improved EBITDA margin of 627 basis points. For the Home Textile division the EBITDA grew from 46 crores to 79 crores a growth of 71% and for nine months' period it grew from 132 crores to 214 crores a growth of 63%. So on a revenue terms when the growth is 39% in the Home Textile on EBITDA terms it is almost close to double, close to about 66.25% this is one of the main reasons for the increase EBITDA. On the PAT we have a PAT of 44 crores as against 37 crores a growth of 19.3%. The net profit margin is 10.2% as a compared to 9.8%.

Plus the profit after tax is slightly lower as the deferred tax expenses are 46 crores on a nine month period as compared to insignificance in the previous period. This is one time cost because entire losses get absorbed in the current year and this differed tax from next year onwards their won't be impact to the differed tax what will be the normal income tax on a cash outflow will be lower because of the MAT credit entailment.

So the cash profit for Q3 is about 55 crores and for nine months' period it is 135 crores a growth of 80%, 65.4% respectively. Let me come back to brief overview on the debt and interest. It has been explained very clearly in the investor presentation. The company as a total debt of 360 crores as of 31st December. – of which long term debt is 86 crores and the short term debt working capital is about 274 crores. The interest on long term debt was 11.37 crores as compared to 12.75 crores for the corresponding period.

On the working capital the interest was 5.48 crores as compared to 5.3 crores and for nine months' period it is 19.83 crores so 13.42 crores. There is one main impact which has come in the working capital interest two factors, one in the previous year we had a 3% subvention from the central government which has been withdrawn effective from 1st of April so that is one of the reasons why the interest cost has gone up number one, number two the trigger date from exit from CDR is on 1st April 2014 so we are - now covered in the market link rate of interest as against CDR rate of interest. So although there is a marginal increase of working capital from 268 crores to 274 crores but there is a major increase mainly because of these two factors.

The other cost is the bill discounting we have a supply bill discounting and export documentation bill discounting these are all not covered by the standard limits, these are all LC backed which the bankers discount it. The interest cost on this front is to 5.6 crores as against 3.44 crores in the previous year.

Let's come back to the last and very important point of CDR exit. Most of the operational issues connected with CDR exit has been completed. We have unfortunately have 11 bankers, each bankers has to grow through the approving authority for sanctioning the recompense and the release charges. We expect this process to be completed before end of February and CDR has assured should that they will make us exit on or before 15th of March so we should be a free company by end of this current financial year.

I have no more to add right now, now I would like to keep the floor open for any questions and answers on the business model of the company. Thank you so much.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: If you could shed some more light on the gross margin expansion side and how much of that is a sustainable component and second in the segmental is the electronics part of the business is where we are seeing completely draw down now?

R. Sundaram: As far as electronic business is completed reduce in quarter three there is a small turnover of about 52 crores in the first half cumulative for nine months is only 52 crores so gradually we want to concentrate our resources mainly on the textile division and most on the Home Textile division. And so the margin factor is concerned it is a material cost which we are very concerned about the material cost, there were strong sourcing mechanism, and with the current level of material cost to the realization we feel the gross margin is sustainable at least for next four to eight quarters.

Pritesh Chheda: Could you break this 600 basis points expansion that we saw on a Q-o-Q basis and let say on a Y-o-Y basis if you could break it down on expansion driven by material cost expansion driven by the Home Textile realization itself and expansion driven by product mix.

R. Sundaram: As far as the expansion, I had explained that the material cost reduction is about 4.4% and the balance 1.87% other expenditure that gives a split of 627 basis points. Now the revenue into it was very difficult to give a break up how much is for the new product and how much is the product mix. This is basically on the realization model. The material cost percentage has come down that is added to the gross margin.

Pritesh Chheda: Is it possible to then just give the benefit on account of lower cotton price in the gross margins?

R. Sundaram: Yes. Although our consumption is from cotton to yarn, yarn to grey cloth. So it has cyclical, it has an ongoing process so the when the cotton prices come on resultantly the yarn and the grey cloth prices also comes down drastically.

Pritesh Chheda: Lastly I just want to know on the 45 million meter capacity that we are currently what is the utilization of that capacity nine month current year and what was the utilization of that capacity nine months last year.

R. Sundaram: For nine months' period we had a capacity of about 33 million has been consumed as compared to 26 million in the last year and the current quarter including last quarter we should touch close to about 43 million for the whole year as compared to 37 million in the previous year.

Pritesh Chheda: I missed the number sir it is 33 million this year versus 26 million last year?

R. Sundaram: Nine months' period and for the whole year it will be 43 versus vis-à-vis 37.

Pritesh Chheda: 43 versus 37 which mean the incremental expansion and the benefits of it all of it should ideally flow next year?

R. Sundaram: Yes, because our expansion will be on stream by end of this quarter that will get consumed in the next two years' time. This is the existing capacity where we have grown within existing capacity.

Moderator: Thank you. Next question is from the line of Resham Jain from B&K Securities. Please go ahead.

Resham Jain: I have two questions one is on pricing like over the last three, four months we have seen cotton prices have fallen by almost 25-30% so on the realization front how we are seeing the impact because of that and just related to that is on the demand side we have seen the quarter three results of most of the retailers in US and the numbers are not very impressive, may be the Home Textile portion might be slightly different, what is your take on that?

K.K. Lalpuria: Basically on the cotton price we can also say that the prices have stabilized rather than low prices, so we are getting that benefit of stable material cost because it has gone exorbitantly up in 2012. Now secondly the retail segment if you look at the overall picture it will show a little bit of stable trend but the home segment particularly has grown by almost 3%. So this is the difference when you look at their overall retail and when you look at the home segment retail.

Resham Jain: But has the price, the realization has come down what you have realized probably in quarter four last year and what you have booked this year, what kind of difference you are seeing in the realization quarter four versus quarter four?

K.K. Lalpuria: Last time there is a pricing model by the big retailers, so unless there is a major changes they will not come back to us for reduction of the pricing. Having said that we have review every six months and we also conscious about the needs of the retailers. Depending up the business plan we may partly pass on the benefits to the customer keeping in mind that we should have a decent gross margins in the books and the decent EBITDA margin available as a division as a whole.

Resham Jain: Okay. Sir secondly just want to have a view on since you will be existing CDR by February-March, has company decided on the dividend pay outs?

R. Sundaram: Once we exit the CDR we will place it before the board the next board meeting will be around the month of May and if we exit CDR before March a conscious decision will be taken by management on the dividend policy for the company. In the past we have been dividend paying company, only by last 7-8 years there was not because of CDR impact we could not pay dividend. We understand the expectation but it all let to the decision of the board.

Moderator: Thank you. Next question is from the line of Arjun Singhal from Reliance Mutual Fund. Please go ahead.

Arjun Singhal: Sir first question was that some of your competitors in the Bed Linen space are increasing their capacity just like you, so when your industry capacity is going up do you see any potential impact on your profitability and return ratios going forward?

K.K. Lalpuria: No. You see the market is also growing like as I mentioned earlier the home segment is growing by almost 3% and particularly the bedding segment also and secondly you see there is big market opportunity if we sign an FTA with Europe because currently Europe there is a recession and the market is down but we all hope that it would improve so there would be a big demand out there. And then you see that both the domestic and the exports are improving in India as well and people are growing along with the customers. Our strategy is always to grow with our customers and debottleneck our capacity based on the business which we service so we do not go into any linear growth just for the sake of increasing the capacity. So we grow along with the customer, secondly we have expanded our product mix as well. So we need fabric for those kind of products like fashion bedding and institutional bedding as well as utility bedding. So our capacity expansion has been focused on to servicing the customer and growing with the customer.

Arjun Singhal: But like I said your whole industry is increasing capacity so what you are saying is that the market is growing fast enough to absorb this increase supply is that what you are saying?

K.K. Lalpuria: The market would absorb and also as you see the China has peaked out and he is slowly getting out of this business as well, the cotton front. So that is an opportunity which we all have.

Arjun Singhal: Okay. And sir secondly quarter on quarter your gross margins are much higher I just wanted to ask because cotton prices if I am not mistaken have not fallen much compared to quarter two so, wouldn't you have to pass on this benefit to your clients? Because you said that this gross margin is sustainable over the next 4 to 8 quarters but your clients would be possibly ask for benefit in the next quarter itself right?

R. Sundaram: Home textile is not a commodity product it is a value creation production, a drop ahead they will not going to come for increase of decrease in prices. We are into replenished market the values and volumes are all decided well in advance unless there is a substantial changes then nobody as of today ask for the reduction but anyway when the next cycle of discussion takes place we will keep the reduction in mind and depending on whatever to be passed on we pass on but keeping in mind our required margin in the company.

Arjun Singhal: Okay sir, thank you very much.

Moderator: Thank you. Next question is from the line of Vaibhav B. from Motilal Oswal. Please go ahead.

Vaibhav B.: I just wanted to ask you which cotton do you all use as a raw material like the form which form of cotton?

K.K. Lalpuria: Sorry you come again.

Vaibhav B.: I just wanted to know which form of cotton is being used at the raw material for your manufacturing of the bed linens?

K.K. Lalpuria: Basically DCH 32 and the other long staple cotton particularly some of it are Egyptian, Supima – on the imported side and on the Indian side as I mentioned DCH 32 and then there is MECH as well sometimes 30 and 40 counts and some of the Southern cotton.

Vaibhav B.: So all these cotton prices, all these types of cotton there prices are pretty fluctuating because I read in one of the annual reports somewhere that your cotton is not that type of cotton whose prices are very fluctuating it is like stable.

K.K. Lalpuria: There are reasons for this non-fluctuation sometimes depending up on the cultivation of that crop particular cotton but overall if you look at it all in the Egyptians and the -Supima prices as well as the Indian long stable prices they have come down lot substantial what we find in J34 and Shankar 4 and Shankar 6, they are probably Indian courser variety but since they have come down from their peak levels earlier it is fairly manageable.

Vaibhav B.: Okay, and just wanted to ask you what about the CAPEX for the next quarter like you all have I think spent 35 crores in this quarter right?

R. Sundaram: No, we had a project of 70 crores project is mainly for expanding capacity of 45 to 68 million it is all the investment on the project is completed and trial production is going on this month and we should be ready with the commercial production launch by end of next month. This 50% capacity is sufficient for these two years times. As far as future expansion we will take some time, we will work around that. At an appropriate because now it will be a green field project you will have to work about 1-1.5 years ahead of the time. Whenever we board decides to go for expansion we will keep everybody informed.

Vaibhav B.: Okay and one more thing out of this 70 crores for the capital expansion so everything has been expensed right or capitalized.

R. Sundaram: Up to December about 45 has been completed. 48 to 45 so 48 is already been capitalized as far as the current quarter will be done we are through with the capacity to end of this quarter.

Vaibhav B.: And how is the funding being done?

R. Sundaram: 70 crores funded by 49 crores by term loan, 5 crores is with the promoters capital and 16 crores internal accrual and 14 crores we still have not drawn it because there is a CDR condition that unless we exit from CDR the amount cannot be disbursed. So that draw will come end of this quarter or early next quarter.

Vaibhav B.: So that is what I wanted to understand if you all have not drawn the 49 crores so where has that money come from?

R. Sundaram: Internal accrual.

Vaibhav B.: Okay, so basically around 55 crores has come from internal accrual.

R. Sundaram: Yes.

Vaibhav B.: So are you all going to draw down that debt?

R. Sundaram: we will be drawing because that is cheaper cost of funding so that will be effective net cost

Vaibhav B.: So what is the rate of interest that you all are getting?

R. Sundaram: No. Normally I would have drawn it earlier because CDR has put this condition that earlier we will exist before September it is couple of months only. Hopefully by end of next month if everything is clear we can draw anytime by end of this March or beginning of April.

Vaibhav B.: And would be the rate of interest?

R. Sundaram: It is 12.5% is rate of interest and on that we get subvention about 11%. Net cost of the country is about 1.5%. The five is under central top and six is under the state.

Vaibhav B.: In the sense I did not get you.

K.K. Lalpuria: This is a project covered under the TUFF scheme. So - TUF scheme central government give 5% interest rebate, since the plant is in Maharashtra. Maharashtra textile policy also gives the interest benefit of 5 to 6%. So effectively on the bank I will have to pay 12.5%, I will get refund from the both the governments probably keep a gap of 3 to 6 months; time to get the money back.

Vaibhav B.: And in the next probably say to 2-3 quarters what is the CAPEX planning going to be or is it enough for the two years at least?

R. Sundaram: I said it was existing capacit es for next two years.

Vaibhav B.: Okay, so no major expansion except from maintenance CAPEX right?

R. Sundaram: If you have to start a commercial production By March 17 we have to work one and a half years or two years ahead of schedule, due to some interest that will not result into capacity increase. Capacity increase will come from FY17-18 only but we have to work backward and do a stage wise investment.

Vaibhav B.: But how much will that investment be?

R. Sundaram: That has to crystalize right now because there are how much backward integration you want to go, how much is the forward integration. So forward integration is always lesser cost and backward integration is slightly more but it has that margin improved gross margin of the company.

Vaibhav B.: And more thing, so you all have expanded by around 12 million meters your capacity so this is going to be used for the…

R. Sundaram: 23 million tons, approximately 68-23 million capacity.

Vaibhav B.: So basically these the new orders you must have gotten new orders so are these with new customers or same customers and also is it for the new products that you all are developing or is it for the same existing products, the new capacity?

K.K. Lalpuria: Some are new customers and some are new orders with old customers in the same category , secondly as I mentioned earlier we have expanded into other product mix like fashion bedding and institutional bedding, there also we have successes it is fairly reasonable. So that way it all adds up to the growth.

Vaibhav B.: So what is your revenue guidance for 2015 and for the next year?

R. Sundaram: We have grown about 20% close to about 20-22%, 20% is the target for next two years increase in Home Textile. 43 will go about 52 something, 52 will go to about 62 next two years about 20% growth approximately.

Vaibhav B.: So you all will be closing out the electronics division right completely?

R. Sundaram: We are tapering down the market is little fluid as of today we have not decide to close down, facility is that it does not have any impact on the cost on the facilities we can however tapper down right now but need arises we can always look into it since we have been there for last 10 years on that.

Vaibhav B.: But if the market is very competitive and there are no like profits are very less because of so many competitors so wouldn't it be good if this segment of Home Textile.

R. Sundaram: We are not marketing the product it is not about brand we are OEM suppliers to the major.

Vaibhav B.: Yes, that is what, so it can be seen that the margins are better in Home Textiles?

R. Sundaram: In the majority we may not even revive that electronics, I don't want a commitment of the closing down as such but need arises as long as not eating to other margin profits it is fine but percentage basis there will be a although the Home Textile is 20% the combined that other electronics the percentage as a whole may come down, so we can always give it a segmental revenue for the purpose of investor understand.

Moderator: Thank you. Next question is from the line of Ravichandran M from Unifi Capital. Please go ahead.

Ravichandran M: I have couple of questions; can you just explain the hedging policy?

R. Sundaram: Hedging policy what we are doing is we always do with accompanying transaction so in the Home Textile we have a clear visibility between six to eight months of running orders so what we normally do is whenever the order comes in we cover the particular order and capture the forward premium so that we as a manufacturing company we don't want to play around with foreign exchange. So as a rough basis we have got 50 to 70% of the annual turnover is covered by the forward contract.

Ravichandran M: Simple forward?

R. Sundaram: Forward, plain vanilla forwards.

Ravichandran M: And in your notes you mentioned about changing the accounting inventory policy from FIFO to weighted average?

R. Sundaram: That is only one division on spinning division, Home Textile right from beginning it is weighted average only, only with spinning division was change last current year as per the accounting standard. Since spinning as a percentage is lower the impact is not very significant that this is note also stated the difference amount is insignificant.

Ravichandran M: But for the yarns which you buy from the market you still follow a FIFO method?

R. Sundaram: Yes, that is a FIFO method, absolutely.

Ravichandran M: Okay. And while giving the guidance you talked about 20% what is that number?

R. Sundaram: Which one?

Ravichandran M: Somebody asked for guidance.

R. Sundaram: On the revenue growth?

Ravichandran M: Yes, the revenue growth for nine months is about 15% you have given 20% growth for next year is it?

R. Sundaram: No 15% is company as whole but Home Textile had an increase of close to about 39% in the current quarter.

Ravichandran M: Okay, you are referring to the segment?

R. Sundaram: I am talking because now the growth will come mainly from Home Textiles. The electronics is tapered down and spinning is only for partly for captive consumption it is not the volume is not going to grow the entire thrust will be Home Textile only, so we had 39% growth in the nine months' period so next year we should be about around 20% that is what indicated for two years.

Ravichandran M: Right. And the 70 crores CAPEX you will capitalize the entire amount in Q4?

R. Sundaram: Part of it is already done up to Q3 balance will be done in Q4.

Ravichandran M: Your depreciation is actually flat to minus year on year for nine months.

R. Sundaram: Because it was done the implementation is done in November and December it is only one month of depreciation so that will be the current quarter also three months of depreciation, there will not be much major changes in it, they will come in end of the current quarter, partly capitalize up to Q3 and balance will be done in Q4.

Ravichandran M: Okay. And Wal-Mart is our largest customer right?

R. Sundaram: There are many customers Wal-Mart, - BBB, Target everybody is a very decent customers, but Wal-Mart accounts about 15-20% of the total revenue.

Moderator: Thank you. Next question is from the line of Dhaval Shah from Siddhesh Capital. Please go ahead.

Dhaval Shah: Sir this is clearly visible that Indian companies are gaining share from Chinese's and Bangladesh company. So sir the capacity which were there in the China so now where are they using those capacities which were dedicated for the share which India has taken from there, so are they ideal or they are moving up the value chain or what it scene there?

K.K. Lalpuria: There are two things, one is the domestic consumption in China has gone up so they have diverted from their export quantities in the domestic market, and secondly of course as you rightly said they have moved up on the value chain.

Dhaval Shah: Okay sir. And sir how are we participating in the e-commerce platform in US so do we sell it to Amazon or any other website there directly or it goes through our vendors in US or the distribution partner in US?

K.K. Lalpuria: We are doing two activities as far ecommerce is concerned in the US currently. We started last year supplying to the dot com businesses of the major retailer. So we set up a distribution center separately for pick and pack. Which is like B2C and it took us time to establish that, secondly then we started supplying to the e-platforms like Amazon. Com and Mayfair and other overstock.com and other websites. Which are professionally managed for promoting all kinds of products, so these were the two activities which we are currently doing, and we are proud to say that even we have promoted a brand called - **sense** to them, to Amazon.com just recently.

Dhaval Shah: So it is a?

K.K. Lalpuria: It is our own brand.

Dhaval Shah: Dedicated for online?

K.K. Lalpuria: Yes, dedicated to online, so these are the two things which we are currently doing in the near future we are studying the market of e-commerce to develop that in-house so that we can launch our own website as well.

Dhaval Shah: So website for US market?

K.K. Lalpuria: For US market as well as for Indian market but in India we will have a combined strategy to promote both domestic as well as the e-commerce portal.

Dhaval Shah: Okay, so sir you sell through two platforms, we one is the websites of Wal-Mart or home depot or company?

K.K. Lalpuria: Retailers.com business.

Dhaval Shah: And then second is Amazon types companies so where are you seeing more traction in terms of sales growth like people purchasing through online is it more on the dedicated online channels like Amazon or through Wal-Mart's online platform?

K.K. Lalpuria: Of course Amazon and other people they have like better results as on date but slowly I think even the retailers are picking up because one concept is growing in the e-commerce market is that people are ordering online and they need to take deliveries. So companies like, retailers like Wal-Mart and target their developing neighborhood distribution centers because they book online and they deliver to them. So it becomes easier and very quicker for them at the material and they can also look at it. So this is a model which is developing as well as you see from the numbers whatever is being published you can always see like Amazon controlling almost 60% of the market share. So they are doing well of course.

Dhaval Shah: True, so sir for this quarter number can you share with us how much is the sales we have generated through online flat form?

K.K. Lalpuria: It is negligible because we target last year because time to learn the business and establish it because we were always doing B2B in FOB business so in order to set up even a customer it takes almost two weeks' time so we are slowly getting there, there numbers are like almost negligible.

Dhaval Shah: So for example you said you will be setting about dedicated channel for this online, so will the pricing be different or it will be the same for example you are selling to a Wal-Mart online platform vis-à-vis Wal-Mart brick and mortar platform the pricing would be same or it will be different?

K.K. Lalpuria: Always the business model for E-commerce is separate if you look at even at the Indian share what sales in the retail and what sales online there are two different business model so the pricing strategy is always different.

Dhaval Shah: Okay, fair enough and sir lastly one question on the cotton side. Sir there is huge inventory of cotton in China around 60% of the world's inventory right now and it is little old also with in terms of aging of the product, so sir where do you see the price going so will all be useful in the market because it is little old, since they have been hoarding up since a long time so some of that might have deteriorated in the quality wise also, so what is your sense in terms of price moment for cotton?

K.K. Lalpuria: As I mentioned earlier it is not fair to say that the prices of cotton has come down, it is stable because the MSP was 34,000 around and today the cotton prices is around 32,000 so it has stabilize unlike other previous years where it has sky-rocketed it was somebody made a play out of it. Now as far as your concern is right what we hear in the publications the Chinese has stock pile cotton so that they can release it whenever they need it, to protect their farmers basically they bought that at higher price and kept it, some of the farmers to cultivate it and not change it to other crops but now what we hear is about checking this cotton whether it is deteriorated. It will be false on us to assume this things unless we know for concrete reason that it has deteriorated. But yes to some extent it should be, I think.

Dhaval Shah: Okay, sir generally the life of cotton is, it starts deteriorating or it starts yellowing after 6 weeks am I right or?

K.K. Lalpuria: Storage conditions.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir would like to know what is our current order book position?

R. Sundaram: We are close to about 6 to 8 months of clear vision available, since the replenishing market statement is fairly a good one.

Saket Kapoor: So we are booked for our capacity for 6 to 8 months you are telling?

R. Sundaram: Yes, if you are talking in February we have clear picture up to September.

K.K. Lalpuria: We work with large retailers on backhaul programs and particularly we are in the replenishment business not promotional and we get fairly good projections from the sale and also the lifecycle of backhaul programs are almost like three to four year because it takes time for them to promote it from 100 stores to 1000 stores. So you know we have a fairly good order book position as Mr. Sudaram mentioned of around 6 to 8 months.

Saket Kapoor: Sir then there will be a question of inventory level does not accounts for it because whatever we are doing or whatever it being maintained is being sold out beforehand only.

R. Sundaram: See what happens inventory comprising of cotton, yarn is more of replenishment and there some other volumes are taken up mainly because improved pricing and we don’t want to be if it is a confirmed order there cannot be a different material for the same product so our inventory holding on in the current assets in the company is not improved as compared to any peers in the industry.

Saket Kapoor: Sir is our nearest competitor in the US market particular?

R. Sundaram: Alok and Welspun.

Saket Kapoor: Even JSCL is now participating in the bed sheet part I think Home Textile are they anyway closer to us as a competitor?

R. Sundaram: Yes, they are also doing their own business and they have a business model of their own so we cannot comment on how they compete.

Saket Kapoor: No, I am just trying to guess whether there are any direct competitor to us or they are segmented?

R. Sundaram: Of course they also have the same kind of machinery and the products so they are of course a direct competitor to us.

Saket Kapoor: Just to get the finish product right, sir what kind of inventory levels we have to maintain, what is the holding period of getting this cotton being process to yarn and then to the being getting to the bed sheet segment.

R. Sundaram: Our lead times for order depends up on the size of the order it ranges between 75 days to 90 days for the initial order. Thereafter you see as the sales grows in the retail segment they ask for repeat order which are called replenishment order, so these are every week fortnight as well as monthly so we need to service that, so we keep them clean and lean so because we know the projections and we plan accordingly. I hope it answered your question?

Moderator: Sir the current participant has been dropped we will move on to the next question. Next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Just one question from my side that you said that the current quarter margins are sustainable over the next at least four to six quarters so if you can give us highlight that what gives you that confidence that current margin is sustainable because we do not hold inventory so do we enter into a contract which are over say spread out over say 18 months which are keeping in mind that current costing that gives you the visibility or how it is to be explained.

R. Sundaram: There is no visibility nobody can claim that you have got orders of 18 months or 24 months it is the replenishment business. We have a set of customers we know that there procurement plan, we have the link available to their stores how the volumes are moving in, we tentative know what sort of products, what sort of quantity need to be kept in mind and keeping our past experienced on a standalone Home Textile we feel that this should not be anything which can be lower than the existing margin as of it.

Rajesh Kothari: So this margins are more driven by the better product mix?

R. Sundaram: Combination of various factors, better product mix, better customer, better geographies, better improved capacity utilization, reduction in material cost, improve in overhead spread, over larger volumes, it is not only one factor that I can say that is going to, some factor we may lose some time we will increase it, if tomorrow for the current quarter there is no reduction in the material cost but something will come up in the efficiency improvement or capacity utilization. All factors combined together we expect 18-20% margin in this particular segment should not be a problem for us.

Rajesh Kothari: And if you can just tell in terms of the product mix how do you define your product mix between three different types of product pricing, can you give that kind of breakup?

K.K. Lalpuria: If you know the organized retail market in the US, even the positioning of the retail say for example the specialty store, the departmental store and the mass merchant, like specialty stores is Bed-bath and departmental stores is Messy and mass merchants is Wal-Mart, even if they are next to each other the retail price points of each one of them are different for the same product. So you see within that product segment also we have different product attributes, as well as different sizes, different colors, different packaging and different value terms. So within that product also we have difference, now coming back to the product mix like say when we supply for example Duvets or when we supply sheet sets or when we supply comforter sets they are all differently priced and looked up on with difference, because say comforters are more like seasonal, sheet set is more like on a regular basis we supply so there are many factors as Mr. Sundaram pointed out, which we need to consider as far as pricing is concerned.

Rajesh Kothari: So this sudden from 2Q to 3Q also such significant jump in margin is it like do you think whether the product mix has some one-off or do you think that it is the same kind of pattern which you are expecting in terms of your product mix and all that combination of factors?

R. Sundaram: Q2 also the substantial order had come which is at fairly decent margin so if you take standalone what I have done for Home Textile for the second quarter may be about 18 to 19% has gone to 20.2% in the third quarter.

Moderator: Thank you. Next question is from the line of Dhwanil Shah from iWealth Management. Please go ahead.

Dhwanil Shah: Sir my question is regarding on the volume which we are going to do in the next year so we are adding 23 million so sir what kind of volume guidance you said I think we can do is 53 on overall.

R. Sundaram: Current year we closed by 43 and if it is 20% of 43 is about 8.3, 9 million sheets so it should take 43 plus 9 which is 52 million so that is what we have plan of action.

Dhwanil Shah: Okay, so of 23 you are saying we will use more 9 million?

R. Sundaram: Out of 23 we will use about 8 million to 9 million and the balance we will keep in the second year. Actually if there is a large order so we can consume entirely one year but on a consolidated basis we are saying 8 to 10 million should be the incremental volume coming from the new expansion.

Dhwanil Shah: Okay, sir in terms of ramping up we can use like 60-70% in the first year itself as you are saying or it is on a slower basis that we need to do it on the capacity front sir?

R. Sundaram: I didn't get your point what's the point?

Dhwanil Shah: I want to understand that for the 23 million to run can we use the entire 23 million in the going year or is it we need to?

R. Sundaram: We have a capacity in hand right now so we don't want to be always reserve some 10-15 spare capacity for flexibility and the big customers we cannot refuse them. Even the 68 we may not have 68 at any point they will keep about 5 to 8 million meters on the fluctuating on the need for the big customer demand.

K.K. Lalpuria: For seasonal basis as well, as you know when Christmas comes closer you have bigger order secondly some new role overs are there like new order infusion, new category of orders infusion then you need to supply at one point of time a bigger quantity so we need that flexibility because we cannot say no to be other regular customers because you are supplying replenishment businesses. So in any case we have to keep some flexibility.

Dhwanil Shah: And sir as you were saying in Home Textile we will be maintaining 18-19% of margin is that correct?

K.K. Lalpuria: Yes.

Dhwanil Shah: And the spinning will be 5 to 6% and that is separate.

K.K. Lalpuria: That is separate and that is why it is pulling down from 19.2 to spinning their own textile to about 15% because of lower margin spinning as the company own the margin should be about 15 or 16% and the standalone Home Textile should be 19 or 20%.

Dhwanil Shah: Okay, fair enough and sir one last question on the tax part, I think I remember when we last spoke you said that we will be paying MAT this year but I think we have been paying more than 30-32% of tax rate so?

R. Sundaram: MAT is we should be paying MAT separately for current year that is close to about 21% of our profit before tax, the deferral tax is 1/10th impact which has come in the current year.

Dhwanil Shah: So what would be the effective tax rate for the full year?

R. Sundaram: Effective tax for the full year will be about 21% because whole of this year will be 21%.

Dhwanil Shah: Okay. And from next year will be full tax?

R. Sundaram: Next year will be 33% whatever the charge tax net is coming in but about 8% of that will go out of the MAT credit, the next cash outflow will be 25% but the tax outgo will be 33%.

Moderator: Thank you. Next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Sir my question pertains to our guidance given which is 43 million meters for this versus 36 and for the nine months we have done about 33 versus 26 so, if I put the numbers together are you indicating a flat Y-o-Y for the coming quarter on the volume front?

R. Sundaram: No, I don't think we have done 39% of the growth in to cumulative third quarter, for the companies as whole it will be close to around 30% current year.

Binoy Jariwala: 30% for the current year.

R. Sundaram: And for the first nine months the growth is 28% and if to maintain the same percentage of last quarter we should companies should handle 28% increase in revenue but nothing will not be less than 25%.

K.K. Lalpuria: No because also the first quarter is always less that is the reason also nine months it is.

Binoy Jariwala: No, I mean sir for the full year you guided 43 million and we have done 33 million right?

R. Sundaram: Yes.

Binoy Jariwala: And in the previous year in FY14 for the full year we did about 36 million and in nine months we did about 26 million right?

R. Sundaram: Last year, right.

Binoy Jariwala: So which means that in Q4 of FY14 we did about 10 million pieces and likewise for Q4 of FY15 we are expecting about 10 million pieces is that right?

R. Sundaram: Absolutely correct.

Binoy Jariwala: Okay. Sir the second point was just a small clarification is there a sunset clause on the interest subvention which we receive from the Maharashtra government?

R. Sundaram: No, wherever the UID is generated, whether we get the UID number or not the bankers or nodal agency for the interest credit from the government. Maharashtra government we have been dealing the touch from central and under the banks confirm this as per the point they will automatically get we get reimbursement of 6% interest just like TUFF mechanism every quarter basically.

Binoy Jariwala: Sir this is a reimbursement right sir?

R. Sundaram: Yes.

Binoy Jariwala: So I was indicating on the sunset clause, so like tough there was a sunset clause in 2017 I believe, is there is a sunset clause for the interest subvention for..

R. Sundaram: Maharashtra?

Binoy Jariwala: Yes.

R. Sundaram: No, Maharashtra has just declared the policy last year. I think when the policy been declared last year at the end due to continued park is 10 year, not more. Because pressure is there high volume, high capital and also improve its generation and employment for the people. So they will not afford to play with it.

Binoy Jariwala: Sure. Sir can I have the average USD-INR rate for us in Q3 and likewise in the previous year also in this quarter Q3 FY15.

R. Sundaram: We have right now but already captured this revenue, we will check it and revert back it to you online.

Binoy Jariwala: Thank you so much. Sir there is an MTM loss of 9.2 crores for the movement of the options we have indicated is this option.

R. Sundaram: As of 31st December just like we are covering the forward contracts for 6 months down the line, 8 months down the line we would have covered forward covers in November and December for validity to October, August and September, hypothetically for August and September, accounting standards prescribed as on 31st December to compare the spot rate we have this particular rate and lower difference is the mark-to-market losses, it's not required to be accounted in the books, this losses may not be exiting when the transaction takes place.

Binoy Jariwala: Correct. So sir is this the note reads in the form that the foreign currency derivative contracts in the form of options, I was just wondering whether we have hedged it through options or have we hedged it to plain?

R. Sundaram: Plain vanilla that is a normal term auditor's used it but we have no options we have no emendates for option booking we will only do a plain basis.

Binoy Jariwala: Right. And sir this 9.2 crores relates to movement of how many rupees?

R. Sundaram: Which one?

Binoy Jariwala: The 9.2 crores loss the MTM loss relates to?

R. Sundaram: You can say 6 months of forward attributes to around 800 crores of exposure.

Moderator: Thank you. Next question is from the line of Abhijeet Singh from Crisil. Please go ahead.

Abhijeet Singh: Sir you mentioned in your results that your realizations have increased and at the same time you also mentioned that your product mix have changed so I just wanted to check sir in terms of in dollar terms how much has the realization moved and what is the average realization as of quarter three?

R. Sundaram: We have growth of about 20% on the Home Textile growth for the nine months' period and I told you the volume growth is about 18 to 20%, so the growth of volume comes from 18 to 20% balance is the improved price realization could be for customer mix or geography mix or the product mix.

Abhijeet Singh: So sir in the call you mentioned that you have entered into utility beddings, fashion beddings, institutional beddings. So what port of your overall product mix will these higher end products will be constituting?

K.K. Lalpuria: It will be, like we have just begin this so it will take some time but we hope that we should be around we built it to 20-25% in couple of years.

Abhijeet Singh: So for example sir what is the sense by FY17 next two years how much it should be going to?

K.K. Lalpuria: Which one?

Abhijeet Singh: The same, the higher end products?

R. Sundaram: Our target internally should be bedspread should be around 75%, balance 25% come from the new products. So depending up on how much time it will take one month it will, one year it may take two years' time, so wanted to expand the product.

Abhijeet Singh: Alright got it. Sir one I think that you mentioned about the taxes I just wanted to check how much of effective tax rate you are targeting for FY15 and FY16?

R. Sundaram: FY15 will be MAT only at 21%, FY16 will be 33%.

Abhijeet Singh: And sir one last question I have sir, this quarter we have seen a lot of benefit from lower material prices and you said that your contracts are for six months so I think that by March or April you will be renewing your contracts what confidence you have that retailers your Wal-Mart which are such large retailers they will not renegotiate on prices?

R. Sundaram: They have not done for last 6 years, we don't foresee why they should come in the current year, and we have been doing business with them for last five years, so there have been ups and downs and during the last five years ether in foreign exchange or material cost so and so. As long as they it is hypothetically my price is $40 and they are selling it at $99.99 so they want to ensure that their 59% margin is protected. So our focus area should be go into new products, educate the customer, manage the shelf activity so when you do that everything and maintain the price 40 they are happy to have 59% improved margin for the operations.

Moderator: Thank you. Next question is from the line of Kalpesh Gothi from Wallforth Financial. Please go ahead.

Kalpesh Gothi: Sir I missed the initial comment can you share the Home Textiles revenue quarter on quarter and for the nine months?

R. Sundaram: For the quarter on quarter, for third quarter the revenue jumped from 270 crores to 376 crores and for the nine months' period the revenue jumped from 776 crores to 995 crores. Because the Q3 had a growth of 39% for nine months' period that is a growth of 28% so this is the information on that revenue.

Kalpesh Gothi: Okay. And sir what is the EBTIDA?

R. Sundaram: EBITDA we said in the Home Textile division EBITDA so for Q3 it has gone from 46 to 79 and for nine months' period it has gone from 132 to 214 crores.

Kalpesh Gothi: Okay. And sir can you we are focusing on the institutional and fashion and utility bedding, can you share how many clients we have added?

R. Sundaram: We just started the process now we personally it is only 2-3% we have a facilities available for that, now we will aggressively pursue with the customers one or two customers have already come in from US so it is a gradual process which will go for any new product development.

K.K. Lalpuria Actually all the customers which we are supplying with the sheet set they are available for us to market this new products as well because they sell this products as well. So it is a horizontal spread.

Kalpesh Gothi: Okay, so we are expecting this high value product will be going to sale 25% to Home Textile business in next two years right?

K.K. Lalpuria: We hope to develop so.

R. Sundaram: High value because of the product category there will be higher cost also. It cannot be the cost of bed sheet go into utility bedding or fashion bedding.

Kalpesh Gothi: Right. Sir on your effective tax rate this year you said 21% is effective tax rate excluding the MAT right?

R. Sundaram: I am talking about MAT impact only.

Kalpesh Gothi: Okay and for FY16?

R. Sundaram: FY16 full tax, all the accumulated losses gone except for normal depreciation or whatever credit comes in which is very significant from the profit you have to pay off 33% impact will be 33% cash outflow will be 25%.

Moderator: Thank you. Next question is from the line of Chirag Lodhia from Value Crest Research. Please go ahead.

Chirag Lodhia: I have one question on our debt level so as we see as on December we have overall debt of around 360 crores which was 365 crores in March and now we see our whole CAPEX has been done and in for next 6 to 12 months we don't see any CAPEX.

R. Sundaram: No the 49 crores we have not drawn it.

Chirag Lodhia: Right. But my question is like in nine months we have generated a healthy cash profit of say 135 crores so going forward how we see or overall debt level say for next one to two years?

R. Sundaram: Our long term debt comes to a 2% cost so I will always borrow a long term, whatever the cash margin available for operation I will tend to reduce the working capital so the working capital interest is 11% we will try to work with the lower working capital limits and whatever capacity in the capital expenditure are long term.

Chirag Lodhia: So do we see our overall short term working borrowing coming down in next 6 to 12 months?

R. Sundaram: Yes, absolutely. Probably a situation may come two years down the line there will be zero.

Moderator: Thank you. Next question is from the line of Ravichandran M from Unifi Capital. Please go ahead.

Sharad: I have a follow up question to one of the questions on the forward booking that the auditors have asked us to book a 9 crores provision against.

R. Sundaram: It is not a provision.

Sharad: Or it is just a line item in the notes is it?

R. Sundaram: Absolutely line items note because if you are going to have forward contract on a continue basis at any point of time if you have to value there will be a difference between spot rate and the forward contracts, either it will be positive or negative. So this time December the price was less than around 60 to 60.5 because impact has come. Today is the price is 62.5 and entire 9.9 crores should have gone 1 crores to less than 1 crores. It is an ongoing process not that it is an accounting standard it is coming as a part of contingent liability.

Sharad: So that is what I am trying to understand Mr. Sundaram. Let say I am trying to relate what I understand about the IT industry, so at the end of the quarter give your policy of hedging your forward revenues through simple forward you are forecasting revenues of 1,000 crores or so and you have a net exposure of say 300 crores typically your forward exposures would be at a much better realization than the spot. So the spot in December is ruling in the region of say 62-63 thereabouts, your forwards would probably be at 65.

R. Sundaram: No, some of which 65 what we will do is when post our parliament election the prices came down to almost Rs.58. So there was rumor that the price will go down to 52. We have covered a major chunk during the particular period to protect the margin so that is one of the reasons why there is a loss on that.

Sharad: So then is it fair to assume that the outstanding forwards are at an average of around 60.5 or so?

R. Sundaram: Might be more than that.

Sharad: Okay. And at this point where the spot is at about 62 you are breaking even?

R. Sundaram: For the forward contract 62 it should be close to about 64.50 or 65.

Sharad: If you forward at a 64-65 and if the spot as of 31st December was 62 you would actually have a substantial profit right?

R. Sundaram: Some of the contracts were lower because it is all transaction basis, I am talking average 60-65 may be there is 68-69, 68-67 some may be at 58-59 so this is how each line entry it has been captured, if it is a profit no need to show in the notes to accounts, only in notes we can knock off the losses against the profit in forward contract outstanding.

Sharad: Okay so they don’t offset the gains and losses.

R. Sundaram: We don’t do that, profit means profit and losses need to be only communicated.

Sharad: Okay. And a question to Mr. Lalpuria about this dilemma that we are all trying to figure out is the question of will your rich margin from lower cotton prices sustain over the next year and I suppose there is no way of knowing can you give us a two minute overview of how the demand environment is in the US and UK where you are active sir?

K.K. Lalpuria: See the demand in the US has grown by almost 3% for Home Textiles and particularly in the bedding segment also it has grown up to 2.5%. So the demand is there on the cotton side it is stable because the production and the stock to endures has improved and the carrying stocks are quite reasonable so that there will be ample supply side which will de-risk the demand and prices as well. So I think and the Chinese demand is not growing because they have peaked out in cotton so I think the prices of cotton will remain stable and as you can see also in order to protect our farmer the cotton corporation has also purchased quite a sizeable quantity to stock so I think the government is also intense to keep the cultivation at the same level so that the supply is sufficient and I think the prices would be stable there is no anxiety in the raw material supply side.

Moderator: Thank you. The next question is a follow up question from the line of Vaibhav B from Motilal Oswal. Please go ahead.

Vaibhav B.: Just wanted to understand the asset turnovers I was just looking out for a competitor Alok Industries so your asset turnover is around 2.3 whereas theirs is a bit lower so how do you take this as like how do we take this as like I was just curious on that.

R. Sundaram: The company policy is always to have little asset, asset-light model where processing, dyeing and finishing is 100% in-house, stitching is in-house, weaving is partly in-house and majority is coming from outsourcing. We know it is hard to put up a weaving of 256 looms it will cost me 300 crores but what incremental revenue will come in so we always strike a balance between the investment and just because it comes to us cost of less than 2% we don't want to be blinded going for investment.

Vaibhav B.: Can you repeat that sorry, I just missed out on that thing the 300 crores.

R. Sundaram: If I have to do a backward integration because like Alok will be totally backward integrated, Welspun may be backward integration to what percent we don't know, our backward integration is which is the plant is lower as of now but because we don't feel the pinch of it because we have a strong outsourcing model with vendors we also have on licensing method which we take the capacity entirely manage by us so keeping that factor in mind our asset turnover is much more compared to the competitors.

Vaibhav B.: Okay. And on the short term borrowing what do you think how much will be the utilization over the next say a year or so and what is the interest rate for that?

R. Sundaram: Today the outstanding of working capital is 270 per crores as on December, how much estimate by end of March should be close to about 225. So what our strategy will be if you maintain 225 on incremental growth required working capital that will be funded out of internal accruals. Our intention is not to restrict the overall debt ratio to the net worth so equal to 1x not more than that.

Vaibhav B.: One times, and what would be the interest rate for the short term loan?

R. Sundaram: 11%.

Vaibhav B.: And also one more thing just on the order side so you told that there are six months orders you have booked or is it like on a visibility like these customers are giving regular orders that way?

R. Sundaram: It is a confirmed replenishment for next six months.

Vaibhav B.: Okay.

K.K. Lalpuria: From the interest also there is a possibility where the textile policy get declared we quite have each percent interest subvention.

Vaibhav B.: Interest subvention in the?

R. Sundaram: Instead of 11 it will be 8% it depends up on Narendra Modi.

Vaibhav B.: And so basically we were positive on the budget side?

R. Sundaram: Not budget side, he did not comment on budget he just said we have talked about textile policy.

Vaibhav B.: Okay, textile policy.

K.K. Lalpuria: The textile policy is still for them to formulate and release so that is under making so everybody the trade has represented to council for continuing the interest subvention because anyway we have to be on a level playing field as far as the interest cost is concerned. So that is why with the 11% is higher that is the reason the older government give 3% interest subvention.

Vaibhav B.: And also one more thing so you all be guiding out of the CDR in the next quarter like.

R. Sundaram: In the current quarter.

Vaibhav B.: So how do you see what will be the impacts of this thing on your company everything like the working operational and everything.

R. Sundaram: Even the past CDR also there was no problem otherwise you would not have grown such way.

Vaibhav B.: Now that it is completely out of the picture does that mean that.

R. Sundaram: It is completely out of the picture the bankers will act as a CDR and profitable growing company, so I think they have a monthly stock statement all the compliances will be following it up. We will be exiting CDR because we don't require the tieup right now.

Vaibhav B.: So exiting out of the CDR means the interest rates will now be market linked right.

R. Sundaram: Yes.

Vaibhav B.: So what were they before when?

R. Sundaram: During the CDR term loan market rate, CDR rate was 10.25% for term loan which will be now 13%, but the volume is only 87 crores right now.

Vaibhav B.: And so the outstanding term loan 86 crores. So that you all are going to repay it off in the coming quarters?

R. Sundaram: No, there is no need to repay 87 crores, only the loss of interest the bankers will incur that as an estimate that needs to be paid. Bankers do not want the repayment of principal because if they are earning a good chunk of interest on that.

Vaibhav B.: So what would be that amount that differential?

R. Sundaram: 87 crores as on December.

Vaibhav B.: No sir I am talking about the differential losses basically the difference between the interest rates so that bankers will have to…

R. Sundaram: That is one way of looking and then we went to CDR for some compulsion. It cannot be permanent, three to four years recompense the amount will come back more. So there is no question of the market today over term loan hover within 12 and 13%. So there is no bankers if they are funding less than 12 or 13% keeping the base rate of 10.25.

Vaibhav B.: Okay. No, sir I wanted to understand now that we have we will be with the market linked interest rates so bankers will be asking for a compensation like a charge when you get out of this CDR?

R. Sundaram: Yes, that is a recompense amount that is the chart which we expect close to about 20 crores.

Vaibhav B.: 20 crores for this quarter or?

R. Sundaram: No, 20 crores from 2008 to 2014 which will be pressurized and if we exit by CDR by end of this quarter so it will have an impact of extraordinary items.

Vaibhav B.: Yes, so basically I can expect a 20 crores extraordinary expense.

R. Sundaram: That is one time expenditure current year.

Vaibhav B.: Okay, but it is surely going to happen next quarter right?

R. Sundaram: 100%.

Moderator: Thank you. Next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Just wanted the breakup of other income.

R. Sundaram: Breakup of other income 52 crores is the other operating income for nine months' period out of this 40 crores is the exchange rate benefit, and about 3 crores is the TUFF benefit and about 6 crores is the IPS benefit balance on miscellaneous.

Binoy Jariwala: Sorry how much is IPS?

R. Sundaram: IPS is about 6 crores, TUFF benefit is about 3.5 crores, 30-40 crores is the exchange rate benefit and others are minuscule amount.

Binoy Jariwala: Okay. And sir can I also get the breakup for the Q3?

R. Sundaram: Q3 is about FOREX is 14 crores and overall is about 20 crores.

Binoy Jariwala: Overall is sir 15 crores right?

R. Sundaram: For the Q3.

Binoy Jariwala: Yes.

R. Sundaram: And for the nine months' period is 42 crores.

Binoy Jariwala: Right sir. And just wanted to confirm provision for write-off recompense has not been made in the nine months' period so it is yet to be made right?

R. Sundaram: That's what in the previous call I said it will come up extraordinary item in the current balance sheet, if we exit before March.

Binoy Jariwala: Right. And sir post exit is there also any covenants imposed over a certain period which restrict us from paying dividends or undertaking any special extraordinary activities.

R. Sundaram: Once I exit CDR I don't want to go back to CDR office again. They are not guided by us, they don't have direction right, nothing we will be a free company, bankers are free let them decide what they want to do it.

Binoy Jariwala: Okay. No, I mean I just wanted to check if.

R. Sundaram: No convents, no condition nothing is there.

K.K. Lalpuria: Once you pay them it is all over.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Lalpuria for closing comments. Thank you and over to you, sir.

K.K. Lalpuria: I sincerely thank everybody and I take this opportunity for thanking again for joining this call. I hope we have been able to address all your queries. For any further information kindly get in touch with me or SG&A, our Investor Relations Advisors. Thank you once again.

R. Sundaram: Thank you. Bye-bye.

K.K. Lalpuria: Thank you, bye.

Moderator: Thank you sir, thank you members of the management. On behalf of Indo Count Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.