"Indo Count Industries Limited Quarter-Ended March and Full Year-ended FY15 Earnings Conference Call"

May 13, 2015

MANAGEMENT: **MR. K.K. LALPURIA – EXECUTIVE DIRECTOR, INDO COUNT INDUSTRIES LIMITED**
MR. R. SUNDARAM – CHIEF FINANCIAL OFFICER & COMPANY SECRETARY, INDO COUNT INDUSTRIES LIMITED

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Quarter-Ended March and Full Year-ended FY15 Earnings Conference Call of Indo Count Industries Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the 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 a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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.K. Lalpuria – Executive Director of Indo Count Industries Limited. Thank you and over to you, sir.

K.K. Lalpuria: Good Afternoon. This is K.K. Lalpuria and a very warm welcome to everyone. Along with me I have Mr. R. Sundaram – our Chief Financial Officer and Company Secretary, and SGA, our investor relations advisor. I hope you have received by now our Results and Presentation, for those who have not, you can view them on our website.

Before we move on the financial section, we would like to update you all on the outlook of the Textile industry. It gives me immense pleasure to share that with the active support from all our stake holders and as planned and committed, we have exited the CDR. We paid recompense amount of Rs.25.74 crores to all the lenders as confirmed and approved by CDR EG. We have exited from the CDR four years ahead of the scheduled exit. With this now we are completely focused to capitalize on the growth opportunities. We have enhanced capacity to 68 million meters per annum. We will now capitalize on wide range of innovative products and strong customer relationship for capturing the future industrial growth.

Let me give you a small update on what is happening in the industry at a macro level. Exports of Textiles and Clothing products from India have increased steadily over the last few years, and after the quotas were abolished, it has grown quite significantly. The demand scenario in the Textiles industry looks promising, with the growth drivers like consumerism and disposable income on rise, the retail sector has experienced rapid growth in the past decade. We are also seeing strong indications and great opportunities for the Indian exporters specifically as our competing countries are facing challenges like increasing labor and power cost, focus on domestic market of their own, and move towards higher value addition products. Currency appreciation in Indonesia, and labor unrest in Asian competitors like Cambodia and safety concerns in Bangladesh, to name a few of the concerns, which our competition are facing in their own country. Our country is at an advantageous position with plenty of Cotton, and a good potential for higher yield in the time to come. The government has taken initiatives to support and modernize the industry with a particular focus on closing the gaps in the Textiles value chain. The objectives of the Ministry of Textiles, some of them are: Build up world-class state-of-the-art manufacturing capacities, to attain and sustain predominant global standing, to manufacture and export textiles and clothing out of India; facilitate Indian textile industry to grow at a rate of 11.5% in volume terms in cloth production, and 15% in value terms in exports, to increase domestic value additions and technological depth in manufacturing of Textile products; to enhance the global competitiveness of Indian Textile products through appropriate policy support, Government of India has initiated “Make In India” campaign and also in its recent budget has planned an expenditure of Rs.3,500 crores for the Textile sector. The outlay is mainly for the Technology Upgradation Fund Scheme that is TUFS, human resources development by providing incentives for skill development, integrated textile parks for providing competitiveness, Maharashtra Textile policy has also been made for benefiting on the interest. As we all know, India’s Textile products are exported to more than 100 countries. USA and EU still account for about two-third of India’s Textile exports. For the Home Textile segment, USA is the biggest market, and it will be as they have a very good organized retail. India is the second largest exporter around the world and has registered a growth of 4% year-on-year basis by February 2015.

Now, I would like to hand over the line to Mr. R Sundaram – our CFO, to update you on the Operational Performance of the company for the full year ended FY15 and the March quarter. Over to Mr. Sundaram.

R. Sundaram: Good Afternoon everyone. This is Sundaram here. I will run through the financials in brief. On the revenue side, the consolidated revenue increased by 19% from Rs.1,498 crores to Rs.1,788 crores, Home Textile revenue increased from Rs.1,029 crores to Rs. 1382 crores, a growth of 39%. The growth in revenue is mainly attributed to Home Textile segment on the back of higher realization and better product mix. The other operating income was Rs.64.91 crores, previous year Rs.30.27 crores. Exchange rate impact which normally form part of the revenue but is now shown separately as per the accounting standard is Rs.50.09 crores for the current year, previous year nil. VAT and TUFS subsidy of Rs.11.77 crores, previous year Rs.26.61 crores, and other miscellaneous income is Rs.2.15 crores as against Rs.3.66 crores. The consolidated EBITDA for the year increased from Rs.189 crores to Rs.314 crores, a growth of almost 66% on year-to-year basis. The EBITDA margin to the revenue also improved by 500 basis points to 17.6%. EBITDA margin improved on back of reduced material cost to turnover, which was 53% in the current year as against 59% in the previous year.

I will now shift to interest costs: Consolidated finance cost increased from Rs.49.89 crores to Rs.65.02 crores. Interest comprising of three parts – The long-term interest reduced from Rs.16.4 crores to Rs.16.11 crores. Although the company has paid installments, the reduction is very marginal due to CDR trigger date, which was effective from 1st April 2014, that means the company is paying the current market rate of interest for the term loan as compared to CDR rate of 10.25% in the previous year. The next is the interest on short-term borrowing, which increased from Rs.24.41 crores to Rs.35.04 crores, the increase in interest cost is due to post CDR exit coupled with withdrawal of interest subvention scheme by the government on the Textile Exports. The other is the interest in others, which increased from Rs.9.08 crores to Rs.13.86 crores, which is primarily on interest on sales and purchase bill discounting LC opening charges, processing charges and other bank charged as applicable. With the exit from CDR, the company is in a strong position to negotiate the interest rate and expect the interest cost to remain at the same level, or possibly reduce during the current financial year with an incremental growth expected in the current year.

There is an exceptional item in the balance sheet. At the time of exit we are supposed to pay the recompense amount. The amount has been checked and confirmed by concurrent auditor of the lead bank and reconfirmed by CDR EG , and accepted by all the lenders. Based on this, the company has paid Rs.25.74 crores to all the lenders in cash and exited CDR four years ahead of the scheduled exit.

I will come to the last point which is PAT: The consolidated profit after tax has increased from 110 crores to 146 crores, a growth of 32%. If we exclude the one-time exceptional item of recompense, the PAT growth will be 46% and the PAT margin will be 9.1% of the revenue. The cash profit for the year is Rs.175 crores, a jump of almost 36%.

On the debt side, the company has a total debt as on 31st March 2015 is Rs.344 crores; this comprises of two parts; the long term debt of Rs.67 crores and the working capital debt of Rs.277 crores. The total debt-to-equity is less than 1 for the year-ended.

I have no more to comment. With this I would like to keep the floor open for questions and answers either on the business front or on the financial parameters. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Amit Vora from PCS Securities. Please go ahead.

Amit Vora: On the sustainability of the margins, there was some impact as you mentioned because the raw material prices coming down. How do you see this going forward?

K.K. Lalpuria: Basically, if you look at it, we have been growing our customer base, our product mix, and our global reach and through that we are increasing our top line and bottom-line as well. So we hope that we would maintain the margins in the business which we do going forward. Now coming to your question on the raw material side, the cotton prices are stable, there is enough cotton available, even though the consumption has increased in India, but the supply is also adequate. So it seems to us that the cotton price would remain stable for quite some time also due to China's demand being decreased, there would be enough Cotton available in India for all the mill end users. So we think that the raw material prices will stabilize and we will have like advantage over the raw material prices.

Amit Vora: And this year you would have had products with better realization, do we see that coming in FY16 as well?

K.K. Lalpuria: Yes, because apart from dealing in the commodity item like sheet sets, we have enhanced our product mix to Fashion Bedding and Utility Bedding and Institutional Bedding. So we think that by adding on better product mix, we will be able to enhance our margins. Secondly, we have also improved on our clientele mix. We are now selling to better departmental stores and specialty stores worldwide and also to some of the brands. So we hope there too we will have the opportunity to increase our margins. By using our operations like utilizing the capacities well, we will have operational leverage as well from the margins. So I hope we should be doing well on the margin side.

Amit Vora: What would be the million meters that you would have done in this quarter?

R. Sundaram: About 44 million for the year

Amit Vora: The CAPEX as I assume is going to get commercialized from FY16 onwards, is that right.

R. Sundaram: FY16, correct.

Amit Vora: What is the update on the launch of your own brand that the company was planning, how is it progressing?

K.K. Lalpuria: We have like some of our products, which we have patented and trademarked, like True Grip which we have patented worldwide, and secondly, brands also like Color Sense and Infinity Cotton, which we have registered as trademark in some of the countries, we have started selling Color Sense on Amazon.com as our own brand. So we are making inroads in this area, and in the near future to come we also intend to tie up with some national brands or a licensed brand so that we can promote it to the better end stores and find some more shelves for our goods.

Amit Vora: What would be the contribution this year and what is our internal target for this particular area?

K.K. Lalpuria: Currently, we are selling like say negligible quantities, because we have just started with the e-commerce sales initially, in order to test the grounds, but in time to come we intend to sell branded products to the tune of 5%.

Moderator: The next question is from the line of Nisarg Vakaria from Lucky Investments. Please go ahead.

Nisarg Vakaria: On the CDR exit process, the Rs.25.7 crores that you have shown as exceptional item in the P&L, besides that is there any other cost element in the P&L anywhere, maybe in the interest cost or other cost anywhere.

R. Sundaram: No, absolutely nothing.

Nisarg Vakaria: So this Rs.25.7 crores that is the only cost and that has been reported as exceptional in the P&L.

R. Sundaram: Absolutely clear.

Nisarg Vakaria: If you could help us with the breakup of the finance cost for the quarter of Rs.16.7 crores?

R. Sundaram: In the current quarter of Rs.16.7 crores comprises of three parts, which is interest on long term is Rs.4.61 crores, interest on short term borrowing is Rs.8.87 crores, and the balance is interest on others, which is export bill discounting, purchase bill discounting, procedures, extra.

Nisarg Vakaria: If you could give us a sense of what is the outstanding on the discounting side that kind of gets reported on the off balance sheet side?

R. Sundaram: Off balance sheet on an average, could be about one month of sale, between Rs.80 to 120 crores will be the approximate outstanding at any point of time.

Nisarg Vakaria: And what kind of cost do you incur with that discounting?

R. Sundaram: Same like a packing credit rate of interest.

Nisarg Vakaria: 4 to 5%?

R. Sundaram: No, it will be at 11%. These are all LC-based discounting, we do not require limits on the bank, and we can go to any bank and get it discounted.

Nisarg Vakaria: So given the breakup that you have, it is roughly about Rs.3 to 3.5 crores of interest cost on those discounted bills or L/C?

R. Sundaram: Absolutely correct.

Moderator: The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Sir, if you can throw some light on what percentage of your Home Textiles sales will be from the higher margin products this year and next year? We have the additional capacity also available.

K.K. Lalpuria: We have recently just this year or last year 2014 added up Fashion Bedding and Utility Bedding and Institutional Bedding, and have also started selling some of our home brands which I just mentioned recently, So, we hope to gradually grow this business say from 5% to 20% in the three years' time to come as we grow our top line.

Kaushal Shah: So this year, can we assume that number to be in the region of maybe 7% or 10% or it could be?

K.K. Lalpuria: No, it is less; around 4 to 5%.

Kaushal Shah: In terms of volumes, from 44 million meters that you just shared, what is the kind of growth outlook that we are looking at this year and next year?

K.K. Lalpuria: We have recently, like expanded our capacity from 45 million meters to 68 million meters and we did the CAPEX of around Rs.70 crores, now in this year we intend to utilize this additional incremental capacity of 23 million in two years' time. We already are successful in selling at least 45% of the total 23 million, this year alone as we have an order position of almost 6 to 9-months going forward. So we are quite confident of selling this capacity by 2016-17.

R. Sundaram: On a rough estimate it will be about 20% for the growth of the current year.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: In terms of volume trajectory, one thing that I really wanted to understand better was, how is the ASPs moving? So you are talking about selling to more branded players and 5% of the sales coming from your own brand over a period of time, then e-commerce initiatives, and other things. So I am not very clear how the current mix actually changes quantitatively, qualitatively I understand it is obviously getting better, individual buckets how are they expanding, and what will be the impact of ASP that we can see over a period of time? And the second question is, as you said, it seems that the raw material situation will be under control for a long period of time. In that case if you are selling through the channels through which you are selling, will not that demand some sort of a pass-through, so I mean obviously there prices are not going to drop, will they not demand a better share of increased profits from the raw material savings, so if you can just enlighten us on that?

R. Sundaram: Currently, the Bed Sheet accounts for about 90% of the total volume sales. Over a period of the next three to four years' time, we want to bring down to about 70% level, the difference of 30% will come from the new products, Utility Bedding, Fashion Bedding, branding sales and so and so. It will take about three to four years' time, it cannot happen the first year itself. Our gradual process is the Bed Sheet to the total sales should not go above 70%, and the balance will be higher margins, so it may take one, two, three years' time, that is the plan we have in mind. As far as the second part of material cost is concerned, we feel the pricing is almost stabilized on, and we should be maintaining the same level or there should be slight improvement further in the material cost, which will add up to the bottom-line. As far as the customer is concerned, this is an ongoing process, which we have discussed in the past two conference calls also. We review it every six months, eight months with the customers, and wherever it is required we will try to negotiate and pass on some benefits for ensuring the increased volume growth, which will come in the future, but at the same time, our objective is to grow 20% along with maintaining or improving the EBITDA margins over the years.

Agastya Dave: Just a follow-up on that, let us say, assuming that Cotton prices let us falls by Rs.100, so in that case in your industry what is the sharing of this savings, how is it shared, is it 50:50 between you and your customers, or is it more towards your side, less towards their side, how does it actually play out?

R. Sundaram: In our case what happens is, we sell it to the big retailers' boxes, they have their required margin on the product, they are not concerned with whether I make loss or profit, or super profit or super loss. As long as my pricing to him gives them a sufficient margin, by which he is able to utilize his expenses and have some decent revenue, it is absolutely fine with him. So as long as he feels the pinch, then he will come back to us. As of now, there is nothing like 50:50 or 25:75, no concept like that.

Agastya Dave: They look at their margin as a percentage of the final product price or do they look at an absolute number?

R. Sundaram: A percentage.

Moderator: The next question is from the line of Vishal Gajwani from Birla Sun Life. Please go ahead.

Vishal Gajwani: In terms of volume growth, you mentioned around 20% for each FY16 and 17, and I understand it will be led by the expansion, essentially into Fashion, Utility, and Institutional. If you can just give me a sense of what is the kind of margin profile for these things, these are different from what you are doing, so one is margin profile, the second is the working capital profile of these three new initiatives?

R. Sundaram: We are not looking into this from purely expanding the margins, it is more into expanding the customer base and market synergies. So although there will be improvement in the margins as compared to normal Bed Sheet, but our focus is not for incremental margins, focus is to increase the volumes, the channel of supplies of Utility Bedding, Fashion Bedding is the same channel, and the working capital cycle, what is there prevalent today will continue to remain prevalent for the newer product groups also.

Vishal Gajwani: You said that the interest cost will not increase in FY16. But if your sales are growing by 20%, I would assume working capital will also go up by that much?

R. Sundaram: One is, there is a cash profit available in the operation of the company, this will be ploughed back, is that, having exited CDR just on the last day of 31st March, we feel there is a lot of scope available for reduction in the interest cost, both domestic and internationally, according to us about 10% to 15% reduction of the interest cost is possible, which will compensate for the incremental growth in the current year.

Vishal Gajwani: In terms of margins you have further expanded margins in Q4FY15. So is it fair to assume Q4 to be a base of margins for FY16?

R. Sundaram: You should take it as average for the whole year, which is fairly about 18%, we will maintain that, we will probably slightly improve upon that.

Moderator: Thank you. The next question is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

Amitabh Sonthalia: I just had a quick question on your recompense of amount of Rs.25 crores that you paid to your lenders. How do we arrive at this amount?

R. Sundaram: There is a CDR mechanism in place, documented by the Reserve Bank of India and CDR, it is not applicable to Indo Count alone , but is applicable to all the companies who have entered CDR, there is a clear formula has been defined there, so this formula has been applied to the company which has been checked by the concurrent auditor and accepted by all the bankers, there is no influence either way on the particular recompense amount.

Amitabh Sonthalia: Was there any negotiations involved in this or was it based on a formula as you said?

R. Sundaram: Basically on the formula, there are no negotiations. We got a concession, we get about 25% discount on those years where the CDR rate is above the base rate, that is also as per RBI guidelines only, so that is also structured as far as mechanism, there is no negotiation or further discounts on that.

Amitabh Sonthalia: Roughly, in percentage terms, how many basis points does this amount to like a 3% differential or 2% or 5%?

R. Sundaram: No, this is over a period of year-to-year, so on a rough estimate, you can take about 2%.

Amitabh Sonthalia: Was there any one-time settlement or debt favor from any of the lenders at any point in the past?

R. Sundaram: No, we never approached any bank for one-time settlement or debt waiver or something like it. We do not want to send a bad taste to the banking community.

Moderator: The next question is from the line of Chirag Lodaya from ValueQuest Research. Please go ahead.

Chirag Lodaya: My question is on balance sheet side. So when I see inventory in subsidiary, so consolidated numbers minus standalone numbers, so subsidiary inventory seems to be Rs.119 crores, out of which Rs.6 crores is of Pranavaditya. So I just wanted to know, what are the inventory and debtor days in your subsidiary, it seems too high?

R. Sundaram: No, if you see a standalone, there is a sale which is happening from Indian company to the US company, it is coming part of receivables, and when I consolidate it, the receivables get knocked off, the inventory in the US gets added to the inventory in India at the consolidated level. You have only taken Pranavaditya, whereas you have not taken the Indo Count Global, that is the US company so that is where the difference will come in.

Chirag Lodaya: What is the sale to the Indo Count Global and other two subsidiaries for FY15?

R. Sundaram: Not much of a sale between Indo Count and Pranavaditya, hardly any sale takes place, hardly any inter business transactions take place. With Indo Count Global, we had done about $40 million of sales there, and entirely production is done from India only, so the value of supplies from India will be close to about $28 to 30 million, so there will be an outstanding receivables at the year end, which will get knocked off against the payable, and the inventory lying in the US will get added to the consolidated inventory.

Chirag Lodaya: So what are the sundry debtors in standalone for US subsidiary?

R. Sundaram: US subsidiary standalone should be about $4 million, balance will be inventory in the US.

Chirag Lodaya: Last time we said we will come up with CAPEX plan post the FY15 results. So any thoughts on that?

R. Sundaram: We have just completed, the capacity which is going from 45 to 68 Million , which will be consumed in the next few years' time, and we will have a decent margin available in the operations. As and when need arise, we will take a call, which will be based out of internal accruals.

Chirag Lodaya: Any thoughts on dividend policy? So now we are out of CDR and our business condition is better than previous years.

R. Sundaram: There will be. Every investor expects a growth and also dividend in cash. We will certainly keep that factor in mind probably at an appropriate level, the board will take a very conscious decision on that.

Moderator: The next question is from the line of Sreesankar from Prabhudas Lilladher. Please go ahead.

Sreesankar: Gentlemen, I have got a couple of questions: The first question is regarding the interest cost. Could you explain to me what is the difference between the interest on borrowings that you are paying under CDR and now since you are out of CDR? And also you mentioned that the effect of exchange rate in the current year was somewhere around Rs.50.7 crores, not sure whether I got it right. You mentioned as an impact, was it a negative effect or a positive effect?

R. Sundaram: It is a positive effect. Anyway I will come to the first point of your interest; in the CDR there are two types of loans; one is the term loan, other is a working capital. And for both the interest under CDR was at 10.25%. Now in case of post CDR, the term loan will be around 12.5% to 13%, and in the working capital, it will be between 10.75% to 11%, By exiting out of CDR, I have to pay about 50 basis points to 75 basis points on the working capital interest, but of the long term interest I have to pay about 225 basis points. So this is as far as interest is concerned. Second, as far as the foreign exchange is concerned, till the previous financial year benefit in forward contracts were part of the revenue. However, from the current year, as per the new accounting standard this benefit need to be shown separately as operating income.… We as a policy, being a manufacturing company, wish to protect our margins on the manufacturing. So the day we book the order, we do a forward coverage on the particular order/plan so that we have In future we are not concerned if the exchange rate move either way.. Till last year, foreign exchange benefit was considered as part of revenue, but however, as per the new accounting standard, this has to be shown separately. So this Rs.50.91 crores is the value of the exchange rate benefit which we have been covering consistently over a period of last 12-months, which has been booked on the sales effected during the last financial year.

Sreesankar: I was only asking, that is one-off, effectively you have benefited to that extent, that is it, correct?

R. Sundaram: Naturally benefited, right.

Sreesankar: I would love to get your inventory, what is the breakup now in terms of your finished goods, work-in progress, and raw materials? And you mentioned about CAPEX. What is it going to be? In your presentation you have got some CAPEX coming up in 2016. How these things are going to pan out?

R. Sundaram: In the current year once we have exhausted the existing capacity of 68 million, then we will take a call. As of today still it is in drawing board only.

Sreesankar: My last question is regarding your brand. In 2014, both in UK and Australia you have established businesses. These businesses in terms of your showroom, designs, etc., are we going to invest in a brand out there, if so, what is the kind of cost that is involved?

R. Sundaram: That Mr. Lalpuria will explain, As far as the inventory is concerned, our inventory at a consolidated level is only 78 days, debtors is only 26 days and the creditors is about 88 days and the working capital/cash conversion is only 17 days. I do not think any company in India which has got a fully integrated facility , can have a much better number of days as working capital. Finished goods will be a very nominal amount. The majority will be material, and partly will be the work-in progress.

K.K. Lalpuria: Regarding the UK and the Australia showroom, we have just started like last year, our basic aim is to get in more customers for the company, which we have been successfully able to do that, particularly in the UK, where we have added up 4 new customers over there, and once we get a step in the door, then we would start thinking about other channel of sales like either through licensing or branding. So that strategy is still in mind and in time to come we will go out for taking either a license brand or a national brand over there in UK and Australia. We are also in the process of registering our own home brand in these two markets, and are also going in for patenting and trademark for some of these brands, so that we can place in the stores, and get a value addition in the process. So, in time to come we will focus upon it, and we will keep you reporting on our next call what we have done in this regard.

Sreesankar: And what is the policy that we follow for this brand investment – is it going to be amortized over a period or is it going to be debited to the revenue expenditure?

R. Sundaram: As of today, we have not even thought about the quantum of investment on the brand, it will be a very conscious decision, it will not be very high cost of acquiring brand y We will cross the bridge when it comes. , but certainly, we will do amortize over a period of time, but the amount of investment will not be very high, .

Moderator: The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: I have a couple of questions: It is related to the CAPEX that we are going to do, I have read it in some of the presentations that in 2017 onwards, you might be doing the CAPEX again for the expansion. So I just want to know that do we have sufficient operating cash flows and all to incur this CAPEX, or are we going to go for more debt?

R. Sundaram: I have told you, as of today, the capital expansion is still not on the drawing board, it will be post FY17, certainly if we achieve 68 million, certainly we will be requiring expenditure at the right time, the quantum is not defined, and it will be based on on internal accruals. Our focus will be thst at any point of time total overall loan should not increase the net worth of the company.

Manish Bhandari: I have one more question related to the export incentives. How has this changed over the few last years and if you can throw some light on what are the criterias to decide this number? And what are the circumstances under which the government may stop giving this export incentive?

R. Sundaram: Export incentive comprises of drawback and other benefits like Focus Product, Focus Mzarket etc.. I do not think there is any withdrawal of the scheme by the Government for at least for the next five years Only the interest subvention is one which the government is toying with the idea, because of Reserve Bank of India is likely to cut the rates of interest. Apart from the interest subvention I do not think the government will try to play around as far as far as export incentive scheme is concerned.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar: Regarding the Australia and UK sales, what is the proportion of total sales we are expecting from these two regions, and our home brand, if we are trying to promote, what is the kind of branding spend that is likely?

R. Sundaram: No, we are planning to promote in our home brand. In UK and Australian markets, it will be same like what we are presently doing with other big box retailers. And as far as the volume sale is concerned, it will be too premature to predict right now, but we target that UK and Australia should account within 5 to 8% will be on the total revenue of the company, in the next two years' time.

K.K. Lalpuria: We have just established last year, like 2014, with two offices and it takes time for a customer to get in, because they are already one year in advance, they work upon. So it takes a little bit of time to develop this market, but they look promising, there is a lot of potential, and the products are the same what we sell in the US. So identically they are production-friendly and we feel that this will give us enough growth what we have anticipated in the coming year.

Pawan Kumar: Any plans of putting up own brand stores in US, UK, or Australia?

R. Sundaram: No, we do not have that sort of money to burn it.

K.K. Lalpuria: We are not into retail.

R. Sundaram: It is too costly element, we are happy with what we are doing now.

Pawan Kumar: And we will remain focused on this make-ups right?

R. Sundaram: Right.

Pawan Kumar: Are we trying to expand into new particular …

R. Sundaram: No, whatever is there in the Bed, we will try to concentrate on the core product segment only.

Pawan Kumar: If you can please repeat, FOREX gain would be Rs.50.91 crores for the year?

R. Sundaram: Right.

Pawan Kumar: And this would be primarily because of the forward contracts that we might have gained?

R. Sundaram: Accounting standard mandates us to show separately, However, it is part and parcel of sales revenue

Pawan Kumar: Presently, it is part of the revenues itself right, sir.

R. Sundaram: Presently, it is shown separately in the other operating income, till last year it was shown as part of revenue.

Moderator: The next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: Sir, can you tell me what is the price benefit as far as India is concerned compared to China regarding Cotton, labor cost and power cost?

K.K. Lalpuria: Price comparison, China has got its own cotton policy, and the Chinese cotton is expensive to all other cottons, whether it is India or the US, costly say around 15 to 20%, because they have a quota system also, wherein they allow partially like they allow imports at lower cost and partially they issue cotton to the mill, through licenses of their own cotton which they have to buy at higher prices. So they have a mixed policy wherein their Cotton is expensive than what we consume here, #1. The labor is like expensive over there; it is now around $500 a month as compared to $200 in India, which we all know about. In Textiles particularly in the Made-Up, there is a labor component and it is labor-intensive, so I think we are gaining there. Because China has grown over a period like almost 14%, as we all know, so the purchasing power of the people have increased and that is fueling their home consumption so whatever was getting exported earlier 100% is now diverted to domestic as well because they are at some point of time fetching better prices than exports. So all these factors have given us an advantage as compared to China and we feel that is bound to grow further.

Aman Sonthalia: So you are foreseeing a very bright future for Home Textiles in the coming 3, 4 or 5 years?

K.K. Lalpuria: Yes.

Aman Sonthalia: And there is no question mark about that?

R. Sundaram: Nobody can guarantee, our presumption is that we feel we have a strong roadmap for the next 5-years.

Aman Sonthalia: What is your current Yarn capacity and how much Yarn you are buying from outside?

R. Sundaram: We consume internally 25% to 30%, balance we sell it the market, because the count that we produce is not suitable for our requirement, and balance 60-65% we buy it from the market.

Aman Sonthalia: Alok was a big player I think in this bed sheet category. So you are hitting the Alok market, or they are also expanding and you are also expanding?

R. Sundaram: No, we would not like to comment anything on the competitors please.

Aman Sonthalia: About the innovative products, how much of your sales through innovative products?

K.K. Lalpuria: Basically, our core competence is innovation, and we bring to the market something new with a good value proposition, and just to inform you 60% to 70% of our sales are coming through the product which we have shown to the customer for the first time. So basically we focus on differentiating our product and helping the customer to gather more market share in his market.

Aman Sonthalia: So how do you foresee this Bedding category in the near future? I think it is a very growing category.

K.K. Lalpuria: These are similar categories, because in affluent countries, in developed nations, apart from the core products, that is the Sheet, they also require like Fashion or you can say Garment for their Bedding, Dressing for their Bedding, so they go in for Comforters and Coverlets, and Duvets and different types of fashion-elemented products, to cover their bed, and coordinate that with the other Home Textiles in the bedroom like Curtains and Carpets and Rugs, and all that. So basically these similar categories and consumed in line with like the Sheet Set. So having a very good decent market for this product as well. And apart from this in the Utility Bedding also, they use this in order to protect their Mattresses, because in organized and developed markets, they all use better Mattresses, and in order to protect the Mattresses they buy Mattress Protectors and Mattress Pads. So there is enough market for this product as well, just to give you an example like the Sheet Set market, in the US is around 4.5 billion, whereas the Fashion Bedding market is around more than 5 billion. These are equally important categories in the Bed Linen and the Bed Linen segment alone in the US is around 12 billion. So you can imagine, like how important the other categories also are.

Aman Sonthalia: There is a huge scope to grow in this field?

K.K. Lalpuria: Yes, and we are also missing the FTA with Europe, once that is signed, the whole market will open up, and secondly, even the man-made Fiber cost in India is expensive to China, if they come in line, as we move towards GST, and lowering the tax incidence, I think the man-made Fiber industry also will make inroads into Home Textiles which is currently dominantly held by China, so China is today 88% in man-made Fiber exports, whereas India just have 3%. So just imagine if 5% shifts from China, it will be a big number to cater to.

Aman Sonthalia: What is the breakup of sales country-wise?

K.K. Lalpuria: Basically, US is a big market for us and we sell around two-thirds in the US, and rest we are selling in the other markets like UK, Europe, Australia, and other countries.

Aman Sonthalia: And what about Japan Sir?

K.K. Lalpuria: Japan, we have tied up with Itochu and we are developing the market, just last year, we have signed FTA with them, so the Home Textile looks promising in this market, and we are participating in hand text in Japan for the last three years in order to develop that market, and we hope that in the near future we will be able to have good results in that market.

Moderator: Thank you. The next question is from the line of H R Gala from Panav Advisors. Please go ahead.

H R Gala: Sir, I just wanted one clarification, this capacity we are saying 68 million meters, actually it should be Sheet?

R. Sundaram: Million meters.

K.K. Lalpuria: No, Sheets are of different sizes, some in Europe consumes 3.5 meters, some in the US consume 5.5, some consume 6.5, so Sheet Sets are of different meters, the capacities are always mentioned into million meters.

H R Gala: What will be the normal CAPEX for FY16? You said that the major project you will take a call later on.

R. Sundaram: Will be about Rs.5 to 8 crores, it is like maintenance CAPEX.

H R Gala: That will be sufficient?

R. Sundaram: Yes, Rs.5 to 10 crores is sufficient.

H R Gala: This 68 million meters has already been commissioned, right?

R. Sundaram: Yes.

H R Gala: So the entire amount will be capitalized in this year, or it will be done next year?

R. Sundaram: Next year.

H R Gala: So deprecation, etc., will come in the next year. As far as this branding of our own products is concerned, you said that we are looking at in-licensing as a major opportunity. Now if that be the case, how will the revenue share be decided?

R. Sundaram: It will be paid at a cost, it is like a royalty payment.

H R Gala: There will not be any revenue share.

K.K. Lalpuria: No, it is not revenue share, it is a royalty only.

K.K. Lalpuria: Brands are also availed in licenses either private label or licensing brands in order to promote your sales to particular retailers where you either need to open the door or you want to enhance your margin there. So the branding exercise always is to increase the sales or increase the margins, and increase your coverage in that particular market. So appropriately we do our maths and promote it.

H R Gala: There was this interest breakup which you gave in the beginning of the call. I think can you just repeat if you do not mind, the short term and long term, and the other interest for the full year?

R. Sundaram: During the current year we had Rs.65.02 crores is the consolidated finance cost, out of which Rs.16.11 crores is the interest on long-term loan, Rs.35.04 crores interest on working capital, and Rs.13.87 crores comprising of interest on say export bill discounting, supplier bill discounting, L/C charges, RTGS charges, commission on export documentation, processing charges, these are all other than what we called long term interest and working capital, whatever is coming in part of other interest.

H R Gala: What was the corresponding number of last year?

R. Sundaram: It is Rs.49.89 crores is for the whole year, out of which, Rs.16.40 crores is the long term loan, Rs.24.41 crores is the working capital loan, and Rs.9.08 crores is interest on others.

H R Gala: Sir, you said that the next year our interest cost will go down by about 20%. Does it mean that our borrowing rate will go down by about 20% as you explore the new avenues of cheaper finance.

R. Sundaram: Yes.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Sir, first want to check the volume numbers that you gave for FY15, is how much?

R. Sundaram: 44 million meters.

Pritesh Chheda: I missed on the visibility part of the answer. You commented that there is about 8 to 9-month visibility that you see and a certain part of the expanded capacity you think you have kind of booking orders for it. What was that number?

R. Sundaram: In the current year we should have 20% of incremental volume, so if you take 44 plus 20, about 54 million, we should be able to achieve this target.

Pritesh Chheda: Generally there is seasonality where you see a seasonal dip in Q1. This observation of yours is valid for the next three quarters?

R. Sundaram: Every year the first quarter is always slightly lower compared to the other three quarters, not very deep.

Pritesh Chheda: What would be the gross margin differential between your Bed Sheets, the Fashion Bedding and the Utility Bedding product line?

R. Sundaram: As far as the discussion is concerned, we are keeping at the same level.

Pritesh Chheda: What would have been in the FY15 the market growth and what would have India grown in this space?

K.K. Lalpuria: India have grown around 11% if you see the Home Textiles segment and particularly, in the Home Textiles area in the Made-Up section, India has grown by 11% and the markets like particularly in the US if you see, our category has grown almost by 4-5%.

Pritesh Chheda: This number in the nine-month was 2%, so I am just wondering, it was stated in your conference call only.

R. Sundaram: Okay, we will recheck up and probably you can contact SGA, they will confirm to you.

Pritesh Chheda: What would have China grown in the same time period?

K.K. Lalpuria: China has grown less like to India numbers, maybe around say 8% or 7%.

Moderator: Thank you. The next question is from the line of Umesh Gupta from Reliance Wealth. Please go ahead.

Umesh Gupta: I wanted to know a little bit about your business model per se, in the sense, in terms of clients. Do you sell directly to the institutional clients and how much do you sell through distributors and various channels?

R. Sundaram: It is there in the IR booklet which have been circulated. We normally sell 99% to the retailers.

Umesh Gupta: So in those retailers, is there a skew towards larger retailers and if you could give a few names…?

R. Sundaram: Not a single retailer accounts for more than 15%

Umesh Gupta: Could you give a few names of your top retailers which would be like 14-15%?

K.K. Lalpuria: The thing is US is the big market, where some of the retailers are quite huge in absolute numbers, say for example, Wal-Mart has got 4,800 doors as compared to say Bed Bath & Beyond who has got 1,100, as compared to JC Penney who has got 1,000. So there are like absolute sizes wherein once you get into the door, the absolute numbers would be high. If you compare to say the US and UK or say Australia is having a population of around 20 million people and the stores there are like say numbered around say 100-150. So if you sell to an Australian store, definitely, the volumes will be less, but that is equally important because you are distributing your goods throughout the world and it gives you enough chance to in other countries wherein sometimes you get a better product mix or a better product to sell. So you see some of the retailers by their virtue of size you get the numbers higher. So some of the retailers which we work with are say like Wal-Mart, Bed Bath & Beyond, Target, Macy's, JC Penney, and all these big retail chain stores, also in the UK like we work with Debenhams House of Fraser, British Home Stores, John Lewis. So these are some of the retailers which we work with.

Umesh Gupta: That is what I just wanted to have a little color on. So in terms of large retail chains like the ones which you have named, Wal-Mart, Bed Bath, Target and JC Penney, how much of sales come from these large retail chains and how much is from let us say not-so-large retail chains or not-so-non retail chains?

R. Sundaram: These are all proprietary information which we would like to avoid sharing.

Umesh Gupta: Where the growth coming from – is it largely from mining, the existing clients, the large retail chains or incrementally the growth is coming from acquiring from new clients?

K.K. Lalpuria: Like we add on new customers and we grow with our customers. Possibly once we get into a new door, the business gradually moves up, because even this store, like once they promote goods to say if there is a store with 1,000 doors, they first try to promote your goods in only 100 stores, and once successful they promote it to 300 and then to 600 and then to 1000. So you grow with your customers and also you try to open new doors in new countries and add on the sales like that.

Umesh Gupta: The goods are sold in private label names?

K.K. Lalpuria: The retailers have their home brands and so we sell to them and they are home brands only.

Umesh Gupta: How long is the relationship with the clients like Wal-Mart, Bed Bath?

R. Sundaram: 7-years.

Umesh Gupta: What has been your experience in terms of growth and if you could give some light on let us say on Wal-Mart, they have 14,000 doors or whatever, how much you have, how the growth has happened on let us say on existing clients, let us say you said 7-years for Wal-Mart, how has been the journey with Wal-Mart, what percentage of the sourcing would you be, is it very significant or is it very-very small, what is the scope to grow with these clients?

K.K. Lalpuria: As I mentioned to you, once you start a relationship with the customer, you grow with them. We started say probably in 2008 with Wal-Mart and we grew our business from thereon. It applies to other customers as well. So you gradually grow with the existing customers. Secondly, they also expand their shelf, like they also expand their product categories, say if they want to expand more into Bed Linen, rather than set up other Home Textiles, that provides us an opportunity, third, we try our like new retailers, like say we have just recently started working with Macy's and JC Penney, so you see we add on new customers. The fourth is we have had is new product mix, say for example, like Fashion Bedding and Utility Bedding, we have just added a new customer a comfort zone. So like this you try to develop new product mix, new customers, and new channel of sales, like eCommerce, you develop that channel of sales and promote them into the dot.com companies and the e-platform. All this bring in growth. So it is not like a particular definition of selling to one country or one customer. It is a product mix which we sell on and off to different retailers around the world, but the strategy has been to sell directly to the retailers worldwide.

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

Binoy Jariwala: Sir, if you could help me with the Q4 number for the volume?

R. Sundaram: Can you take it separately on this for the volumes?

Binoy Jariwala: I will do that. Any debt repayment coming up in this year?

R. Sundaram: Rs.35 crores.

Binoy Jariwala: Pertains to the working capital, undoubtedly you are working on a very lean cycle, but is there further scope of reduction?

R. Sundaram: Certainly.

Binoy Jariwala: What is the target?

R. Sundaram: I have 88-days of inventory, I would like reduce it to 80-days, so target should be 10% reduction.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: You mention 20% volume growth that we may look for next 2-years because we are looking to utilize this incremental 23 million meters capacity. So basically even we are looking at a higher value added product. So what we are looking is a rise in average selling prices over next two years?

R. Sundaram: Because there will be change in product mix, there will be change in product growth, naturally there will be the average change in the realization per unit or per metre. Our target is to achieve 20%, EBITDA and we should be maintain and if possible improve upon,

Deepak Poddar: So, if we combine that in a revenue growth of 25% above is also a possibility…?

R. Sundaram: Not 25%, max-20%.

Moderator: Thank you. The next question is from the line of Rishabh Nahar from Girik Capital. Please go ahead.

Rishabh Nahar: Earlier you spoke about how you supply to retailers and at the price you supply to them. So what happens is that you said that if our raw material cost increases, we cannot pass on that cost, is that true?

R. Sundaram: Raw material does not increase 20 to 30%, so it may be 2 to 3% +/- and we should have capability to absorb and manage our own business.

Rishabh Nahar: Sir, my concern was coming from actually China's change in cotton policy, where they now decided to auction the cotton reserves that they have, so if they decided to auction at a price higher than the market price, then that should disturb the prices in the whole market?

R. Sundaram: No, India is the major producer of Cotton. Indian cost has no relation to China.

Rishabh Nahar: Yeah, but since they are holding 50% of the whole inventory as reserves, would that not make a difference to the market price?

K.K. Lalpuria: Nobody has seen that and they are still doubting over the quality which they hold. China has decided about their reserve policy in order to supply cotton to their consumers at a cheaper price, but it backfired, and the cost had gone up, but then to maintain, so they are having a negative impact on this and that is advantage to India and India has got up fairly good cotton crop and I think that advantageous situation we will maintain because in time to come India will be becoming the largest producer of cotton in the coming days.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from ALFAccurate Advisors. Please go ahead.

Rajesh Kothari: One question I have is on FOREX side you mention Rs.50.91 crores is the total benefit of FOREX which you have got in the current year, am I right?

R. Sundaram: Not benefit, it is a part and parcel of revenue.

Rajesh Kothari: What is the average realization of dollars versus INR, if you do like to like that how much you get?

R. Sundaram: It is a month-on-month basis average, somewhere it should be between 60 to 62.50.

Rajesh Kothari: What is your FOREX policy, any change in that. can you just highlight that?

R. Sundaram: About 50 to 75% of the coverage will be in the FOREX, that is with the underline business transaction.

Rajesh Kothari: And the balance?

R. Sundaram: Balance, it depends. If the orders comes 100% today, we will cover 100%, since we have a clear outlook only 75% and cover only 75%. There should be accompanying business transaction.

K.K. Lalpuria: Our order position is 6 to 9 months; so as Mr. Sundaram mentioned as and when we get an order, we cover our exposure fully.

Rajesh Kothari: If you get today suppose $100 worth of order?

R. Sundaram: We will cover $100.

Rajesh Kothari: And my second question is, with reference to the in-licensing branding which you were thinking of. Can you elaborate in terms of…?

R. Sundaram: It is too premature right now, it will take another about 6-months to one year, whenever there is a clear focus, we will certainly take up as next revenue call out.

Rajesh Kothari: Because, generally what happens that these branding business is completely different than contract manufacturing or order base manufacturing is a different and B2C is completely different?

R. Sundaram: We know that, that is the reason, we have been very conservative, we are not still clear about that. The day we clear about it and we start doing business, we will certainly keep all those stakeholders informed about it.

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

Dhaval Shah: Now apart from India which other country is gaining out of this China reducing its exposure to the Home Textile?

K.K. Lalpuria: Basically, if you look at the world, the cotton producing countries are mainly Asian countries and all the developed nations are doing away with manufacturing like earlier the U.S., the Latin American countries, Europe, East European countries, they all used to manufacture textile and also in the U.K. to a large extent, but they all discontinued because they become non-competitive, expensive and secondly because of the environment reasons also to some extent, and also it became low value for them. So this production shifted to the Asian countries. In Asian countries, India is well placed because India has got surplus cotton; India exports raw cotton, it exports cotton yarn, it exports grey fabric and it exports finished products as well. So, we have got an established spinning industry which forms the raw material to all kinds of textiles. So you see we are at an advantageous situation than other countries, like even if some of the countries like Vietnam, Cambodia and Bangladesh are increasing their apparel export to some extent because they are importing fabrics, they do not have the advantage of raw material with them. So in time to come we are in a sweet spot, and secondly, India is a country where the last decade have invested very heavily in Textile, if you look at the TUFS number, the spinning is now almost 50 million, spindleage and fairly we have shuttleless loom of around 20,000 and we have got world-class facilities, integrated facilities for producing all kinds of Home Textiles. Do you know? India as a brand India is now recognized in the global market and has established itself, performed itself. So India is bound to grow in the near future and a very few countries will have the cost advantage which India has as far as raw material is concerned. So, in exports, the basic theme has shifted from low price or rise price to say credible and reliable supplier, because the retailers would like to focus on their retail markets.

Dhaval Shah: Can we say that what happened to the IT industry in 2000 and 2001, the same is happening with the Home Textile export for India, so is that the scale of opportunity what we have?

K.K. Lalpuria: Opportunity is there, it will be false on my part to comment on the IT industry and compare...

Dhaval Shah: Any compares like for example, after 2002, there was a big opportunity for the Indian IT companies and now suddenly since past two years we are also seeing a big opportunity for Indian Home Textile players, I am saying only in terms of export? So, is it like a consistent opportunity which has come up or China will go and set up a base in Africa, and as we read in paper that they have set up a base in, for example, Rwanda, where they were FTA with Europe, and since the labor is cheaper in Africa compared to China, they are shifting there and will start exporting out of there. So that is why I wanted to understand, is it a sustainable kind of opportunity ahead?

K.K. Lalpuria: Yes, absolutely, India is in a sweet spot as I mentioned because the raw material is a big plus, plus, plus for India, particularly in our Home Textile industry and I think like what you said that secondly on countries going around the world to establish, some sector over there, it would work out like that at least in the manufacturing sector, you might have an advantage for that particular region by utilizing the labor force for the utilities…

Dhaval Shah: You can get the labor arbitrage but not the other?

K.K. Lalpuria: Yeah, but how much is the labor component in your entire product, that also you need to ascertain. So India is having a very big advantage and I think Textiles sector, in the time to come, will be in limelight, as you mention, I cannot comment on the IT sector and compare it, but it will be in a very big limelight now.

Dhaval Shah: So then we can have a dividend policy also because we have a good visibility of our business going forward?

R. Sundaram: Certainly, lots of suggestion have come for dividend policy, we will certainly take up at the board level.

Moderator: Thank you. Ladies and Gentlemen, due to the paucity of time, that was the last question. I now hand the conference over to the management for their closing comments.

K.K. Lalpuria: I take this opportunity 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 Mr. Sundaram, and Strategic Growth Advisors, our Investor Relations Advisor. Thank you once again for joining us on the conference call.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Indo Count Industries, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.