"Indo Count Industries Limited Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Indo Count Industries Limited Q1 FY2019 earnings conference call. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantee 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 of Indo Count Industries Limited. Thank you and over to you sir!

Kailash R Lalpuria: Good Afternoon and a very warm welcome to everyone. Along with me, I have Mr. Dilip Ghorawat, our CFO and SGA, our Investor Relations Advisor.

Let me begin with giving you a brief on the industry. The global growth is picking up especially in large economies. This bodes well for us, since US and Europe, are the biggest consumers of home textile. With the Indian advantage, we are widely perceived and acknowledged for our variety and exquisite designs in home textile.

The current Indian home textile market is in a sweet spot as India's share in the global export is poised to increase. Due to economies of scale, our world class manufacturing facilities, focus on product innovation, quality and service level will help us furthering our penetration into major markets.

We enjoy our strong footing in the US and we want to replicate similar success in other key markets also. We are constantly looking at other markets to grow our business and diversify our risks. This includes market such as Europe, UK, Japan, Middle East, Australia and other MENA countries.

European home textile market is far larger than US and going ahead we expect contribution from European market to increase. We are continuously looking at adding customer in this geography and increasing our share of business.

With design studios and allied infrastructure in place, we are confident of a better performance in Europe. India continues to be one of the fastest growing large economies in the world with low market share of branded players in home textile. With GST implementation providing a more level playing field for organized player we are gearing up for the domestic market as well.

On a domestic business, we continue to perform well and going ahead we will increase our market share in the domestic business. Our products are increasingly finding acceptability with consumers and boutique living being our inspirational domestic brand is now present with multiple retailers across 21 states in India.

The recent government move for a steep hike of 28% and 26% in the minimum support price on medium staple and long staple fiber cotton respectively will keep the cotton prices at an elevated level.

At the start of the financial year, we had guided for 58 to 60 million meters of sales volume for the year of FY2019. I am happy to report that we are on track having done 14.4 million meters in Q1 FY2019, which translate a growth of 22% Y-o-Y basis.

Lastly, I take pleasure in sharing with you that during the current quarter, Indo Count Industries Ltd won the prestigious 'Vasundhara Award' from the Maharashtra Pollution Control Board. We are adjudged as the second best company in the entire state of Maharashtra among all the large units. The award is on account of our contribution towards the commitment and promotion of environment, energy conservation, natural resources and social and welfare activities.

That is from my side. Now I would like to hand over to Mr. Dilip Ghorawat, our CFO for the financial highlights. Over to Mr Dilip.

Dilip Ghorawat: Thank you Mr. Lalpuria. Good afternoon and a warm welcome to everyone present on the call. We have uploaded the Q1 FY19 results and presentation on the Stock Exchanges and Company's website. We have circulated the presentation to all the investors and analysts. I hope you have been able to have a look at the same.

I shall share the financial highlights for Q1 FY 19.

Revenues:

The total revenue stood at Rs.457 Crores for Q1 FY19 as against Rs.432 Crores in Q1 FY18 and Rs.424 Crores in Q4 FY18.

Sales volume stood at 14.4 million meters in Q1 FY19 versus 11.8 million meters in Q1 FY18 and 13.7 million meters in Q4 FY18. Sales volume growth was 22% Y-o-Y basis while revenue growth was 6% Y-o-Y basis. This was on account of lower currency realization, change in export incentives and higher captive consumption of yarn.

EBITDA:

EBITDA stood at Rs.64 Crores for Q1 FY19 as against Rs.65 Crores in Q1 FY18 and Rs.60 Crores in Q4 FY18. The EBITDA in Q1 FY19 stood at 14% versus 15.1% in Q1 FY18 and 14.1% in Q4 FY18.

Profit After Tax:

Profit after tax for Q1 FY19 was Rs.29 Crores as against Rs.32 Crores in Q1 FY18 and Rs.27 Crores in Q4 FY18.

PAT margin stood at 6.3% in Q1 FY19 versus 7.4% in Q1 FY18 and 6.3% in Q4 FY18.

Cash Profit:

Cash profit stood at Rs.38 Crores for Q1 FY19 as against Rs.40 Crores in Q1 FY18 and Rs.38 Crores in Q4 FY2018.

EPS:

We recorded an EPS of Rs.1.46 on a face value of Rs.2 per share for the quarter Q1 FY19.

Debt:

The Company's net debt to equity as at June 30, 2018 was 0.34x times.

That is all from my side. I now leave the floor open for questions and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Niraj Mansingka from Goldman Sachs. Please go ahead.

Niraj Mansingka: Thank you for the opportunity. Mr. Lalpuria you have just mentioned about the European market. Can you please give more detail from that despite disadvantage in Pakistan and other countries, is India really competitive enough to hold into the European market and also can you briefly touched upon the fact that Chinese currency depreciation has any effect under recent orders that you have been discussing with clients?

Kailash R Lalpuria: Yes, first of all Pakistan is in the lower segment of the market. We in India ourselves and all our peers are positioned in the mid to high segment of the market. In the recent devaluation of Pakistan rupee to dollar, it will provide them some help in their product, because Pakistan has been provided duty preference till 2020.We expect this to be reversed in time to come both for Bangladesh and Pakistan. So that is why, we are optimistic about if that the duty preference will go away and secondly as they are just focusing on the lower segment of the market and they have not invested much into textiles in the last decade, we feel India who have invested into technology both at quality and service levels and various other areas have an upper edge over Pakistan 's product and services. So we feel that this will be a favorable situation for India going forward in the European segment.

Secondly, India first focused initially in the last decade in the US and now, because the European market was fragmented,India never focused into this, as the order sizes were small. Recently India has added on printing capacities and the focus is onto supply the product, which European wants that is much more of print products. So we feel that this will also provide a much positive effect to our business penetration. So these factors would help us prevail over Pakistan in the competition in the coming years.

As far as China is concerned, it has few other issues and not only the currency issues. In China the cotton prices are higher by almost 30%. Secondly they have pollution issues. Thirdly they have cost issues on the labor side. We are focused to more value added and technical products. So India is well poised there as well and as India would further rationalize the polyester and synthetic duties, manmade duties, India will become competitive in synthetic as well, which is dominated by China at present. So we feel that these two markets will stand to loose out in the longer run and India will stand to gain.

Niraj Mansingka: Sir just a related question two things this side, one was that there will be a review in 2020 because there is some set there, why do you believe that Pakistan will be out or Bangladesh will be out of that clause for GSP preference?

Kailash R Lalpuria: Because Bangladesh per capita income will be higher than $1000 and if it is more than $1000 in the last three years then the GSP preference is withdrawn.

Niraj Mansingka: And secondly what are the synthetic duties we are talking of which India's rationalizes can benefit?

Kailash R Lalpuria: Currently we are under 12% GST on manmade fiber and yarn and China does not have such a higher duty and secondly the cost of synthetic yarn and fiber in India is expensive as compared to China by almost 30%. So the downstream product, which we export become expensive and that is the reason in fashion bedding, utility bedding and other areas at the lower-end and the mid-end China is able to compete more into synthetic as well as synthetic blend, and blended products. So we feel that if India rationalizes these duties further and it becomes low then India will be able to compete in those products with China.

Niraj Mansingka: Would India always give that off late for the exports, so I am not able to get that on our synthetic side while your fashion bedding is concerned. So India always gives that the GST benefits are always return in traded cost, you always get it offset when you export the product?

Kailash R Lalpuria: No, off late only the inverted duty structure has been revised on the fabric side earlier because on the yarn and the fiber it was higher we could not offset the duty. So that still we are studying of the impact on it.

Niraj Mansingka: But are we gone through a state that we have become competitive against China on the fashion bedding side, because just this inversion going away?

Kailash R Lalpuria: Yes that has come just recently so we are evaluating that but I feel that India would become competitive at a later stage because India will have a backend operation also set up, because so far India did not focus on this area and it did not setup the backend process. So once Indian raw material gets cheaper, India will focus on this product and that will favor India into competing with China going forward.

Niraj Mansingka: Thank you. I will take that later on.

Moderator: Thank you. The next question is from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Good afternoon Sir. Sir my question is more regarding the cotton and the inventory levels. Sir what should be the current market price of the bale of cotton in the market?

Kailash R Lalpuria: It is around Rs.47000 - Rs.48000 per candy.

Dhruv Agarwal: Sir the company is holding inventory levels up to what month of the year?

Dilip Ghorawat: We are holding up to mid of October,2018.

Dhruv Agarwal: Sir what should be the average cost of inventory in hand per bale per candy?

Dilip Ghorawat: It will be around Rs.42000 per candy.

Dhruv Agarwal: So all the inventory levels up to October 18 has an average cost of Rs. 42,000 can we assume that?

Dilip Ghorawat: Yes please.

Dhruv Agarwal: Sir what was your comments on the upcoming cotton harvest? How do you see the pricing moving as you mentioned that because of the MSP hike it should be at an elevated level but how do you see your pricing going forward?

Kailash R Lalpuria: The MSP prices declared by the Government of India are higher by almost 28% and 26% respectively for medium and long staple. So there would be some impact on this, but there will be more cultivation as well because if the farmers get a better realization as against the cash crop, this will help more cultivation and more production. So we need to see when the new crop arrives, but because of the international demand as well from China we feel that the cotton prices would stay at an elevated level only.

Dhruv Agarwal: Well you see then crossing Rs.50000 per candy?

Kailash R Lalpuria: We cannot comment on that. We are to see how much the crop is there, how about the bollworm and the pest and we need to see how much it gets exported. So all those factors will affect, but I think India being the largest producer in the world, the supply side would be stronger going forward so that will mitigate the risk of the demand getting assaulted.

Dhruv Agarwal: Sir and one last thing, if you see you have reported robust volume growth in this quarter, but if you see from the realization perspective the topline has not grown much. So which is reflecting in the profit after tax levels of the company, which has degrown for the past many quarters. So do you see the PAT growing from second quarter or in the second half of the year all together?

Dilip Ghorawat: We have given a guidance of EBITDA in the May 18 con-call and we continue to maintain that guidance for the whole of the year.

Dhruv Agarwal: I think so that guidance was 14% to 16% EBITDA including the other income.

Dilip Ghorawat: Yes please.

Dhruv Agarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Mangesh Bhadang from Param Capital. Please go ahead.

Mangesh Bhadang: Good afternoon Sir. Thanks for taking my question. Sir just the question again on the realization. Sir you basically despite such a strong volume growth, the revenue growth is not there, so how much would be the forex impact in the lower realization Sir and how much probably will because of the competitive pressure?

Dilip Ghorawat: There was three to four factors affecting revenues which we have indicated in our press release and presentation. One is the currency which has been lower for the Q1 FY19, secondly the duty drawback where the government has reduced by around 5% and thirdly there is captive consumption of yarn, which has increased as compared to Q1 of last year. So these are the factors which have resulted in a lower sales value.

Mangesh Bhadang: So 5% would be from duty drawback and rest would mixture of currency, but no pressure as such in terms of pricing the product to the consumer?

Kailash R Lalpuria: No, the pricing of the product keeps on changing that is a moving average because of the product mix the geography change and all that, but major factors what Dilip just now mentioned have a direct correlation to the reduction on the margins, reduction on the revenue.

Mangesh Bhadang: Sir the volume growth is similar in our US as well as non-US market?

Kailash R Lalpuria: No, it is a mixture of both when US is stable and we are optimistic of growth there but as we motioned that we are also focusing on other non-US businesses in countries like Europe and

Japan, South Africa, MENA, Australia. So all these countries are also seeing an uptick in demand so we are expecting growth there as well.

Mangesh Bhadang: Sir lastly just wanted to understand the total comprehensive income we have a loss so there is that Rs.37 Crores entry of the hedging can you just please explain that?

Dilip Ghorawat: The Company uses derivative financial instruments such as forward covers, etc, to hedge its risk associated with the foreign exchange fluctuation. Now effective April 1, 2018 the company has adopted cash flow hedge accounting on derivative contracts including existing contracts as per Ind AS 109. The effective portion of fair value of these derivatives or MTM that are designated and qualified as cash flow hedges were around Rs.37 Crores (net of deferred taxes was Rs 19.92 Crores) which we have recognized in other comprehensive income. The ineffective portion arising from the changes in this fair value change of derivates has been recognized in the statement of profit and loss as and when it arises.

Mangesh Bhadang: So this quarter has there been any portion that we have taken in P&L?

Dilip Ghorawat: Yes.

Mangesh Bhadang: It is part of which line item?

Dilip Ghorawat: It will be part of other expenditure.

Mangesh Bhadang: Other expenditure.

Dilip Ghorawat: Yes please, this we have taken to the P&L, the ineffective portion.

Mangesh Bhadang: And this is MTM loss right.

Dilip Ghorawat: Yes please.

Mangesh Bhadang: Thank you.

Moderator: Thank you. The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Thank you Sir. Sir in your last call you had mentioned that you would be focusing on increasing your market share. So is there any update over there? That is one thing I would like to know. Then you had said that you have been waiting for some government incentive scheme clarity. So is there any update as you said you would get an update by second quarter? So you are almost half way there.

Kailash R Lalpuria: As you highlighted that we only mentioned that we share the same in the second quarter. So we are working with our association for representation to the government towards RoSL and other embedded taxes. They have already submitted their proposal to the government, the Government has acknowledged it, but they are still studying it and as and when the government clears it, we will inform everybody about it.

Keyur Shah: And your market share?

Kailash R Lalpuria: The market share whatever which we have today in the US and Europe stands to grow with whatever volume increase would come in the future. So we will report as and when the year comes to an end, how much market share we have.

Keyur Shah: Your capex guidance stands at the level of Rs. 60 -70 Crores?

Dilip Ghorawat: Capex guidance for this year will be around Rs. 70 Crores.

Keyur Shah: Yes that stands right.

Dilip Ghorawat: It is towards modernization of our spinning mill, cut and sew and other ancillary process and routine modernization. As regards to the Phase II, we are awaiting for Government of Maharashtra to notify the land and approve our application for some changes in the Maharashtra Textile Policy. As and when this happens we will inform the stock exchanges and our investors at an appropriate time.

Keyur Shah: Thank you very much.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: How is the response to our license brand now?

Kailash R Lalpuria: The license brand we have is Harlequin, Sanderson and Scion. We are making full attempts to increase their presence in the market. We have launched new lifestyle brands, which are Heirlooms of India and Atlas. They are having positive response and as we have entered the fashion bedding businesses, we come out with new lifestyle brands according to the trends and the fashion and we feel that we have now at least good audience of our customers and regular meetings and presentations so we feel going forward the brands will do well.

Vikram Suryavanshi: And is there any material change in our share of this fashion bedding and value added products, which we target to increase our share?

Kailash R Lalpuria: There is always positive movement in this area as we are focusing this area for growth but we will report that at the end of the year.

Vikram Suryavanshi: Sir lastly just a book keeping question, what was the average rupee dollar rate we have got in this quarter compared to last year. So I just want to see the currency.

Dilip Ghorawat: The difference is around 2%. We generally do not report these numbers, but it will be around 2% lower.

Vikram Suryavanshi: Thanks.

Moderator: Thank you. The next question is from the line of Ashutosh Somani from JM Financial. Please go ahead.

Ashutosh Somani: Sir, have we made any representations to the ministry regarding ROSL? Is there a demand to increase the ROSL to the original level?

Dilip Ghorawat: Generally we make representations through our association and it is always an ongoing process. We have submitted a representation and we will wait for its outcome. Further as Mr. Lalpuria said, we have workout the various embedded cost and its impact because we do not want to export taxes. So government has given a good listening to the association and we will await the outcome.

Ashutosh Somani: So would we specifically know what our demand was moving this ROSL from 2.20% to any specific number or was it any broad thing that we ask for?

Kailash R Lalpuria: Earlier when the government started this scheme as a special scheme, it was 3.90%. So when GST came into picture they knocked off some of the benefits, which were embedded into that. Now again we have made representation regarding the some of the state and the central taxes, which are embedded into our cost. So it is hard to define the number, but we can safely say that it should be beyond 2.20% if it at all they come out with some clarification.

Ashutosh Somani: Sir, can you give us some clarity on MEIS what is the current status on MEIS so by what time should it continue, would it continue?

Kailash R Lalpuria: Government have continued it post June 30, but there is no such clarity on when it would end and yes there was a mention about WTO objecting to it. So the government is working upon a separate alternate scheme and necessary data from the industries are being called for and they are having meetings in this regard with both the trade and the association. So we feel that this is a process, which is currently in action and as and when we get some indications we will report to everybody.

Ashutosh Somani: Sure. Sir you mentioned June 2018 so that is behind so as of now the current status is that is continuing but with no definitive period in mind.

Kailash R Lalpuria: Yes you are right.

Ashutosh Somani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: Sir coming to your margin guidance given that the currency is favorable now and the volumes are looking up. So do you see a margin uptick from here especially it was the currency is a big benefit going forward, so some comments?

Kailash R Lalpuria: The currency whatever like what the rupee has depreciated will provide us more competitiveness and attracting more business out of India and our focus is always towards more value addition and promoting more fashion oriented product and value added product. So that is the reason we gave a guidance of a margin from 14% to 16% initially. So our endeavor is always to see how we can better utilize our facilities and we have an efficient operations, we cut down expenses and we promote value added product and a better product mix. So those attempts will always be there and that we are optimistic on and that is the reason we gave margin indication of 14% to 16%.

Yash Agarwal: No, what quantum of our revenue is hedged? How much of our business is hedged basically currently?

Dilip Ghorawat: As we are following a prudent risk management policy as mandated by the board, we are hedged around 75%, which gives us a cushion to protect our margins. The open position of about 25% will see a positive impact in the realizations from current levels during FY2019 going forward.

Yash Agarwal: Sir in terms of costs size in except cotton, are you seeing anything substantial of like power and you know has it stabilized currently?

Dilip Ghorawat: Yes it has stabilized, all the costs are under control but prices of cotton, as Mr. Lalpuria said , is a moving variable, which we will come to know in October when the new crop comes in the market.

Kailash R Lalpuria: When we had made the capacity expansion, there were some costs which has come along with it. So which will get marginalize as we improve both our volume and our sales.

Yash Agarwal: Also Sir I do not understand this cash flow hedging loss that has taken Rs 37 odd Crores so will this flow through the P&L in the next few quarters?

Dilip Ghorawat: See this is the MTM cash flow hedging reserve as per Ind-AS 109, as and when we do a realizations by taking the delivery of the forward contact some amount will be routed through the profit and loss and it will be spread out during the whole of next year.

Yash Agarwal: Is it right that the hedges were done at a higher level of rupee and given now that the rupee is lower so basically to that extent are that loss is there?

Dilip Ghorawat: See these are the forward cover hedges what we have taken and there is a notional MTM.

Yash Agarwal: Okay so there is a notional loss right on the since 75% of our revenue is hedged.

Dilip Ghorawat: Yes, please correct.

Yash Agarwal: Also on the volume number given that first quarter has seen about 22% growth so is there a chance that we will exceed of 8% to 10% volume guidance that you have given 58 million to 60 million it was last year was about 54 million, the fourth quarter I think that up by 2 million odd so is this a conservative guidance?

Kailash R Lalpuria: We always expect the volume, the sales revenue and the margin to grow but we would maintain the guidance to 58- 60 million meters and when we move up if there are better results we will report it.

Yash Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investments. Please go ahead.

Gagan Thareja: Good afternoon Sir. Sir my question pertains to the dispute between India and US in terms of WTO related to the export subsidy where it is really indicated that export subsidies have to go away and especially we will focus on textile related export subsidies and subsequently the Commerce Secretary has also has been on record stating the same. In this scenario presuming that the subsidies are discontinued what could be the impact on your profitability and what is your perception on the matter?

Kailash R Lalpuria: Basically the textile industry is a high employment generating industry and the government of India has been quick in reacting to the concern of both the US and the WTO and the industry representatives. So they are taking proactive steps and the government will replace existing MEIS with some alternative scheme, which needs the WTO requirement. The Ministry of Commerce is also working on the said alternative scheme. We are in a constant dialogue with the government through various associations and we feel that the government would support the textile industry and it is hearing our concern and we are confident that it will come up with some kind of solutions, which are WTO compliant. So we feel that there should be a solution in the future which the government will come out with.

Gagan Thareja: All from that, what is the total export subsidies that the textile sector and especially the segment you are in receipts MEIS and whatever as I would not know what other incentives would come under this bucket?

Kailash R Lalpuria: It is around 8.20%, spread between drawback, ROSL and MEIS. The MEIS in question is around 4% so that will be replaced by an alternative scheme.

Gagan Thareja: Thank you.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thanks a lot for taking my question. My first question would be regarding whether Indian textile manufacturers including us have any advantage in this ongoing US, China trade war?

Kailash R Lalpuria: So far there is no clarity as we feel that textile, which is related to our industry is not included in this discussion. We feel that we have to observe and watch what goes on in the future, but so far we feel that there is no such impact.

Pankaj Bobade: Can you please repeat the commentary, which you have done in the beginning, I missed on that regarding India's position versus Bangladesh and Pakistan as far as European FDI is concern would we get any benefits of this expiry of their fleet agreements despite India not signing any agreement with the Europe?

Kailash R Lalpuria: Pakistan and Bangladesh both has duty advantage to the extent of 9.6% because there is a GSP preference given to them, this is schedule.

Pankaj Bobade: What is the GSP preference?

Kailash R Lalpuria: This is a generalized scheme for products, so whenever the EU takes a stand that is European Union they find countries wherever there is per capita income is low and in order to do a social justice and whatever balance of trade payments are in between these two countries all those factors are considered before deciding to giving them preferences. So if a country is already a developing country or developed countries then there are no preferences given as compared to underdeveloped countries. So this is what the basis is. So this GSP preference to these two countries has been extended till 2020 only, earlier it was for five years now it is only for two years. We have come to know that the per capita income of Bangladesh has already exceeded the benchmark of $1000, which is the benchmark for providing this preference so because this has moved up we feel that this would be withdrawn and that is the reason instead of five years it has been given only for two years. So going forward we feel that if the preference is withdrawn then we will be at level playing field as far as the duty is concerned. Now Bangladesh currency is vis-à-vis the dollar has in fact appreciated so they are doing well but as far as Pakistan, the currency has devalued to a large extent, but since they are into the lower end of the product Pakistan particularly and Bangladesh is import based we do not feel they will be competitive to India. So we feel that since India is invested into large economies of scale, invested into technology and India has got a well established and performance driven textile industry so far and have got a good market share, we hope that once this duty preferences are withdrawn, we will be at level playing field on the cost side and as far as the positioning of the product is concerned, we will do better moving forward. So that is what our assumptions are and there we feel that we will have a better say and lastly as I mentioned we had focused in the last decade on the US market largely, ourselves and all our peers and slowly we are turning our focus to the European market. We did not focus earlier because there were smaller runs then it was mainly a print business but now we are all gearing up for this print business and smaller run so as and when we have a good backend we will be able to draw a better market share in the future.

Pankaj Bobade: Thank you.

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

Nihal Jham: Sir if I look at the industry data for the import into the US, I see that for this quarter sheets importers more or less being flat so I just wanted to understand that when it comes to our performance has US also been flat or we done much better if I have to just see how US and non-US has done for us?

Kailash R Lalpuria: We should look overall at an annual number rather than monthly numbers because every business has got its own separate model of product mix and positioning so we should look at overall number rather than a monthly number or a quarterly number as far as imports into countries are concerned.

Nihal Jham: Compared to the trend of the last one year, we have recently started seeing a much better growth so has this been driven by the non-US revenues specifically because still a quarter earlier we were seeing our growth being negative and we have done really well this quarter. So just wanted to understand that better?

Dilip Ghorawat: We will not be able to give country specific data but overall the growth in volume was around 22% which is a mix in USA and RoW what we call is Rest of the World. As Mr. Lalpuria has given a guidance, we have maintained a volume guidance of around 58 to 60 million metres for the whole year.

Kailash R Lalpuria: Secondly, the US is witnessing a stable market condition and an improved demand although that is what we mentioned about destocking as well. We feel that because it is overall growing by 3% to 4%, it will have a positive impact on our results going forward and as we mentioned that the European market is also moving up so both these large economies and markets will draw in a better market share going forward. So we should look from an overall standpoint rather than just one country or the other country.

Nihal Jham: Sir just one more question on the European region that we are discussing would it be fair to say that we will become competitive only after say these GSP benefits of the 9% differential has taken away because we have had an example when even the India case where we reached a certain threshold in a per capita income and still the litigation goes on in the WTO about it and say if in Europe also that continues beyond 2020, will that limit our potential to expand on to Europe?

Kailash R Lalpuria: No. In any business there is a law or there is a rule which gives preference to one country say ending 2020 already the buyer because they plan their business one, one and a half years before so they start taking positions because a vendor cannot be developed in within six months or a year it takes at least one, one and a half, two years to develop. So that is why we see a little bit of uptick in the movement. Secondly, the cotton consumption over the synthetic consumption is moving ahead, which is an advantage to India. Third, the quality of the product demanded by the European buyers are in line with what sells in to the US as well, so the thread counts and all are moving up so we see that once the product moves up from the lower end to the mid level that is an advantage to India and that is why we feel that because of the product, because of the market situation, we will end up gaining more market share.

Nihal Jham: Just one last question say for a similar category or say for printed small run this bed sheet that we do what would be the pricing differential that we are facing say compared to the Bangladesh and the Pakistan right now?

Kailash R Lalpuria: No, there is no apple-to-apple comparison because if you calculate the currency of Pakistan and the 10% duty, but we are in a separate product mix with focus on the higher to premium range so we cannot make an apple-to-apple comparison because we are not focusing on the lower end of size of the market.

Nihal Jham: Thank you so much. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity Sir. Sir I would like to understand the foreign exchange loss or gain booked during the quarter?

Dilip Ghorawat: There are two impacts. Effective April 1, 2018 the company has adopted cash flow hedge accounting on derivative contracts including existing contracts as per Ind AS109. The effective portion of fair value of these derivatives or MTM that are designated and qualified as cash flow hedges were around Rs.37 Crores (net of deferred taxes was Rs 19.92 Crores) which we have recognized in other comprehensive income. Other operating income is Rs.16 Crores, which also includes the reinstatement of debtors as at 30th June 2018.

Prerna Jhunjhunwala: So the Rs.16.6 Crores is your entirely foreign exchange gain we can assume.

Dilip Ghorawat: No it includes some other components but 90% is that.

Prerna Jhunjhunwala: This loss of Rs. 37 Crores in OCI that will be booked in the near future quarters or it is like – I would like to understand the impact of it going forward in the financials?

Dilip Ghorawat: Yes, it will be booked in the near future for the whole year based on the deliveries of the foreign exchange contract which we have booked.

Prerna Jhunjhunwala: Sir the next question is on this market, earlier participant also asked about the US market and non-US market. I would like to understand what is happening with our customer base in the US market and what kind of growth we are seeing in enquires or the order book with qualitative information in the order book from the US customers?

Kailash R Lalpuria: As I mentioned the US market is stable as well as the European market is showing a recovery and an uptick, so the order book position is good and as we mentioned that gradually the destocking going away so there is a better demand from the US buyers going forward and we would see improvement. We have already given the guidance of the volume growth of 58 to 60 million meters. So we will maintain that, so it seems that the market is improving overall that is what we see.

Prerna Jhunjhunwala: Sir last question would be on your value chain. Now the cotton prices are increasing will we be able to pass on the increasing cost in the cotton price to our customers?

Kailash R Lalpuria: No, whenever the price discussions are held, whenever there is an abnormal change, we go to our customers and discuss pricing, which is a universal fact so as and when the prices are dramatically high both at national and international level we take the price hike.

Prerna Jhunjhunwala: But cotton prices have increased from 65 cents to around 90 cents in the international market and in the domestic market also from around Rs.36000 per candy to now Rs.47000, 48000 per candy it is more than 20% higher than earlier so in such a scenario does it warrant price hike from the customer that is what I wanted to understand?

Kailash R Lalpuria: First of all the overall cotton cost in our sales product is only 30% so we have to consider that, we change product mix also and if the cost goes to a certain level then we take a price hike also with the customer.

Prerna Jhunjhunwala: Now the price hikes are visible and it can happen in the near future as well right?

Kailash R Lalpuria: See every market whenever there is a price rise in the raw material sooner or later then everybody understands because it is at both international level and national level. So that is bound to happen sooner or later then the customer also will pay for what they are buying.

Prerna Jhunjhunwala: Sir last question is on the integration process now that cotton prices have also increased, yarn prices have also increased and the whole value chain prices are increasing so any pressure on margin on your guidance that you are seeing?

Kailash R Lalpuria: No,we have given already the guidance from 14% to 16% on an annualized basis that is still maintained.

Prerna Jhunjhunwala: There is no pattern on that now it can be maintained.

Kailash R Lalpuria: Yes.

Prerna Jhunjhunwala: Thank you.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Sir what is the current cotton yarn spread right now?

Kailash R Lalpuria: Cotton yarn earlier was Rs.42000 a candy, which is now at Rs. 47000 to Rs 48000 per candy.

Dhiral Shah: This is regarding cotton right?

Kailash R Lalpuria: Yes.

Dhiral Shah: But if I need the cotton yarn spread then?

Kailash R Lalpuria: It is difficult to say because there are so many counts and there are so many inputs so it is difficult to elaborate that.

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

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal Securities. Please go ahead.

Sumant Kumar: My question is regarding we have a higher captive consumption of yarn and we lost around 8.5% in topline and despite of that our margin, gross margin at the similar level so can we assume that our outsourced yarn price has increased significantly.

Dilip Ghorawat: Sumant, generally we do not give specifics on the yarn and other input cost. We have given guidance in the call i.e we maintain EBITDA of 14% to 16% for the current year.

Kailash R Lalpuria: There are many moving averages like the product mix and the geography mix then the cotton prices at what level you buy the new crop, there are so many moving averages Sumant. So one has to see from an annualized basis what margin you maintain because there are so many kind of products we end up selling.

Sumant Kumar: But we use higher captive consumption yarn so that is why I was wondering if we have a higher consumption of captive so our gross margin is still at the same level of what we had earlier?

Kailash R Lalpuria: It is an option available to us say if we have spinning if we can, if we match the local sale prices then only we tend to buy from at a different profit center. So it is equivalent to what we outsource at the end of the day.

Sumant Kumar: Regarding employee cost our run rate was in the range of Rs.28 Crores now it is Rs.32 Crores so what was the key reason for that?

Kailash R Lalpuria: We have expanded our capacity from 68 to 90 million meters and we have invested in people and employees. Going forward we will not be adding any employee so the cost would get marginalized as we consume more capacity.

Sumant Kumar: But I think this 90 mn metres capacity has already been done in the previous year so suddenly we have seen a jump in employee cost in Q1?

Kailash R Lalpuria: As I mentioned we are adding people to see how we can deliver 60 million and more than that. So it is a onetime cost, which we need to take a position.

Sumant Kumar: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Praveen Sharma an Individual Investor. Please go ahead.

Praveen Sharma: Good afternoon Sir. Thank you for taking my question. Sir in this Maharashtra textile policy, there is a provision for the power tariff rebate and discount or subsidy. Sir, will it be applicable only for the new weaving unit, which we are planning, or will it be applicable for the current unit also because it is an extension of the current facility ?

Kailash R Lalpuria: Yes, it will be applicable for the existing unit also. Further Government of Maharashtra has not issued the GR for this power tariff reduction so we will wait for the same.

Praveen Sharma: Sir when do we expect the benefits of the appreciated dollar to flow into our P&L ?

Dilip Ghorawat: As informed earlier in the call, we have an open position of about 25% in this year which we will see positive impact in realization.

Praveen Sharma: Sir normally we take these derivative exposures of 6 months to 12 months or even longer?

Dilip Ghorawat: It is generally 12 months and very small quantity positions we took beyond 12 months but generally it is around 12 months position.

Praveen Sharma: So whatever the positions which we would have taken on the revenues for next year, the position would have been taken normally like April to June this year so probably the benefits will flow in by next year only, correct. On the derivative side not on the spot, spot obviously we will get it as and when we want.

Dilip Ghorawat: Correct.

Praveen Sharma: Thank you Sir.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Kailash R Lalpuria: At Indo Count, we are confident of strengthening our brand on the back of continuous penetration in existing geographies and newer markets across the globe. We have a wide array of brands both owned and lifestyle and license brands, which are modern, aspirational and functional so our endeavor would be to promote them. Innovation led product development coupled with international design studios that help us stay ahead of competition in terms of identifying trends and introducing products improving, operational efficiencies as I mentioned with the improvement in sales volume and better absorption of resources. With this I 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 me, or Strategic Growth Advisors, our investor relations advisor. Thank you once again.

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