Indo Count Industries Limited Q3 & Nine Months FY18 Earnings Conference Call

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MANAGEMENT: **MR. KK LALPURIA – GROUP PRESIDENT, INDO COUNT INDUSTRIES LIMITED**
MR. DILIP GHORAWAT – CHIEF FINANCIAL OFFICER, INDO COUNT INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q3 & Nine Months FY'18 Earnings Conference Call. 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 performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 the operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand over the conference to Mr. KK Lalpuria – Group President of Indo Count Industries Limited. Thank you and over to you, sir.

KK Lalpuria: Good afternoon and very warm welcome to everyone.

Along with me, I have Mr. Dilip Ghorawat – our CFO and SGA, our Investor Relation Advisors.

I will begin with Industry Discussion first: The Home Textiles segment is stabilizing across global markets. The intensity of destocking is reducing, and we expect improving trend of growth in the future. The GDP growth forecast across the globe has improved and we are therefore optimistic on the increased consumption that will be witnessed in coming years. India continues to remain at a competitive advantage with presence over a complete value chain of high quality products due to our skilled labor in textiles and robust availability of raw material of all types. With increasing dominance in the US market by India, we are quite confident to continue to gain market share in this segment with a host of product offerings and acquiring new customer base.

I would now like to discuss the recent positives for our sector which in our opinion will further improve India's competitive edge in the global home textiles industry: In Q3FY18, the government came out with various revisions in incentives on exports. These revisions will neutralize the impact the industry witnessed in post-GST regime. In the recent budget, the government allocated an amount of Rs 7148 crores for the textiles sector. Out of this Rs 2300 crores was allocated for technology upgradation funds scheme and Rs.2164 crores for ROSL which is Remission of State Levies. These measures showcase the importance of textiles sector for the government and its commitment towards the sector growth and enhancement of India's textile trade in the global marketplace.

Now, about our Quarter: During the quarter, our revenue declined because of currency appreciation, revisions in government incentives and increased in-house consumption of yarn from our spinning segment. Having found good traction and increased customer acceptability of our products in the USA, we have launched a new brand by the name of "Heirlooms of

India" during this quarter. I am glad to share with you that our brand has been placed with a couple of retailers already.

On our domestic business we continue to perform satisfactorily. "Boutique Living" our domestic brand is now present across 444 stores including multi-brand outlets and large format stores and is now available in 96 cities across 21 states in India. At Indo Count we will continue to play on our strength of world-class manufacturing facilities, strong customer relationship which we have built over the last decade. The portfolio of own and license brands, proven track record, constant product innovation and the clients' high acceptability due to our positioning in the mid-to-high segment product mix. We are confident that this will further strengthen our position in the global home textiles market.

During the current quarter, Indo Count Industries has been awarded by TEXPROCIL -- Gold Trophy for the Highest Export of Cotton Made-Ups (Bed Linen, Bed Sheets and Quilts Category) for the year 2016-17. This win is an endorsement from our customers for our commitment towards quality and services which we would continuously enhance to serve them better. This trophy is the result of hard work put in by our team and all the stakeholders over the last decade. It is also a significant milestone for us to take us to a leadership position in this category from India. Our focus in the Home Textiles segment backed by strong innovation skills and design capabilities has been widely appreciated by our customers and this trophy is a testament of this.

That is it from my side. Now, I would like to hand over to Mr. Dilip Ghorawat – our CFO for the Financial Highlights. Over to Dilip.

Dilip Ghorawat: Thank you, Mr. Lalpuria. Good afternoon, Ladies and Gentlemen and a warm welcome to everyone present on the call. I shall now share the Financial Highlights for Q3 FY18.

We have uploaded the Q3 FY18 Investors Presentation on the Stock Exchanges and Company's website. We have also circulated the Investor Presentation to all the investors and analysts. I hope you have been able to have a look at the same.

Coming to Standalone Financial Performance for Q3 FY18 and Nine Months FY18:

The total revenue stood at Rs.460 crores for Q3 FY18 compared to Rs.493 crores of Q2 FY18. Revenue for nine months FY18 is Rs.1385 crores as against Rs.1572 crores in nine months FY17.

EBITDA

The company reported an EBITDA of Rs.69 crores for Q3 FY18. EBITDA margin for Q3 FY18 stood at 15.1% registering a growth of 64 bps Q-o-Q basis. EBITDA for nine months FY18 is Rs.205.8 crores with an EBITDA margin of 14.9%.

PROFIT AFTER TAX (PAT)

Profit after tax for Q3 FY18 is Rs.36.4 crores as against Rs.35.9 crores in Q2 FY18, registering a growth of 1.4%. Profit after tax margin expanded by 63 bps to 7.9% - Q-o-Q basis. Profit after tax for nine months FY18 is Rs.104.3 crores with the margin of 7.5%.

CASH PROFIT

Cash Profit stood at Rs.61.7 crores for Q3 FY18 as against Rs.42.1 crores for Q2 FY18. Cash profit for nine months FY18 stood at Rs.143.8 crores.

EPS

We recorded an EPS of Rs.1.84 on a face value of Rs.2 per share for Q3 FY18 at Rs.5.28 for nine months FY18.

DEBT

The company's net debt-to-equity as at 31st December 2017 was 0.26x as against 0.44x as at 31st December 2017.

INTEREST

Interest coverage for nine months FY18 was 8x. Our finance cost has reduced nearly by 33% in Q3FY18 to Rs.5.83 crores as compared to Rs.8.75 crores of Q2 FY18. Interest cost for nine months FY18 was Rs.22.80 crores as compared to Rs.30.54 crores of nine months FY17.

The Board of Directors of the company has declared an interim dividend of 0.40 per equity share i.e. 20% on face value of Rs.2/equity share for the financial year 2017-18.

With this, I would request the moderator to open the forum for Questions and Answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the demand scenario in the export market especially US market. How the inventory adjustment by our clients, the demand trend, buying orders, how do you see that thing -- whether it will improve in coming quarters, it will remain sluggish, what are our comments on this?

KK Lalpuria: As far as we observe, the intensity of destocking is reducing. The projections are better from the same retailers and from our customers. We have been witnessing small pickup in the demand as well. The US market is growing. So going forward we expect positive trend in the coming year for orders, demand and consumption.

Moderator: Thank you. We will take the next question from the line of Aimee Truesdale from Jupiter Asset Management. Please go ahead.

Aimee Truesdale: I just want to sort of follow-up from the last question. Just sort of seeing US growth picking up but growth seems to have happened quite slow to pick up in terms of your revenues, we are still kind of the hints where we were last year. So I am just wondering is it just a matter of time or whether there is something else here that is making kind of growth not reflect very much in the revenues?

KK Lalpuria: Revenues as what we have reported are reduced on account of the currency appreciation, reduction in the government incentives on GST implementation and to some extent our spinning in-house transfers. So going forward what we expect is improvement because currency is volatile and whenever there is an uptick, we may hedge at better rates, on the government incentives, we see a neutral effect overall, due to our better product mix and focus on the businesses, and our same customers reporting improved numbers and focusing on the value added products, it will all help us to grow our revenue going forward. So we are quite positive about FY19 going forward.

Aimee Truesdale: In terms of margins, I am sure there is a set of factors that you have just been talking about, but is there anything else that you can say on margins?

KK Lalpuria: As we have been reporting that we are focusing on lifestyle brands and license brands and we are focusing on fashion bedding utility and institutional bedding where we are working hard to further innovate and offer the value addition to our customers. We have a good customer base across the globe and we are servicing them well and we are in their good books. So we hope that we will be able to extend this to their better product mix and this will help us to enhance our margins going forward.

Moderator: Thank you. We will take the next question from the line of Giriraj Daga from KM Visario Family Trust. Please go ahead.

Giriraj Daga: A couple of questions from my side; what is the volume during the quarter?

KK Lalpuria: The volume is 14 million plus.

Giriraj Daga: We are confident of doing 30 million in the second half what you had guided, do you think it looks fairly possible?

KK Lalpuria: Yes, it seems so. As how we are progressing in this quarter, we will be able to report flattish volume as what we had guided earlier, so we will be able to achieve what we have targeted.

Giriraj Daga: What was the contribution of fashion, utility and institution during the first nine months?

KK Lalpuria: It is similar like 13% what we had reported, we are maintaining that. In this business first we have to start with customers and sooner or later they extend the product mix to a larger extent based on how we perform, so we expect it to grow in the future.

Giriraj Daga: Sir, on the hedging part, was the realized would be much different than what is the current average and what is the current hedging policy?

Dilip Ghorawat: Indo Count is fairly well positioned to tackle any adverse arising because of currency volatility and we have been working on our foreign currency management wherein we are hedging around 65-70% of projections and orders what we receive from our customers. For FY19 we are vigilant towards the movement of the currency and we are taking appropriate steps.

Giriraj Daga: So should it be fair to assume 65%-70% is hedged at any given point of time?

Dilip Ghorawat: Yes please.

Giriraj Daga: My next question is on Cotton cost, like what we have been hearing is that after the fresh arrival, the prices went down but now in the last about few weeks it has started going up. So what is our position now? How much inventory we have booked and what is our thought process there?

KK Lalpuria: Basically, you see in the last quarter it is the season which the crop comes in with larger arrival of cotton in the marketplace. So most of the players look forward to the season and they do not hedge larger quantities because of the new crop. So we had also taken a similar position and that is why in the beginning when the prices were lower and later on it went up, it impacted a little bit also because of the quality of the Cotton. So going forward we feel that the prices of Cotton will be stable and we should average out on an annual basis what we had projected and guided earlier.

Giriraj Daga: Just a follow-up there; we were actually assuming that there would be decline compared to last year. So do you think that the decline will still be there or it might be similar flattish compared to last year in terms of Cotton cost?

KK Lalpuria: Some of the crops were lost because of the pest and pink bollworms. So the numbers of the yield as well as the acreage were reduced and a little bit increase on the misuse is also there which has prompted the prices to stay a little bit higher. But still we feel that we will be able to maintain similar price level that what we had projected earlier as compared to last year.

Moderator: Thank you. We will take the next question from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Just an update on this Phase-2 CAPEX when we can really start where we are in terms of retail?

Dilip Ghorawat: The Phase-II CAPEX has started and is under progress and we hope to complete the same by March 19 as what we have reported in the press release.

Vikram Suryavanshi: Everything is finalized?

KK Lalpuria: We are still deliberating that because of the new Textiles policy issued by the Government of Maharashtra and we have identified a place but still it has to get notified, so we are waiting for the government to notify and as and when it gets notified, we will report to everybody. So it is under progress and we will complete the Phase II by say March 2019 as what Dilip has mentioned.

Vikram Suryavanshi: How is your view on Maharashtra Textiles Policy which was announced – is it in line or anything still expected from that?

KK Lalpuria: I think it is in line and wherein they are trying to provide more employment by providing better incentives and support. It is still to be read in fine print and except for power the other areas they are trying to provide like capital subsidy and all in the three areas like Marathwada, Vidarbha and North Maharashtra, that needs to get extended to other places because we are located outside of these places. So in fact if they extend it to all of Maharashtra, there would be some improvement. So we are representing to the Government of Maharashtra on this because we are already an established player in Kolhapur, we expect them to take some positive steps towards it and that is what we are all expecting about. So we are expecting this to improve in the time to come and as and when it improves we will report to everybody.

Vikram Suryavanshi: In terms of Fashion Bedding, we have been doing a lot of work and probably that will help us to grow but when we can see really kick start or trigger point for the revenue growth in that because broadly we remain in 13% for a few quarters, so when we basically can really see the revenues ticking in?

KK Lalpuria: All fundamentals we had set it right on the Fashion Bedding side like the showroom, the design, department, the product development department, the backup for production base, and the customers are also now recognizing us as a player in this field. We have a few placements as well. So once this performed well and the customer is happy, we expect in the coming years this to grow. This is in line with our expectation. So our business is customized businesses, the customer first sees how we perform initially and thereafter he increases his market share with us. So this is how the business pattern is. Once we establish the same, we expect it to grow substantially.

Vikram Suryavanshi: Captive consumption of yarn what we have, what was the broadly share or how much currently we consume compared to earlier?

KK Lalpuria: From last quarter actually we have around consumed more than 11% on Q-o-Q basis. So more and more yarn will get consumed as we are modernizing our spinning and we will keep on reverting which we have shown in our investor deck also how much this would impact on our revenues on an annual basis. So we are thinking about consuming more yarn going forward as we are modernizing our spinning.

Vikram Suryavanshi: Capacity I think that was around 20,000 Spindles or something?

KK Lalpuria: We are not stating any Spindles because the entire spinning capacity of Indo Count of around 60,000 Spindles is being modernized in totality. We have to set up right each and every section of the spinning and this will help us to further consume yarn for both Sheet Set and Fashion Bedding businesses.

Moderator: Thank you. We will take the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: A couple of questions from my side; sir, the first is what is the cotton price per candy this quarter which we purchased and what was it vis-à-vis last year?

Dilip Ghorawat: These three months it was between 40,000 to 41,000 what we have purchased, last year it was more or less at same level.

Dimple Kotak: Sir, going ahead, do we expect the trend to remain flat and stable?

Dilip Ghorawat: Yes, it will be stable more or less on the same trends.

Dimple Kotak: On constant currency basis, what would have been your growth or decline in sales assuming that rupee would not have strengthened, then what would have been the sales like?

Dilip Ghorawat: It would have been more or less on the Q2 FY18 levels what we earlier reported, in case the dollar would have remained same, except due to the reduction in Government incentives on implementation of GST and increase in captive consumption of yarn as reported in investor presentation.

Dimple Kotak: So that would be around 492 levels flat quarter on YOY basis?

Dilip Ghorawat: Yes, please.

Dimple Kotak: Just wanted to understand what is the percentage of online sales which is going up in US retailers in your segment?

KK Lalpuria: It is improving but today most of the consumers still require touch and feel and what is being reported is that though it is improving, it is a small number that 1-1.5% of the overall home textiles sale, but as the company we are keeping a close watch, we are strengthening our base by appointing a special team to cater to this business and going forward we also would like to focus in this area and improve our overall numbers through e-commerce sale.

Dimple Kotak: Sir this quarter has also seen substantial fall in your gross margins. So going ahead what would be your guidance…where do you see the margins to be?

KK Lalpuria: I think gross margins are more or less the same if you compare on Q2 FY18 basis. This is the new norm which we had reported earlier as well. So those gross margins are more or less the same.

Dimple Kotak: I am comparing actually even last year?

KK Lalpuria: Even last year if you look at the gross margin they have been impacted largely on account of the incentives and the rupee appreciation.

Dimple Kotak: Sir, going ahead, would it be safe to take this run rate for EBITDA and gross margins?

KK Lalpuria: Yes, you can take it but there is always an inclination to improve because we are going ahead with lot of improvements on our product mix and offerings to the customer and we are also trying to cater to new geographies through value added products and we hope that we will be able to improve this by further 100 to 200 basis points, so anywhere between 15-17% should be a logical acceptance.

Dimple Kotak: Sir, finally, are you seeing any major orders from the US retailers in the next two quarters?

KK Lalpuria: We always work on new clients, new customers, and new product mix. So always there are possibilities of adding on new clients.

Dimple Kotak: Any increase in order from Walmart or something like that?

KK Lalpuria: Due to competitive reasoning, we do not disclose Customers' names, orders etc.

Moderator: Thank you. We will take the next question from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Can you sir provide the breakup of Rs.81.33 crores other income in nine months?

Dilip Ghorawat: This is a part of our normal Forex treasury income which is realized on export of documents and this is a part of normal business activity. So mostly this will be covering all the dollar value what we have covered up by way of forward contracts.

HR Gala: So how much would be that value out of Rs.81 crores?

Dilip Ghorawat: Around 90% of Rs.81 crores.

HR Gala: Because what has happened is if you see that particular line, nine months FY17 it is just Rs.50 crores, Rs.50 crores has become Rs.81 crores, so that is why I just wanted to know?

KK Lalpuria: It is a part of our business income. As we move forward, we are in export. So we have to recognize the fact that whatever rupee conversion is there, we have to take into account and quote accordingly. So we have always maintained and reported that it is a part of our business income and strategy. So it should not be seen separately, it should be added up to our revenues in fact.

HR Gala: This will also include the MTM gain also?

KK Lalpuria: Yes, to some extent.

HR Gala: Prima facie how this Maharashtra Textiles Policy look like?

KK Lalpuria: Overall it is very positive because our government is taking positive steps towards improving unemployment and in order to raise employment they are providing all support, there are three, four major areas where they need to further focus upon is to extend the policy to the entire state and secondly also to give better incentive on the power side. All these areas they need to focus around to see that they make it further robust for entrepreneurs to enter textiles and provide more employment in the sector.

HR Gala: The capital subsidy rates that now they have prescribed, are they better than earlier?

Dilip Ghorawat: The capital subsidy has gone up for a composite unit in case there is no spinning unit in the area i.e there is any textile plant in that taluka, it will further add up. They have also covered the ETP as a part of the capital subsidy. So these are really positives in Textile Policy issued by the Government of Maharashtra. They have also given some rebate and subsidy of Rs.2 per unit in power to all the textile plants in the state who shall implement investments in Textile industry and using more than 107 HP power. So the new textile policy will provide a stimulus to the textile industry in the state.

HR Gala: So overall it looks good?

Dilip Ghorawat: Yes, we are positive and optimistic about it.

HR Gala: Any other state has come up like Maharashtra?

Dilip Ghorawat: Textile Policy have been announced in State of Andhra Pradesh, Telangana, Gujarat, Punjab etc but Maharashtra Government has only given capital subsidy whereas Andhra Pradesh and Gujarat State have announced interest subsidy also. So there are some key differentiations to each state-to-state Textile Policy which will promote textiles. So we feel Maharashtra government has provide a stimulus wherein they have increased the subsidy, rebate in power tariff etc which will promote textiles in Maharashtra.

HR Gala: I think after reading all these, you will be taking a decision as Mr. Lalpuria said by March 19 which state to get into?

Dilip Ghorawat: We will be taking decision quickly as possible so that we start our backward integration which will be in State of Maharashtra only.

HR Gala: You do not want to get into another state?

Dilip Ghorawat: Today no.

HR Gala: As far as the volumes are concerned, next year how much growth do we expect?

KK Lalpuria: We are expecting to fully utilize the capacity by 2021 as what we have reported and trends look positive, we will be able to provide you some direction in Q4 results.

HR Gala: But will it be reasonable to assume around 10 to 15 - 20% type of volume growth in FY19, you are doing around 56 this year, because to reach 90 million then the delta will be very high for you have to reach in two years?

KK Lalpuria: We all expect to grow from here because we are seeing positive trends and as we have mentioned and we have reported earlier also, we are working hard in order to promote our new product mix in the new different category which are finding good acceptance with the customers. So at some point of time there would be a quantum jump and we would expect to utilize our volumes say by FY21 which we have informed earlier.

Dilip Ghorawat: Normally in Home Textiles - made up, one can achieve only around 90% of the capacity, which is about 80-81. So we have to measure utilization on that basis.

HR Gala: How do you see the progress of our domestic business?

KK Lalpuria: We see a good traction there. Our basic aim is to expand our brand across India in different states and different cities which we are able to do so and finding good acceptance with the distributors and our first impression is that the brand, the product, the quality which we had inclined to provide for being branding inspirational, that is being accepted. LFS (Large Format Store) will get added from next year onwards which we will report at the end of Q4, we are not focusing so far. So the large format stores are also being focused and we hope to achieve success going forward there too. This will add on to good numbers.

HR Gala: Now sir, we are already present in 444 stores different mix. If each store does about an annual turnover of Rs.1 crore, it will add substantially. Do you expect that threshold to be reached anytime soon?

KK Lalpuria: Again, that is a good and wishful thinking but all these stores are in different cities like two-tier, three-tier, so the levels of sales in each cities differ and secondly they sell all different product categories as well like towels, curtains, bed spread, so different categories are sold, so we expect this to grow substantially in the future. Our earlier aim is to have a good brand recall value because our entire focus is to promote our brand, not the sale as what we had mentioned earlier. So once we achieve that, then sales would multiply depending upon our quality, our price level and service level.

HR Gala: As we have been discussing in the past, that the raw material cost variation with some delay we are able to recover from the customers in the next contract or in some different mode. So do you expect any recovery to come in Q4?

KK Lalpuria: Not at this moment because it is quite volatile, the customer also sees that per candy if it is 42,000 and come back to a level of 38,000, there is volatility in the marketplace, even in the New York Stock Exchange, and the A-index prices have been quite volatile. Under these conditions, as what we had reported earlier, if there is any material change and more than 10%, 15% then only we are eligible to go to the customer and ask for price increase. As and when the situation arises, we are all open to go to the customer and ask for a price increase which we will do so.

Moderator: Thank you. We will take the next question from the line of Priyanka Shah from Discovery Capital. Please go ahead.

Priyanka Shah: Sir, I wanted to understand from you that the sale of 16 million meters in Q4 as expected, will this be driven by any new client win? Also, the realizations have dropped significantly in the third quarter. So what are your expectations for the realizations in Q4?

KK Lalpuria: We have already mentioned about Q4 FY18, we see positive trends both in volume and value terms and we expect on dollar terms we should be okay but looking at the appreciation of the rupee if it further strengthens then the revenues are hit which we had explained in the Investor Deck also. So going forward we see a positive trend in US, finishing flattish in volume terms as per the guidance which we have mentioned earlier and in FY19 also we see that the intensity of destocking getting reduced, there are some positive projections from the customer. We are also adding up new customers and clients which are always there in new geographies which we all explore. So always we add up few new customers during the year.

Priyanka Shah: My second question is on the EBITDA margin guidance from 15-17%. With the current realizations and assuming similar 16 million meters, company needs to make 19% EBITDA margin in the fourth quarter to get 15% for the full year?

KK Lalpuria: No, we gave guidance that somebody asked like, “Will you be able to give guidelines on the EBITDA margin overall maybe next year and the future?” So we gave the new norms around 15% to 17%. We never mentioned about Q4 FY18. Now Q4 FY18 as we all see depending upon the rupee appreciation, how much yarn we transfer from our spinning and depending upon how we shape up the volume and the value and the product mix which gets exported, we will be able to maintain both revenue in volume terms and value terms as flattish which we are mentioning from the day one. Those numbers which you are calculating I think you have got some confusion somewhere.

Moderator: Thank you. We will take the next question from the line of Nandan Vardhan from Wealth Management India. Please go ahead.

Nandan Vardhan: Could you please breakup US and non-US business for the nine months period and corresponding period nine months FY17?

KK Lalpuria: We are doing 65-70% of US business and rest is non-US business. So we are maintaining that ratio. Always there is an inclination to further grow our business in Europe which is the larger market. But with FTA still to happen, going forward our focus will be to grow business over there as well. Plus, we will add up trying to explore new markets like Japan, Australia, South Africa, Latin America and elsewhere. So there is always an attempt to grow the non-US business also.

Nandan Vardhan: The second question was regarding Japan market. What is the tentative size of overall textiles market in Japan?

KK Lalpuria: Japan is a good volume market, but so far they have been sourcing out of China. Now they have shifted, they are focused to Indonesia and Vietnam where they have invested heavily in their textiles industry, but they are also finding India as a very large market to explore and outsource. So as far as the volume is concerned India is just 2-3% of their home textiles market because the sizes and the quality of the products are different. So going forward, we will focus on this market closely and we see a good traction in the coming years because in all these labor arbitrage suppliers like Vietnam and Indonesia, the cost is increasing and sooner or later we will catch up with them and since India has got a good raw material base, we will be able to make a dent into this market very soon. So that is why we have been trying to focus in this market for the last couple of years.

Moderator: Thank you. We will take the next question from the line of Aimee Truesdale from Jupiter Asset Management. Please go ahead.

Aimee Truesdale: I just wanted to ask about GST in terms of disruption that it has caused. Did you see in this quarter and do you expect to see that in coming quarters?

Dilip Ghorawat: We are an export company, so the impact of GST going forward will be neutral and negligible because whatever we have paid as input tax,we will get refund for our export business.

KK Lalpuria: Except on the demand front and the domestic business which we are exploring, we have to address that and rest I think for exports it is entirely refunded.

Dilip Ghorawat: There is no impact of GST on the supply side also for us.

Moderator: Thank you. We will take the next question from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Sir, my question pertains to the margin side. Though we are operating at 15% EBITDA margin and you told in the presentation also like all the incentives structure has now been gone to the pre-GST level with all benefits and all are there, ROSL has also been there and MEIS is there. So would it be safe to assume that the margins if rupee goes back to say 67 or somewhere, then we can again go back to the 20% margins that we were reporting earlier?

KK Lalpuria: Yes, we expect so because if there is rupee depreciation, there would be some positive impact on our competitiveness and we will be able to do better.

Pankaj Kumar: So this margin 15% that we reported in the current quarter, now the rates have come back to the pre-GST level, so this 15% is the margin assuming the rupee at Rs.64, is that the right assumption?

KK Lalpuria: To some extent, yes, but there are other factors also we have to oversee like the cost of power and fuel, the cost of employee benefits, how you expand on product development. So all these other factors are going to impact every time. Yes, baseline fundamental would be around 14-15% but having said that we have given an indication of 15-17% going forward.

Pankaj Kumar: So this 15-17% improvement would be broadly affected by the product mix rather than any other factors?

KK Lalpuria: Yes.

Pankaj Kumar: My second question is on the CAPEX that phase-2 expansion, so you are planning to do it in Maharashtra or Andhra Pradesh?

Dilip Ghorawat: We are planning to do it in Maharashtra.

Pankaj Kumar: What would be the CAPEX size?

Dilip Ghorawat: Around Rs.240 crores which will be funded by a mix of internal accruals and term loan under TUFS Scheme and Textile Policy of Maharashtra State.

Pankaj Kumar: This would be broadly used for modernizing your brand or any new fresh capacity addition?

Dilip Ghorawat: This will be part of our backward integration into weaving adding new looms, modernizing the spinning plant and some additions in cut- and sew facilities.

Pankaj Kumar: This we will complete by during FY19?

Dilip Ghorawat: We expect to complete the capex of Phase II by that time.

Pankaj Kumar: Sir, on spinning revenue, like earlier we were having some 10% of our revenue from the spinning, now since we are utilizing the whole yarn capacity in-house, so we would continue to do so in coming years also?

KK Lalpuria: As we modernize, we are trying to see how we can utilize more of our yarn going forward.

Pankaj Kumar: Because I remember some two quarters back, you were talking like your spinning unit is getting lower capacity utilization due to modernization. So now that is completed?

KK Lalpuria: Almost, it is an ongoing process, as and when we require special yarns also for our Fashion Bedding, we try to incorporate some more modernization in the spinning. As I mentioned, we intend to further utilize our yarn in the Home Textiles division.

Pankaj Kumar: Since we are utilizing yarn facility for in-house consumption, in ideal case our margin should also improve because of that, because earlier we were anyway selling it outside, so that was adding to our EBITDA?

KK Lalpuria: To some extent, yes.

Pankaj Kumar: Any number we can quote on this?

KK Lalpuria: It is a very negligible number; Rs.11 crores, Rs.14 crores how much it will impact, but to some extent, you are right, it will add on to our value addition.

Moderator: Thank you. We will take the next question from the line of Neeraj Prakash from Nitin Capital. Please go ahead.

Neeraj Prakash: I just have a question regarding your capacity. So I want to know when the capacity that you added in FY17 which is about 22 million meters, when will it reflect in the depreciation expense or is it already reflected? Second question was in terms of competition. What kind of threat you are seeing from Bangladesh, Vietnam and what is your stickiness with respect to your customers?

Dilip Ghorawat: As regards depreciation on the capacity increase expenses, since we did it at the fag end of last year, so this year it will be on a little higher side on that depreciation front.

KK Lalpuria: On the competition side, you see Bangladesh is not at all in finer count, it is an import based and raw material import based country where they focus mainly on knitted garments. Vietnam is an upcoming country where they have labor arbitrage and they are again focusing mainly on apparels because of the earlier TPP stand. So those countries do not have their own raw material and neither do they have own spinning in finer count yarn are at a disadvantage whereas India has got an ample capacity of both cotton and fine count spinning. So to our product mix, it seems that India has got a unique advantage as compared to Bangladesh, Vietnam and other countries. So we will always do better in this product range.

Neeraj Prakash: Just the last question in terms of your foreign exchange hedging. What kind of time period do you hedge for looking ahead?

KK Lalpuria: It depends on the order position, the order projections, the market and we look upon how the market seems to be going forward and how volatile they are, but normally speaking we hedge around 65% to 70% of our Forex going forward.

Moderator: Thank you. We will take the next question from the line of Ankit Kohli from Pure Research. Please go ahead.

Ankit Kohli: Sir, I joined in the call a little late, so please forgive if this is a repetition. Before I share my question, I like to share some context. So last week in the quarterly conference call, Welspun indicated that major part of the destocking that is happening right now is due to pressure from the online segment and they believe that over the past two years the online segment has gone from early single digit to almost 25-30% of the market in the US which is seriously impacting the home textiles sales and they feel that their revenue plans are going to get pushed because of that. Now, my question to you, one, do you agree with that assessment of online contribution and if yes, then what are the steps that we are taking to kind of counter that and more importantly does this mean that the current revenue slowdown is more structural in nature as opposed to just a cyclical downturn which the textiles industry normally sees, so my basic question is trying to understand the threat in short-term and long-term from the online segment, your assessment of it and how well is our company placed?

KK Lalpuria: First of all, you see every company has got their own business model and their own view about the market and their own set of customers, product range and positioning. As what we have been doing is we have positioned into the mid-to-high range and we are basically supplying to major retailers directly and also, we are focusing mainly on cotton products of high end qualities. So every company has got their own views of how they share their sales and how they manage their businesses. So we do not have comment on that. What we have projected that we have set fundamental right, we are established with the customers with our both product quality and services, we are here in the business for the last decade and has been serving well, we are moving up the ladder both the product mix, new geographies, innovation, product development, etc., and we are investing in new technologies as we move forward so that we can cater to better product range and better product mix to the customers. So since our business model is robust and we are focused company in Bed Linen segment, we are perceived as a valued supplier by the industry and by global customers. So we are well positioned. We would rather say is that going forward our entire focus is how we can consciously move up our value chain by adding new product which we have been doing for the last couple of years by adding brands, domestic businesses and catering to of course e-commerce also and elsewhere.

Now coming to e-commerce, it forms 1-1.5% of the total home textiles segment being sold in the USA. This has been given in various prints and information you can get on the internet as well. Now basically the e-commerce is affecting the other product categories of the businesses like books, toys, candles, white goods and all that. This is where easy trade for the retailer and their sales used to happen earlier through brick-and-mortar and which are being hit and the similarly you can find in India too whereas the retailers are losing grounds on account of product being sold in this area. In textiles particularly home textile area, there is still an inclination for touch and feel. So we are fortunate that these numbers are maintained. Of course, the retailers are affected in other areas, so the pressure is on them. But as far as home textile is concerned, the pressure is not there so much. So we have a different view that the e-commerce business is affecting so much suddenly because if at all as a company and we find that other peers too are catering to this e-commerce since last six to seven years and nobody had a big traction, we are not missing anything, we have distribution, we have product range, our price was right, we were known in the market, we had all the means to supply on the e-commerce side, but still we could not do it. So there should be some reason for that we should all agree to. I think the e-commerce, yes, of course, we should focus on this area as one of the growing channels which we are all doing but as far as our company and our strategy we find that the e-commerce is not still a big volume business having a big market share in the US market, this is not our view is.

Ankit Kohli: What you are saying is completely different from what we heard earlier but given that you are a different organization, I respect that. So in that case what in your view is the biggest risk or a set of risks to your strategy that your company would be facing?

KK Lalpuria: The biggest risk always has been the volatility in raw material prices, volatility in Forex being an export company, and the bigger risk is about the market having protectionism as what our Prime Minister mentioned at Davos. So, all these things are important. But we being in a need-based industry, bed sheet is a need-based product, it is a textile product and four countries, China, India, Pakistan and Bangladesh they supply ~85% of textiles to the world, they have got raw materials, they have got the base to convert the raw materials into yarn and other like fabric. So I think as a territory safely we can assume that Asia will be supplying textiles to the developed countries as well as it will start consuming of its own as and when it grows, so the threat still remain but I think those threats will be overgrown by the need-based requirement and consumption. As lifestyle is changing and the fashion is changing dramatically, as the requirements of the consumers are changing, the world getting much more younger in India and elsewhere. So there would be ample demand for products like this to decorate their homes. So I think there would be a good demand. We are well positioned as a country, we have got good quality raw materials, we have got competitiveness in all these areas, we have been traditional suppliers for textiles over the period, we will have growth, and we are investing in technology as well. So all these factors will help us to grow our business going forward and so we have to be optimistic about it.

Dilip Ghorawat: Further, we have also indicated in the call which you missed out that we hope to achieve full utilization of our capacity expansion by 2021 which is a testimony of our confidence in our business.

Ankit Kohli: So should I read it like you do not see the competitiveness of Indo Count per se, I am not talking about broader Indian competitiveness and Asian competitiveness, but you feel that Indo Count competitiveness is still very much there and you are not losing any share and there is no threat apart from the cyclical factors like currency and raw material, do you feel the competitive strength is still there, is that the right way to understand what you are saying?

KK Lalpuria: Of course, some of the fundamentals which we have set correct, right from the beginning of our business models and the products which we cater to, we have been able to position ourselves well, so that much only I can say, and we are quite confident of our positioning. We have been mentioning that we are a focused Textile company, and focusing only in Finer Count Bed Linen, we are not going to the lower segment. We are expanding in the bedding area only which is still a grey area as what we have mentioned earlier that all the three new categories where we have ventured into recently two years back, ~85% of it is still supplied by China. And as we all know that Chinese economy is facing headwind because of the cotton prices, because of their own exchange policies and because of their higher in-house consumption. So we feel that our company is well placed, financially we are a sound company, our credit rating is good, we have a good financial health, we are an almost debt-free company. So all these factors are in our favor to develop our competitiveness going forward and over and above we are customer-centric company where we are product-driven rather than price-driven. So this we are always focusing upon to see that we grow to a new level in the years to come.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to the management for their closing comments.

KK Lalpuria: At Indo Count, as we said that we are confident of growing on account of multiple levers.

We are consciously moving up the value chain by adding new products, focusing on innovation, product development,

We are entering new geographies, we are exploring new markets all the time, we are adding up new customers as well, and we are also enhancing our focus on the Fashion Bedding, Utility and Institutional businesses which are still a grey area.

We hope that we will fully utilize our expanded capacity by the year 2021 as what we have been stressing so far.

I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or Strategic Growth Advisors, our investor relation advisor. We thank all of you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Indo Count Industries Limited**,** that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.