"Indo Count Industries Limited
Q3 FY21 Earnings Conference Call"

January 22, 2021

MANAGEMENT: **MR. K.R. LALPURIA – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER - INDO COUNT INDUSTRIES LIMITED**
MR. K. MURALIDHARAN – CHIEF FINANCIAL OFFICER - INDO COUNT INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Indo Count Industries Limited Q3 FY21 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 participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K.R. Lalpuria, Executive Director and CEO of Indo Count Industries Limited. Thank you and over to you Sir!

K.R. Lalpuria: Good afternoon everyone. First and foremost, I hope you are all keeping safe and healthy. I hope everyone must have got a chance to look at the presentation and press release by now. I have with me Mr. Muralidharan, our CFO and Strategic Growth Advisors, our Investor Relation Advisors.

First of all, I would like to take this opportunity to thank each and every employee at Indo Count for their continued support in navigating through these challenging times.

Now let me start with a brief from the industry demand environment.

The home textile industry witnessed the demand recovery from June 20 quarter, as retailers started opening up and consumers recognized the value of 'Home' as a safe haven. As we had informed during our last concall, Home has become a center stage and most important part of our daily life, this has led to increase in the consumption of Home related products.

This along with factors like China +1 strategy, retail consolidation and value-added categories of Health, Hygiene and Wellness led to the increased demand. Retailers extended offers starting from November onwards rather than concentrating on holiday deals around Black Friday.

Multiple new avenues of fulfillment have opened up and retailers are now offering products not only in stores, but through pick up mode and increasingly through digital channels. Despite unprecedented challenges consumers and retailers demonstrated incredible resilience in the holiday season. Going ahead, we expect this momentum to continue as

'Work from Home' and more importantly Health, Wellness and Hygiene have become a new normal and we believe this trend is expected to stay in post COVID environment as well.

About cotton situation in India, cotton production has been higher and so has been the consumption; however, mismatch in demand supply due to COVID and CCI buying at higher MSP prices has created shortage, which in turn increased the cotton prices. Over and above, the ban on Chinese cotton from Xinjiang region has creating shortage leading to an uptick in prices. We therefore expect the cotton prices to remain firm.

Coming to our business performance, I am happy to announce that we have been able to sequentially achieve quarterly volumes of over 20 million meters. On our FY21 volume guidance of 72-75 million meters, we are optimistic and we expect volumes for FY21 to cross 75 million meters.

With our current annual capacity of 90 million meters and now with the consistent quarterly rate of 20 plus million meters coupled with our long-term growth outlook, we are exploring various options for capex to increase capacities.

Our aim is to enhance our capacities and our market share. In line with our endeavor to grow, we have started focusing on B2C and D2C segment. We have already preempted the benefits of entering this area through launch of our domestic brand 'Boutique Living', which is our mid-market aspirational brand and 'Layers' which is a value driven mass brand in the month of October.

Accordingly, our focus is geared towards brand building as well as launching brands as per the evolving customer preferences. We have established offices and design studios in key cities of the world to understand customer preferences and create products of the future. We are now focusing on creating more visibility through digital marketing channel. We are also creating a pan-India distribution network through MBOs and LFS. In today's world, e-commerce omnichannel and B2C has become an important channel of distribution. Due to this additional channel of distribution, a wider section of people, in Tier 2 and Tier 3 cities have also got an opportunity to buy products both offline and online. As a company, we have taken the right steps towards adapting to the new avenues of sales according to the changing customer ecosystem.

Our performance during the period has provided us with renewed confidence in exploiting the new channel of distribution and grow further. We believe there is a large opportunity for a quality brand and product in the Indian market and are confident of creating a strong brand recognition for our domestic branded business.

We believe that these are long-term sustainable positives for our company. We at Indo Count have a robust balance sheet, besides financial prudence and focused approach to the home textile business; therefore, we are well prepared to seize these opportunities.

Now let me share with you our operational and financial performance.

Volumes

I am happy to announce that we have achieved quarterly sales of 23.86 million for Q3 FY21. We had inched up from 13 million meters to 17 million meters per quarter of sales volume in last couple of years, to now being at over 20 million meter per quarter.

Our order book continues to remain healthy. We are optimistic and expect volume for FY21 to cross 75 million meters.

Total Income

Rs. 792 Crs in Q3FY21 vs Rs. 637 Crs in Q3FY20, a growth of 24% YoY

Rs. 1,852 Crs in 9MFY21 vs Rs. 1,743 Crs in 9MFY20, a growth of 6% YoY

EBITDA

Rs. 143 Crs in Q3FY21 vs Rs. 81 Crs in Q3FY20, a growth of 75% YoY

EBITDA Margin stood at 18.0% in Q3FY21 vs 12.8% in Q3FY20, an increase of 524 bps YoY

Rs. 309 Crs in 9MFY21 vs Rs. 235 Crs for 9MFY20, a growth of 31% YoY

EBITDA Margin at 16.7% in 9MFY21 vs 13.5% for 9MFY20, an increase of 316 bps YoY

PAT

Rs. 93 Crs in Q3FY21 vs Rs. 20 Crs in Q3FY20, a growth of 374% YoY

PAT Margin at 11.7% in Q3FY21 vs 3.1% for Q3FY20, an increase of 864 bps YoY

Rs. 191 Crs in 9MFY21 vs Rs. 65 Crs for 9MFY20, a growth of 195% YoY

PAT Margin at 10.3% in 9MFY21 vs 3.7% for 9MFY20, an increase of 660 bps YoY

Net Debt to Equity at the end of 31st December 2020 stood at 0.06x

That is all from my side, I now leave the floor open for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: Good afternoon. Firstly, congratulations Mr. Lalpuria for an extraordinary performance. My question circle around the long-term outlook of the company, you are already operating today at about 23 million square meters. So does that mean that is the run rate of over 90 million, so what happens to your capacity? Are you able to outsource or are you outsourcing at the moment or it is all produced internally?

K.R. Lalpuria: We have 100% processing done in-house and we do outsource cotton and yarn . The Board has given clear directions to frame up the investment plan, which we are working upon. And we have already indicated that 20 million plus will be the run rate on the quarterly basis. This year we will cross 75 million meters, so we do have some capacity to pull on as we have total capacity of 90 million mtrs, but we will come with definite plans in the near future and inform all the investors.

Jiten Doshi: So may let us say next year there is a visibility of may be even 90 million meters would you be able to supply that much?

K.R. Lalpuria: Yes, we should be able to. We have demonstrated this during the challenging times with the record volume and value and as we have mentioned that we have a capacity of 90 million meters and if we are delivering 75 million plus, then we still have a capacity of 15 million to cater and by then we will definitely have plans to put on the capex to increase our capacities and we are very confident of delivering our customers desired volumes.

Jiten Doshi: So actually Mr. Lalpuria in your opening remarks we did not get too much about the China +1 one strategy from your side. Can you tell us that you have how much is the long-term trajectory changed? Can we in the next five years let us say aspire to do at least 150-200 million meters, is that big an opportunity existing for us?

K.R. Lalpuria: The China +1 strategy we had clearly spelt out in our last concall and we again substantiate that negative sentiments against China is growing. As we all know that US has banned Chinese cotton from the Xinjiang region and this is a big blow to them because 87% of their cotton comes from this region. As we are coming to know about the finer details and due to this big blow to the Chinese exports, it is a big opportunity for India to grow in these segment, which we have been forecasting time and again, the fashion bedding, utility and institutional business; Regarding our plans for next five years, we have been saying that we have grown in the past and we have delivered in these challenging times, both in terms of volumes and value. So this is the testament to our company's capacity and capability.

It also authenticates our company as a globalized player with the world class product and services. We strongly believe that we are an established player now and we have crossed the first level of growth. As a company, we are financially on a strong and sound footing. Our vision is to be among the top three players in the world of Home Textiles. So, we can say that we are entering a new orbit of growth. We believe that in the next 4-5 years we should be able to double our turnover and create value for all our stakeholders. We will suitably leverage our current cash reserves and future internal accruals along with the low interest rate in the market and the debt to grow both organically and inorganically. Our strong initiatives in the front end like branding, distribution, e-commerce, the domestic market and promotion of innovated products gives us the necessary confidence to become a leader in the bed linen segment globally. We also as a company are having continued initiatives in the environmental, social and corporate governance, which is helping the organization to become world class. This sustainable initiative undertaken will help the company to contribute favorably to our national growth as well. So therefore, we are taking strong initiatives for growing the company to the next level because we have already fundamentally established the first level. So that is my say , for our future growth plan.

Jiten Doshi: I am saying that last time you were guided us for a particular range of margin, but now we are seeing that you are able to hit a particular band. Can you tell us what is the new normal in terms of the margin band like you said 20 million plus is the new normal for every quarter and when you say 20 million you will do like for example in the fourth quarter you have never crossed 14 million. So is this a new growth trajectory that the company is entering?

K.R. Lalpuria: We have already mentioned that the annualized guidelines will cross 75 million. This shows that we should be able to cross 20 million in the fourth quarter as well. As far as the margins are concerned, we have already given the annualized margin guidance of 15% to

17% in our last concall and for FY22 we should be able to provide in our next quarterly concall

Jiten Doshi: But you know if I look at this as a new normal that means every year you will be generating at least full 500 Crores, 600 Crores of EBITDA that means over the next five years, you will be generating 2000 Crores plus of cash, so why would you need debt to expand?

K.R. Lalpuria: That the board will figure out. Definitely we have cash reserves on the book and we will suitably see how much expansion the board directs us to weigh and accordingly we will draw debt, otherwise it will be from internal accruals.

Jiten Doshi: Thank you so much and wishing you all the very best. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Hasmukh Gala from Finvest Advisors LLP. Please go ahead.

Hasmukh Gala: Sir my question was regarding the sustainability that the surge in demand, which we are seeing based on which you anticipate that you will be able to do quarterly run rate of 20 million. So how good is that the sustainability, the spending spree, etc., which you have seen in this particular quarter?

K.R. Lalpuria: As we had informed Mr. Gala, in our earlier concall there is a structural shift where 'Home' has become the forefront of our life and lifestyle and the demand momentum is continuing which we are observing in this quarter as well and that is what we have guided for the next quarter. So there is a strong visibility of sustainability as our order book position is also good.

Hasmukh Gala: What is your order book roughly?

K.R. Lalpuria: Order book is normally, five months to six months and we are into replenishment business, so we do have visibility on longstanding orders.

Hasmukh Gala: So are we doing the promotion etc., which you know we withheld because of the COVID thing you could not travel to America, Europe etc., so how are those things changing?

K.R. Lalpuria: They are also doing well. When we supply replenishment, we have also to support the customer with the promotions as well. When the category is doing good, they also go into promoting it. The e-commerce is also developing. Alongwith the online, offline and the direct to consumers business is also growing. For these channel of businesses, our company has created a complete strong background for delivering both case pack, pick and pack and order on line and pick up at the store. Thereby we can always take advantage of these channels, as we have a faster go to market approach.

Hasmukh Gala: Sir one thing we observe that in Q3 our raw material cost has come down and so has been 9 months, to 50% from earlier about 54%-55% and you just indicated in your opening remarks that because of the consumption increase and CCI buying at high price, the cotton prices will remain at high rate. So do you see the material cost or your gross margin getting depleted to some extent as we go ahead?

K.R. Lalpuria: We have dealt with such situation in the past as a company and cotton is a global phenomenon. We are closely watching the situation and we are covered for three to four months. We are confident on passing of cost increases, if necessary, to the customers considering that the demand is sustaining. So when the demand is good, the customer also accepts our request on the price rise as well and over and above the product mix also changes from time to time which impacts the gross margin.

Hasmukh Gala: Sir currently we are hardly spent anything on capex in first half when the balance sheet was available? So what will be the total capex for FY21, current year?

K.R. Lalpuria: For the current year we have already given routine capital expenditure of Rs. 20 Crores to 25 Crores . We have not spent in the first half so maybe it may come in the second half. See, we already have a capacity of 90 million meters. So whenever the board decide, we will definitely take that call.

Hasmukh Gala: Correct. That is right. It may be some balancing equipment or some offtakes and all that.

K.R. Lalpuria: That we always do. The balancing of equipment’s, the debottlenecking, or any modernization we always take that into consideration.

Hasmukh Gala: Sir when the new project is being set up, you said that you will come out with definite plan, but what will be the approximate size, the optimum size which you should go for, for deriving the economy of sale, etc.?

K.R. Lalpuria: We are on the drawing board and the board has given clear direction to work out investment plan. So once that is frozen, we will definitely provide that information to everybody.

Hasmukh Gala: Sir the last question is this RoDTEP has already come from January 1, so now what is our rate?

K.R. Lalpuria: That is now yet to be decided by the government. As and when they decide, it will be an information in public domain so everybody will know.

Hasmukh Gala: So they have not yet done that.

K.R. Lalpuria: No. They have not spelt it out.

Hasmukh Gala: Earlier we were expecting something like 8% plus 4%?

K.R. Lalpuria: Current rate is 8.2%. We have submitted whatever refund of duties and taxes we need through our export council to them and they will take appropriate call. As such we do not know today. It will be spelt out by the policymaker and then we will come to know.

Hasmukh Gala: Okay. Sir under the existing arrangement what is the total benefits we get?

K.R. Lalpuria: We get RoSCTL of 8.2% and 2.6% is the drawback so total 10.8% but the realization is around 9.5%.

Hasmukh Gala: Yes. That you had explained in the past also. Thank you very much Sir. I will join back in the queue.

Moderator: Thank you very much. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good afternoon to the management. Sir couple of questions from my side; first when you mentioned of the China +1 policy, you did allude to that even in the last quarter specifically the Xinjiang issue is something that has come up I think only in the last couple of months and if we look at the OTEXA data also the pickup in market share for India has only happened in the last month or two at least in bedding segment. I just wanted to understand that is this shift right now happening because of the issue of cotton availability or usage of cotton from Xinjiang or structurally there is a movement that is in place and if it so it is just that not reflecting in the data?

K.R. Lalpuria: We have already mentioned that some of the structural shifts which are happening from June 20 onwards and during the COVID times that the 'Home' has become the center stage. So Home Textile consumption has gone up number one. The second was the opportunity towards China +1 strategy. This Xinjiang cotton happened almost like three to four months back but it has scaled up now because the US CUSTOMS started blocking shipments from Xinjiang Cotton area and Xinjiang Cotton area supplies almost 84% of Chinese overall requirement of cotton. So it is quite substantial. So this is what the China +1 Strategy is. Over and above China has been focusing on its domestic business and not on the export business much. Their raw material prices like when we compare apple to apple, cotton is almost 30% expensive than Indian cotton. Their labor cost is like almost triple than the Indian labor cost. So all these factors provide opportunity to India and being a large player, the largest producer of cotton and also a traditionally textile producing country it has in the last two decades performed well in the Home Textile area and have garnered a good market share in the global market. So we feel the negative sentiments, which are building towards Chinese supply will definitely create opportunities for India and other Home Textile players around globe. So this is what the China +1 strategy is. We are going into finer details of how the reaction would come across on the supply chain side from this region in the near future and will keep all informed.

Nihal Jham: But just a follow up on that you know what is interesting is that ideally a lot of other sectors of China +1 works where China is the market leader and India is that the number 3 or 4 position in terms of market share, but at least in the bedding segment we anyways are a leader by far so in your interaction with manager, purchasing managers around Big Box retailer. Are we comfortable increasing the share any further because we already have 50% plus market share in that segment?

K.R. Lalpuria: Yes of course, because you see the market share indicates that India is competitive and performing well and if India comes out with complete bedding solution in fashion, utility and institutional bedding as well then India's overall market share will further grow.; China still dominates in the MMF segment. So those are the areas which are low hanging fruits for Indian suppliers if they built on the capacities and the capabilities, which has been mentioned earlier too and that is why our company has also since last three years have ventured into these new areas and have focused on the fashion utility and institutional bed linen side of the business and we have grown this to almost 15% of our sales.

Nihal Jham: Sure Sir absolutely that is helpful. The second question of the capex part when you are looking at in expanding further from 90 million meters will you be only adding the processing capacity, or we may add weaving and the yarn capacity also?

K.R. Lalpuria: The Board will take an appropriate call. We are on the drawing board and once we freeze what capacity we need to achieve; we will present to the Board and then it will be made known to everybody.

Nihal Jham: Sure and last question from my side on the incentives part, you mentioned currently the duty drawback is 8.2%, right and RoSCTL is at 2.5%. Did I hear that right?

K. R. Lalpuria: No, RoSCTL is 8.2% and duty drawback is 2.6%. This is the other way around.

Nihal Jham: Sure and we are expecting that once RoDTEP rates are announced, they should be around 8% at least?

K. R. Lalpuria. As I mentioned to Mr. Gala also in my previous answer that the government will decide and that would be in the public domain, which everybody will know. So we are waiting for the government to decide upon the rate.

Nihal Jham: Absolutely. That will it be from my side. I wish you all the best. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia: Good afternoon Sir. Sir my question is that recently the cotton price and yarn prices have skyrocketed, so how it will make the margin in the coming quarters?

K. R. Lalpuria: See, as I mentioned earlier, we have dealt with such situations in the past and we are covered for three to four months average and since the demand is sustaining, we will pass on the cost increase to our customers.

Aman Sonthalia: It is not a very big issue. They will understand the problem and they will give a onetime increase.

K. R. Lalpuria: You see cotton being a global commodity it is a global phenomenon. So, we do have to watch, and we have to see how it pans out. But as a company this is what positions as of now we are taking.

Aman Sonthalia: So, already we have taken some price increase?

K. R. Lalpuria: We will be able to pass on. As I mentioned to you earlier that if there is a substantial increase and it impacts everybody in the marketplace so all categories of products, made of cotton, then definitely everyone will go to their buyers and ask for a price rise, which will be accepted by them, because they would also know about this global phenomenon.

Aman Sonthalia: Thanks a lot. This is from my side.

Moderator: Thank you very much. The next question is from the line of Vinay Jaysing from Enam Asset Management Company Limited. Please go ahead.

Vinay Jaysing: Thank you so much for the opportunity. Congratulations on one more good set of quarter and a great quality presentation. Most of my questions I think have been answered partly. So, when I look at your last two quarters and I look at the volumes, and I just multiply the last two quarters by 2 so that I get a full year's run rate, we are closing to 92 million 93 million and the question is if at all, the last two quarters were repeated in the next four quarters, the next six quarters and we have a capacity of 90 million and as most of the investors asking what happens on capex, will you be able to outsource your overall or part of your consumption so that you can cater to this demand? That is my first question.

K. R. Lalpuria: Yes of course. We have been outsourcing and we can outsource, but as I mentioned earlier, even if we cross 75 million and today, we are at 90 million capacity; whether short or medium term, we will be able to maintain our supply chain. So, we have 100% processing capacity in-house. It is only the yarn on the weaving fabric which we outsource predominantly, which is available in India in ample quantities.

Vinay Jaysing: Does that reduce or increase the margins, or would that be neutral to margins if we do some outsourcing?

K. R. Lalpuria: So far it will be neutral like say we are covered for three to four months as I mentioned, we are in a dynamic world, this is a global phenomenon on the raw material side, and we need to keep a close watch on it.

Vinay Jaysing: Lastly, I am not really bothered about the raw material at all, if whatever you have been saying sounds very exciting that the China plus one strategy, the demand, that seems to suggest to me that your volume growth is back and even if I do not assume a volume number, it seems that this quarter's volumes can be just taken and multiplied by 4 and you can cross 92 million to 93 million odd, so I am trying to just gauge that is this a one-off quarter or these quarters you kept on mentioning 20 and not 22 or 23 or higher. So, I am assuming that this kind of a quarter more or less be maintained or moved up even forward in the short-term as well in terms of volumes and EBITDA margins?

K. R. Lalpuria: Of course, we are expecting this momentum to continue, and we maintain from our order book position and we also mentioned that we are on the drawing board, and soon we will be taking decisions regarding the capacity expansion and as I mentioned that for short to medium term even if it goes to 23 run rates, we will be able to supply because we can always outsource as well. So, the margins for FY 21 will be as per the guidance we have given already and for future margins, we need to see in our next concall.

Vinay Jaysing: So, as far as volumes are concerned, if you get the current volumes which you seem to be relatively confident supply is not a problem. So, that is one part of the equation. Moving to the second, you have spoken a lot about domestic markets in the last call as well. If you can throw some light on that in terms of what would be your targets on the retail front. As you did speak about online, but any other thing you are doing because obviously your quality of products, which you suggest around your presentation also seem to be impressive.

K. R. Lalpuria: The domestic market is quite upbeat. As we all know because there are only a couple of prominent players in the marketplace. We had launched 'Boutique Living' only three years back and our product has been well accepted, and we have been able to distribute our products to 20 states with almost 500 point of sale. We are quite upbeat now to grow this business because the online, B2C and the D2C business channel of distribution is also growing along with the offline business and we as a strong manufacturer we are eager to provide complete customer solution in the future. So, we are quite upbeat about our domestic brand and we had launched in October the 'Layers' brand which is value driven to complement the Boutique Living, and Boutique Living is an aspirational brand. So, we are getting through digital marketing quite positive responses. So, we have acquired these talents. We have built in a good team. We have built in good backup processes, systems wherein we can cater to the consumer's demand in the near future till we scale up. India is going to become a 5 trillion economy in value; home has become the centre stage, the buoyancy in the property market, and the home is where you spend a lot of time for entertainment, work, pleasure; everything will provide positive impact on the pattern of consumption in the Home textile as well. So, with all these positives we are quite upbeat about our domestic market and the 'Layers' brand is catering to complete range of home textiles, wherein we have found positive responses under the digital marketing side as well. So that is the reason we see this domestic market can be a good buildable business model in the future.

Vinay Jaysing: I am going to slip in one more question. If I look at what you are telling me currently that you know capex is not a problem, inventory is not a problem, raw material cost is a bit of an issue, one last thing if you can tell us what do you expect from the government in the budget? Are we expecting something in terms of PLI like we get some this industry also comes under PLI and you get some volume numbers where you can build a new plant or something coming there or are we expecting just the RoSCTL platform wherein you will get a higher margin there, and that takes care of your export incentives? Any thoughts on that Sir?

K. R. Lalpuria: Our Prime Minister has declared Atmanirbhar Bharat. So, as a company we are strongly pursuing this move and we as an Indian company we think globally and act locally and that is what our vision is also. The government is definitely supportive, providing necessary regulation policies and support from time to time and it will further provide, because textile is a large contributor to the GDP as well as it is a large employement generator. So, definitely the government has got a soft corner to textile which employs a large number of people. So, I think for PLI, Textile industry also is included by the government. We are yet to understand the details of it, but we feel that the government will provide necessary support to both the textile industry and exports in the coming period because they would also like our GDP to grow at a faster rate. So this is my input on this question of yours.

Vinay Jaysing: Thank you so much Sir. I appreciate it. All the best again.

Moderator: Thank you very much. The next question is from the line of Chirag from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodaya: Thank you for the opportunity. Sir, I have just one question. What is our hedging policy?

K. R. Lalpuria: We hedge around 60% of our forwards as per our forex policy laid down by the management.

Chirag Lodaya: At what rate currently we would be having our hedges?

K. R. Lalpuria: 74 plus is the future rate.

Chirag Lodaya: Thank you.

Moderator: Thank you very much. The next question is from the line of Vikram Sharma from Niveshaay Investment Advisors. Please go ahead.

Vikram Sharma: Sir, what is the contribution from the export and domestic market in current quarter and first nine months?

K. R. Lalpuria: We are mainly an export company. The domestic business is still at an initiative stage. So, we will be able to provide better guidance after few quarters, later.

Vikram Sharma: Sir, what was the breakup of Home Textile in the last quarter and are you selling cotton yarn thread on the final product?

K. R. Lalpuria: We are captively consuming our yarn, but to some extent we do sell in export market. Since the in-house yarn production is not completely aligned towards consumption of home textile where we need finer yarn, so some part of it will be exported and sold in the domestic market.

Vikram Sharma: You are not doing 5%, 10%?

K. R. Lalpuria: It is not substantial, because mostly we are using for our captive consumption.

Vikram Sharma: Sir are we able to procure complete requirement indigenously for raw materials, or are we facing some problem?

K. R. Lalpuria: We are outsourcing, and we are not facing any issues because we have long-term contracts with our suppliers and we support them and they support us.

Vikram Sharma: In this current market scenario of cotton, do you think you will be able to manage operating margin in the same level than it was?

K. R. Lalpuria: We will try to. As I mentioned we need to observe the situation. we are booked for three to four months and we have given our margin guidance already for on an annualized basis and next year we need to observe, cotton being a global phenomenon, we need to wait and watch and see how it pans out.

Vikram Sharma: Thank you.

Moderator: Thank you very much. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead. We will move on to the next participant. The next question is from the line of Hasmukh Gala from Finvest Advisors LLP. Please go ahead.

Hasmukh Gala: Just wanted to know in our total 24 Crores of other income, how much was forex gain?

K. R. Lalpuria: It is about 14 Crores. Last year we had a substantial amount of forex gain of about 50 Crores and this year it is only 14 Crores.

Hasmukh Gala: How is the position regarding the recovery of export incentives, because as of March 2020 we have this amount which has to be recovered, something like 80 Crores plus. So has that situation improved?

K. R. Lalpuria: The situation has somewhat improved, but periodically the government's funds are getting over, so they extend it, but RoSCTL we were able to get on a continuous basis; even some MEIS and ROSL payments are still lagging and we hope that to get much more synchronized in the future because the government is focusing on online transaction.

Hasmukh Gala: Sir, as of December 31, 2020 how would have been the outstanding, any colour, export incentives to be recovered?

K. R. Lalpuria: RoSCTL and drawback together it would be about 40 Crores. Of which I think this was as of December 31, 2020 but later on we have recovered about 35 Crores so as on date this should be about 5 Crores net. Plus there will be additions happening.

Hasmukh Gala: No claims would have been launched.

K. R. Lalpuria: Correct.

Hasmukh Gala: Sir, on the receivable side, as on September our receivable has increased by about 88 Crores to 340 Crores. So, how is the position on receivables?

K. R. Lalpuria: These are due to bunched up shipments.

Hasmukh Gala: But in terms of number of days we are comfortable is it not?

K. R. Lalpuria: Yes.

Hasmukh Gala: Sir, this investment which is about 80 Crores as on September 30, 2020 which of the avenues where we have parked this money? They are all mutual funds?

K. R. Lalpuria: We have parked in Corporate FDs and arbitrage funds.

Hasmukh Gala: Bank FDs, but then you will classify and make those investments 80 Crores?

K. R. Lalpuria: These are mainly in Corporate FDs and arbitrage funds also but that is very meagre.

Hasmukh Gala: So mainly it is bank FD?

K. R. Lalpuria: Yes. Corporate FD.

Hasmukh Gala: Thank you.

Moderator: Thank you very much. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Sir, my question is a clarification required in one of your earlier answers. You mentioned that China cotton exports are getting blocked or custom officials are blocking the exports from Chinese cotton area. Can you explain a bit more on that?

K. R. Lalpuria: This is the information even the public domain and what we hear about is the Chinese cotton coming from Xinjiang region if it is found by the US customs, they block that particular item from getting accessed to the US market. So this much we know and they are asking the Chinese supplier to provide certificate of origin that whether it is produced from Xinjiang cotton or any other cotton. So, this is the information which is available to us.

Giriraj Daga: Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Dhiral Shah from PhillipCapital India Private Limited. Please go ahead.

Dhiral Shah: Good afternoon Sir. Congratulations for the good set of numbers. Sir, in your opening remarks you had said you are targeting double kind of a revenue in the next three to four years, so what is the ideal fixed assets turnover in our business?

K. R. Lalpuria: Typically, it is 1:3. But for a fairly integrated capacity, it is 1:1. However, this depends entirely on how much of capacity can be outsourced.

Dhiral Shah: So, for doubling the revenues, are we expecting, or do we expect that we have to do almost 2000 Crores kind of a capex?

K. R. Lalpuria: Investment would be substantial. It depends on the value addition also.

Dhiral Shah: Sir currently what is the proportion of manufacturing and outsourcing right now?

K. R. Lalpuria: Mostly what I mentioned, we are doing processing 100% in-house and we are doing cut and sew also in-house. So, mostly we are doing production in-house only.

Dhiral Shah: Sir, lastly you just talked about the cotton which is coming from the restricted area in China so what proportion, is this overall Chinese exports? When you said the US is restricting the Chinese exports, which is coming from the Xinjiang region. So what is the proportion of the overall Chinese which is coming from that region particularly?

K. R. Lalpuria: It is almost like 20% what they say of the overall cotton production worldwide.

Dhiral Shah: That is it from my side. Thank you so much Sir.

Moderator: Thank you very much. The next question is from the line of Ridhima Chandak from Roha Asset Managers LLP. Please go ahead.

Ridhima Chandak: Thank you for the opportunity. Sir my question is on our domestic market. As of now we are focusing on the B2C and direct to consumer since the year in India. As of now what is our contribution from the online sales? Do we track this data?

K. R. Lalpuria: As I mentioned it is too early to say the number because we have started focusing on this area since last three to four years. We were earlier focusing on the dot.com businesses of the retailers and then drop shipping to some E- platforms as well, but during COVID and post COVID, the online e-commerce, B2C business has developed into a strong distribution channel. So, as a company because we are geared up with the back end, we are now focusing on this going forward. But it is too early to give you a number.

Ridhima Chandak: Do we also have our own stores?

K. R. Lalpuria: No, we do not have. We are not into retail.

Ridhima Chandak: Our total domestic contribution is approximately 7% to 8% in our total revenue in FY20 and we are also focusing very aggressively. So, what contribution going forward we are looking for Indian in the next four to five years or say two to three years?

K. R. Lalpuria: I think we have not mentioned that we are at 7% to 8% of our sales in the domestic. We have always maintained that this is a new area. We see a lot of growth in this area. We are all geared up with necessary brand distribution, the team and we see a big opportunity to grow in the domestic market. So, that is what we have mentioned also in our investor deck and press release that this e-commerce, B2C, D2C, and all these channels of distribution along with large format stores, MBOs, etc., pan India, and with the Indian economy growing and the home textile consumption growing we see a big opportunity of growing this business here. We will be able to provide with some numbers, maybe in the next year.

Ridhima Chandak: Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. K.R. Lalpuria for closing comments.

K. R. Lalpuria: We are really confident that the next level of growth in Indo Count will be sustainable, brand accretive, margin positive and will strengthen the customer relationship. We would constantly focus on increasing our penetration through B2C and D2C foray. With this I would like to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors, our Investor Relation Advisors. Thank you.

Moderator: Thank you very much. On behalf of Indo Count Industries Limited that concludes this conference. Thank you for joining with us. You may disconnect your lines. Thank you.

Note: E&O Corrected