



“Indo Count Industries Limited March Quarter-Ended  
and FY16 Earnings Conference Call”

**May 10, 2016**



**MANAGEMENT: MR. K. K. LALPURIA – EXECUTIVE DIRECTOR, INDO  
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LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the March quarter-ended and FY'16 Earnings Conference Call of Indo Count Industries Limited. This Conference Call may contain forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a remainder, 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. If 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. K. Lalpuria -- Executive Director of Indo Count Industries Limited. Thank you and over to you, sir.

**K. K. Lalpuria:** Good afternoon and a very warm welcome to everyone. Along with me, I have Mr. R. Sundaram – our Chief Financial Officer and SGA our Investor Relations Advisors. It is my privilege pleasure to share with you that even in the financial year 2015-2016, the company had continued its growth trajectory. Given the robust performance of the company during the year, the Board of Directors of the Company has recommended a final dividend at the rate of 10% that is Re. 1 per share for the financial year 2014-2015. Such the total dividend payout for the year is 20% that is Rs. 2 per equity share.

Now, let us first discuss the overall expansion program:

In Q2 financial year 2016 Board Meeting, the Board has considered a total CAPEX of Rs. 475 crores in two phases. The board at that meeting had approved the CAPEX of Rs. 175 crores towards Phase I as under increasing the processing capacity from the current 68 million meter to 90 million meter at an estimated cost of Rs. 70 crores. Then setting up Water Effluent Treatment Plant estimated to cost Rs. 50 crores and automation of Cut-n-Sew as well as the warehousing required for it estimated to cost Rs. 55 crores. We are progressing as per schedule, on the above mentioned CAPEX plan and are likely to be completed by Q3 financial year 2017.

As on 31st March, 2016, the amount capitalized is Rs. 110 crores towards setting the Effluent Water Treatment Plant, the new utilities, Automated Cut-n-Sew as well as I mentioned about the warehousing. The balance capitalization is for enhancing the processing capacity from 68 million meters to 90 million meters, this is progressing as per schedule and shall be completed by Q3 2017.

At the Board Meeting held on 7<sup>th</sup> May 2016, it approved the capital expenditure plan for Rs. 300 crores this is the second phase. This capital outlay will be funded by internal accruals and debt, the capital expenditure will be for upgrading the existing Spinning facilities, investments

in additional Weaving with specialized looms, and value added equipments for delivery of fashion and utility bearing.

This expansion will be completed by March 2018. So with the entire expansion plan of Rs. 425 crores excluding Water Effluent Treatment Plant of Rs. 50 crores, we shall reach a full fledged processing capacity of 90 million meters. At present, we have in-house Weaving capacity of 9 million meters, the additional Weaving capacity for value added products which will be in the region of 15 million meters to 18 million meters. As we have followed always an asset light strategy wherein our Weaving capacity compare to our Processing capacity stands lower. You would note a few years back that our Weaving capacity was 9 million meters when we started the project on a processing capacity of 36 million meters. Over the time we have increased our Processing capacities to 68 million meters as this will be further expanded to 90 million meters. Hence, the need of the Weaving capacity so now therefore, we are adding 15 million meters to 18 million meters of Weaving to this expansion on an overall basis which will bring in at least 30% of our Weaving to the increased processing capacity. Further majority of the incremental Weaving capacity is being put this specialized loom for high value added products since, we have moved up in the market place by our brands as well as the Fashion and Utility Bedding which we launched in 2014.

The total CAPEX for Rs. 425 crores excluding Water Effluent Treatment Plant of Rs. 50 crores will result in revenue of almost Rs. 900 crores to Rs. 1,000 crores on full ramp up at 100% utilization. Our internal EBITDA hurdle rate expectation for this revenue shall be in the region of 23% to 25%. The total project cost of Rs. 475 crores for this expansion will be funded by long-term borrowings of Rs. 250 crores and balance will be funded through internal accruals. We have proposed to the board for an enabling resolution to raise fund at the Annual Results of financial year 2016 based on our medium-term financial strategies to grant the company financial flexibility. Our proposal was based on our view that the company has come out of the CDR situation in the recent past and follows an extremely conservative approach towards any debt. However, the board is of the opinion that even though as a company we have undergone CDR situation and we are averse to debt. The board feels that Rs. 250 crores of additional debt for the CAPEX is miniscule to the strong balance sheet we have for March 2016. Therefore, this expansion of Rs. 475 crores can be funded with debt equity which comes to 1:1 approximately.

Now, coming to the industry:

As per the recent data from OTEXA, made ups import to US has grown by 2% to 3% from March 2015 to March 2016. Made ups imports from India increased at a higher rate roughly at 8% for the financial year 2016. Chinese growth is flat, India has been able to gradually increase its share in Global Textile market because of varied reasons which we all know.

On broad sum:

Bed Linen market in USA, the Sheet Set market particularly is 4.5 billion in value terms at retail. Where India share is approximately 48% and expected to increase going ahead. The other new categories like Fashion, Utility and Institutional Bedding have a large market size of \$10 billion where India's presence is at an infant stage. China dominant these categories and due to the cost rising India's share will increase over the year. Currently, we are second highest manufacturer and exporters of Bed Sheets, Bed Linen from India and among the top three Bed Sheets suppliers to the US

Now, as our target market size has increased from \$4.5 billion to \$14 billion we expect that these new categories to perform better in the future which will lead to an increase in our overall performance. Our Phase II expansion is directed towards strengthening our capabilities in these new categories. In order to do well in the value added category, we recently launched three new brands in the US market, these are our own life style brands, it will cater to the high premium segment products because so far we have not been attacking the premium segment of the market. The brands are Boutique Living, Revival, The Pure Collection. brief details of these products are already provided earlier and in Slide #20 to Slide #22 of our IR Presentation circulated.

Now, let me come to the business outlook for financial year 2017:

We see our company performing well as the large US market is quite positive. Other countries like UK, Europe and Australia are shaping up well. We expect to do better in these markets as we are providing end to end solution in the Bed Linen and also we have presence in these markets with established office and showrooms.

This is now from my side, 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 March and year ended financial year 2016.

**R. Sundaram:**

Thank you Mr. Lalpuria. A warm welcome to everyone present on the call. We have circulated the Press Release and the IR Presentation to all the investors and uploaded on the BSE, NSE and the Company website. I would now like to take you through the brief performance of the company on a consolidated basis during the year-ended 31<sup>st</sup> March 2016.

Our revenue was Rs. 2,213 crores resulted in growth of 24%. Our EBITDA was Rs. 474 crores resulted in a growth of 51%. Our EBITDA margin has improved from 17.6% to 21.4%, an improvement of 380 basis points. Profit before-tax was Rs. 400 crores, a growth of 93%. Our profit before-tax margin improved from 11.6% to 18.1%, an improvement of over 650 basis points. Our profit after-tax of Rs. 265 crores, a growth of 81%, profit margin improved from 8.2% to 12% an improvement of 380 basis points.

Lastly, and the more important, our earnings per share improved from Rs. 38.95 to Rs. 67.04 a growth of 72%. The above performances have resulted in improvement of ratios which are

given below. The term debt to equity is only 0.1x times. Our net debt compressing of long-term, short-term and reduce in their cash balance to equity as only 0.55x. The return on equity was 47%. The return on capital employed is 48% and the interest cover is 8.3 times.

I will come to Income Tax:

The Company has to pay a tax of around Rs. 135 crores for the year which comprises of actual tax outgo of Rs. 100 crores, deferred tax of Rs. 14 crores and MAT previous years MAT utilize of Rs. 21 crores.

Due to the above performance we are pleased to inform you the two rating ICRA and CARE has provided 'A' rating for the long-term and 'A1' rating for the short-term loans.

That is from my side. I would like to open the all the investors for any questions so that we can reply it. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of H.R. Gala from Panav Advisors. Please go ahead.

**H.R. Gala:** I sir, just wanted to know if you can help us with the quantitative information as to how many meters have been sold and produced during current year?

**K. K. Lalpuria:** out of 68 million installed capacities almost 54 million meters of sales was done far as the quantity is concerned.

**H.R. Gala:** Okay. So next year do you expect that we will be able to cross 68?

**K. K. Lalpuria:** See we are trying hard to sell almost like in the same manner, but as you know we are trying to increase our Fashion Bedding and Utility Bedding the higher value realization fabric which takes a little bit of more time and secondly, we are catering now to the premium segment where the runs are smaller. We expect that we should be doing well and we have made a business plan of almost 62 billion meters to 63 billion meters so, we expect that to grow to that much capacity.

**H.R. Gala:** Okay. That is great, because 62 million to 63 million with higher value give probably revenue trajectory.

**K. K. Lalpuria:** Of course, that is what we are trying to attempt.

**H.R. Gala:** Okay. And sir, as you said that this 68 million to 90 million, you will be able to commission by third quarter of FY'17 or will it be calendar year 2017?

**K. K. Lalpuria:** We are trying to see that we do it by Q3 because normally when we go to HEIMTEXTIL we have to give an update of our capacity to all the customers globally so, if we put that into place

we are able to start our compliance in the first quarter and second quarter so that they can come and access our capacity that is the reason we expect it to complete by Q3 for same reason.

**H.R. Gala:** FY'17?

**K. K. Lalpuria:** Yes.

**H.R. Gala:** Okay. So probably the sales can start from FY'18 onwards?

**K. K. Lalpuria:** Of course, that is what our presumption is.

**H.R. Gala:** Okay, that is fine. Now, apart from these capital expenditures which you have listed of Rs. 475 crores is there any other capital expenditure required?

**K. K. Lalpuria:** There will be routine capital expenditure which every year we do on maintenance and you know certain other compliances. So I think this will cover this 475 cover of capital expenditure.

**H.R. Gala:** there won't be anything left out.

**K. K. Lalpuria:** No.

**H.R. Gala:** Okay. Sir, just one observation I have on this account that our net working capital days have slightly increased I think they are about 70 days, if I am not mistaken. So is there any particular reason for elongation of inventories not much but the debtors and I think we have repaid the creditors faster that is what it looks like.

**R. Sundaram:** See we have four bankers in the consortium and we are trying to close down through two bankers and replace with a new banker. So this process started last December. So the last quarter of the last year we did not have any non-funded facilities from these bankers. If we have non-funded facilities the creditors would have been maintain the same level. Since the non-funded facility is not available, we used our internal cash flows to pay to the supplier that is reason why the creditors have slightly come down. But it will recoup back in the current year since we have only the two bankers, they are doing the current quarter.

**Moderator:** Thank you. Our next question is from the line of Madhav Marda from Fidelity. Please go ahead.

**Madhav Marda:** Sir, my question is that in the near-term the industry looks good Home Textile business for the Indian players but what about four years to five years later like do you have any outlook on that? How the market will shape up and how players will generally do the Indian exporters?

**K. K. Lalpuria:** Yes, of course like see the US has been positive we have been mentioning this for the last three years continuously and that is helping Indian exporters to grow their market share. Now, apart

from the US the EU is also a very large market like if we say our US Bed Linen market is around \$14.5 billion, the EU market is around \$16 billion. But as we all know you see, the EU is a little a bit tilted towards Pakistan and Bangladesh providing them 10% Duty Free access where we have to pay the duty. So once we sign that FTA that entire market opens up. However, we are selling to some of the retailer's good retail brands in the EU as well. Secondly, the UK is also graduating towards a very good market because earlier it was focusing on blends but now it is more towards Cotton pro so, that is helping India because India is well positioned in the Cotton segment. And the other economies as well I say to some extent like in Latin America like in South Africa, in Middle East once it settles down, there will be huge market opening and this industry of ours if you remember it started only after 2005 once the quotas went away and in 2008 we had subprime and by 2007 it just started looking up, so it is a pretty young industry to grow and soon we have found the market share of almost 48% in the US which gives us an indication that we are pretty strong like in this category and we are quite competitive as well and our product has found the acceptance. So we presume that in time to come in the next four years to five years it should grow. And lastly, you see we have been focusing only on the Sheet Set side of the business which is 48% market share. Now, the Fashion Bedding and Utility Bedding and the Institutional Bedding which forms almost 10 billion of that \$14.5 billion basket, we feel that once the China is dominating almost 85% if that goes down then advantage would be India to grow in those categories and grab that market share. So overall when you look at the Bed Linen segments four years - five years down the line with the competitiveness what we have today, it is bound to grow in the years to come.

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

**Ashutosh Somani:** Just wanted to understand, if the new CAPEX plan that we have will it attract any subsidies and if so, what is the nature of the subsidies? The other thing is generally wanted to understand your view on the subsidies continuing going forward given that this particular portion of the value chain in the textile business is doing reasonably well with the good return ratios and good ROCs, ROEs, so do you see it continuing it for let us say next two years to three year? And the second part of the question is on the Cotton price spread between India and China. The Cotton price spread has come down considerably over the last two years - two and half years, so just wanted to understand do you think it will impact the business flows from the US towards China in favor of China versus India or do you think the focus of Chinese players is concentrated on the Fashion Bedding and the higher value addition part rather than Cotton Sheets itself? Thanks.

**K. K. Lalpuria:** See to answer your first question on the subsidy part, let me update you that the Central Government has given a new TUF policy which marks a larger outlay not only for the new players but also clearing the debt of the old players and it has continued with the 5% subsidy as far as the interest subsidy concerned. As far as the capital subsidy concerned that is capped at Rs. 20 crores and Rs. 30 crores depending on what investment you do. Secondly, the Maharashtra Government has equally given a very good policy wherein they are providing 6%

interest subsidy on the Textile projects. So overall you tend to get a large amount of interest subsidy on whatever you invest on the selected investment. And this is the boost I think to the Indian Textile Industry as far as from the subsidy standpoint. Secondly, to answer your question on the Cotton side, Cotton prices are stable, if you look at the overall stock to end use ratio it is higher. So that gives stability for a supply and from the demand side. So those prices are going to maintain irrespective of what you see a normal average increase in the market place due to the short-term demand and supply gap. So overall the prices of Cotton will tend to remain stable. Now, as far as China is concerned, as we all know that China is facing issues not only from its overall cost but also from their economic standpoint. And due to this economic standpoint they have started focusing more on their home consumption rather than the export. And you see there is a dual effect of currency when they de-value because it meets their import expenses and their exports may be cheaper for short-term plus overall they have environmental issues and other socio economic issues to face there. So we feel that China market share would be going down not only which we see in the Sheet Set side of the business but also on the Fashion Bedding and the Utility Bedding, the reason being also because they have strong player in manmade fiber and blend so far where India is the rationalized duty can take up a larger market share. So we expect this share to drop down in the years to come and we feel that India will definitely see an uplift in their market share in the time to come. So these are the positives which we are seeing and we ourselves are seeing this positive in the market place by doing business in this new category now.

**Moderator:** Thank you. Our next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

**Pawan Kumar:** Two small questions, one would be regarding employee expenses they have just come down marginally from Q3 to Q4 so, I wanted to understand if that is sustainable. Second, I just wanted to check on this number on Weaving, so you said initially there were 9 million meters and now it is incrementally 15 million meters to 18 million meters is being added or how is it?

**R. Sundaram:** Yes, the Weaving as earlier capacity of 9 million with adding of 256 looms the additional capacity meeting 15 million to 18 million so, the overall capacity of Weaving once implemented will be close to 25 million to 27 million. As regards the employee cost of the Q4 is concerned there is gradual reduction mainly because we have three plants in the factory and these were all negotiations are going on with the union for the agreement we had provided in the first three quarters a little more amount on these agreements and post this the agreement was signed in the month of January. So post this, the addition provision which is not required was written back in the Q4 so that is only one-off transaction in the Q4 and the future will remain the same what has in the previous quarter.

**Pawan Kumar:** So it will continue at around Rs. 24 crores, right?

**R. Sundaram:** Yes.



- Moderator:** Thank you. Our next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** Sir, just two things. You had mentioned that the overall volumes for the year were about 54 million meters if you could help us with the same number for Q4 please?
- R. Sundaram:** Q4 we did around 12 million.
- Rahul Bhangadia:** 12 million meters and that what would be the growth over previous Q4 sir, Q4 of FY'15?
- R. Sundaram:** So in the current year we had incremental growth in the Q1, Q2, Q3 so, Q4 was a growth of only about 15% as compared to the previous quarters.
- Rahul Bhangadia:** Okay, so that one. Second is just a small data point book keeping kind of question is that, the inventory difference between the standalone and the console seem to have gone up again this year which is trend which has continued from last year as well so now the inventory difference between standalone and console balance sheet is about Rs. 170 crores. If you could just kind of give us a flavor what is there in the subsidiaries that we are talking to?
- R. Sundaram:** See we are presently operating only one subsidiary in the US the last year the sale was close to \$40 million, which has gone to \$60 million in the current year. So naturally to service this customer we have to maintain the inventory. So in the standalone basis it shown the receivable as receivable from the subsidiary but in the consolidated the receivable will get knocked off and the inventory line the Euros will get added back. So this trend will be maintained depending upon the requirement of the customer what sort of inventory we should hold it.
- Rahul Bhangadia:** So this year that particular one subsidiary has a \$60 million sale is what you are saying?
- R. Sundaram:** Correct.
- Rahul Bhangadia:** So for that \$60 million sale which is above Rs. 400 crores you have a Rs. 170 crores inventory in that subsidiary, is that correct?
- R. Sundaram:** No, not Rs. 170 crores, the inventory is 287 it is 456, it is not only that one we have another subsidiary which is called Pranavaditya.
- Rahul Bhangadia:** But that sir, is a small one, right?
- R. Sundaram:** But for that also there is an inventory. That is about Rs. 20 crores of inventory is there is in the subsidiary.
- Rahul Bhangadia:** Yes, so basically it will be Rs. 150 crores may be in that subsidiary for a 400 crores sales, that is the way to look at it?

- R. Sundaram:** Right.
- Rahul Bhangadia:** And as this number grows the inventory also likely to kind of grow in that subsidiary? I am assuming this inventory is in the US physically.
- K. K. Lalpuria:** Yes, you see when we service different customer, you see at certain point of time you have roll over's, you have new roll out, you have certain discounts like roll back and you also would like to service sometimes and sometimes you know certain project get delayed if there is a new roll out then there it is like if they would rolled out say 15<sup>th</sup> of March they would have taken it to 15<sup>th</sup> of April then certain times you carry inventory in order to service it. So these are the views. We should look at the overall inventory liquidation over a full period year you know then it would give you a correct picture.
- Moderator:** Our next question is from the line of Laxminarayan from Catamaran. Please go ahead.
- Laxminarayan:** One is on your capital expenditure which you have outlined – adjusted to all the subsidiaries what is your net financing cost or the net interest cost you need to bear as a percentage, number 1. Second question is that if you actually look at your EBITDA margin growth or your operating profit margin growth and if you actually separate it out into the raw material cost gain and the foreign exchange gain and the price gain, how it will be?
- R. Sundaram:** As for the project cost is concerned, as explained earlier we have a central subsidy of 5% restricted to Rs. 20 crores which will get paid over a period of the project. Under TUF subsidy, earlier there were two subsidies – capital subsidy and interest subsidy. The interest subsidy has been withdrawn by The Central Government, what you have only capital subsidy which is restricted to Rs. 20 crores.
- Laxminarayan:** So out of Rs. 300 crores which you have outlined, you will get only up to Rs. 20 crores.
- R. Sundaram:** Number 2 the States gives the subsidy in the form of interest benefit. Since our plant will be located in Maharashtra for a combined project we will be expecting about 6% of the interest subsidy from the Maharashtra Government. So if you have a term loan cost of 10% so effectively net cost of funding the term loan will be about 4% to 4.5%.
- Laxminarayan:** And both your plants are going to be in Maharashtra?
- R. Sundaram:** Correct.
- Laxminarayan:** And the second question is; if you actually split your EBITDA margin growth into currency and raw material benefit and the price benefit, how much it would be?
- K. K. Lalpuria:** No the currency benefit you see overall we have worked it out to be almost 3.5% and the overall price growth if you say is flat. So on dollar-to-dollar terms, we have maintained the

prices irrespective of the raw material cost going down as well as getting the currency depreciation advantage.

- Laxminarayan:** Your EBITDA has grown by 51%, so of which 3.5% is accounted by currency ...
- K. K. Lalpuria:** I am saying about the overall margin growth.
- Laxminarayan:** I mean I am looking at the margin growth at an EBITDA level from 313 on a consolidated basis has gone to 474.
- R. Sundaram:** If you see the EBITDA margin has gone from 17.6% to 21.4%, there is an increase of 380 basis points. Now out of 380 basis points, close to about 5% is the benefit on the material cost and other there are certain additional expenditure like in the marketing which is reduced by about 1.2. So effectively you get a good 380 basis points. As per the foreign exchange, you can see it as part of the revenue only which we normally do a forward contract.
- Laxminarayan:** Okay but you said there is a 3.5% depreciation benefit you have got, right?
- R. Sundaram:** Yes that is because of average forward contract on the dollar terms, basically if you are talking on rupee to dollar.
- Laxminarayan:** And just one last question on what is the mix of cotton and non-cotton in your raw material?
- K. K. Lalpuria:** It is all, majority is cotton based.
- K. K. Lalpuria:** Majority is cotton based, there are some blends also which we utilize. So they are all mix of fibers but majority 85% -90% is cotton based.
- Laxminarayan:** The cotton prices have come down and it has kind of stabilized, so what is your outlook on cotton?
- K. K. Lalpuria:** Outlook of cotton seems to be stable because India does have abundance cotton to provide and I think the yarn prices are also stable, so overall outlook will be stable.
- Moderator:** Thank you. We have a next question from the line of Abhilasha Satale from First Global. Please go ahead.
- Abhilasha Satale:** In your presentation you have mentioned that during the year the growth is on the back of volume growth, customer addition and repeat business from existing customers. So volume growth as you have already discussed, I would like to know how many customers you added during the year and that too in US and other markets and how much was the repeat business from the existing customers?

- K. K. Lalpuria:** When we started in 2004 this fashion bedding and utility bedding, one of the objective was to add new customers as well. And this is a proprietary information which we cannot provide the name of the customers but as an overall company we tend to add 8-10 new customers every year.
- Abhilasha Satale:** And majority of them were added in which market, it was in US market?
- K. K. Lalpuria:** No, it is a mix of markets. US being a larger market, there are almost 4-5 in The US and then it is all spread over.
- Abhilasha Satale:** How much these new customers fetched you revenue growth in terms or of the total how much from new customers and how much from existing customers?
- K. K. Lalpuria:** See our top 10 customers form 50% of our revenues. So the balance is almost 50% comes from both new customers as well as the old customers. So one thing which is of importance to know is that we have retained all our customers which is crucial for the business.
- Abhilasha Satale:** Secondly on the margin, as it is discussed already but I would like to know in detail, we have had around 22% margin during the quarter. So what is your outlook for the medium-term, will we be able to sustain this margin because cotton prices during the season have gone up marginally and even that rupee depreciation benefit that is also we are not foreseeing for the next year, so how are we anticipating our margins to shape up in the medium-term?
- R. Sundaram:** Our current margin as is about 21.6% for the whole year, our endeavor is to sustain this margin during the current year, there is all scope for new products improving margin but sustainability of 21.6% is possible for the current year.
- Abhilasha Satale:** How is our cotton cost as compared to last year now that we have already started procuring and also how are we finding this season?
- K. K. Lalpuria:** As I mentioned earlier, the cotton crop we need not worry because India is the largest producer and India does export both cotton and yarn, so there is abundance supply of cotton as far as India is concerned. And the prices are also stable so the outlook remains overall stable. There are sometimes a couple of points here and there increase or decrease in the prices of both cotton and yarn but that gets averaged out. So mostly you can consider that the cotton prices would be stable during this year.
- Moderator:** Our next question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.
- Niket Shah:** Just wanted to understand what is the plan on launching your brand in the domestic market as well as if you can give us some sense of how scalability will be some of these premium brands that you have in-licensed and what kind of margins will you be making on those in-licensing sales?

- K. K. Lalpuria:** Last year we decided about floating a Retail SPV which will be owned 80% by Indo Count and 20% by Asim Dalal who has got a very good retail experience through Bombay Stores and we will be launching our brand which is called 'Boutique Living' in the domestic market this year and we are targeting the mid-to-high segment as well as the premium segment and positioned the brand accordingly so that it can become an aspirational brand in the years to come. The total outlay for this domestic brand is Rs. 25 crores which we will be spending in 2-3 years' time and this has been approved by the Board as well. So this is the position as far as the domestic brand is concerned. As far as lifestyle brands are concerned, the company has now targeted the premium segment of the market as well in US and globally. So that is the reason we launched 3 new lifestyle brands in the US called 'Boutique Living', 'Revival' and 'The Pure Collection'. What we have done is we have taken on board good designers within US and UK and we are building on this new brand strategy, so we can enter the premium segment and get ourselves recognized as a player in the fashion area. It will give us definitely an advantage to call on new customers as well as provide an end-to-end solution, strengthen our power development and brand team here and also increase our image globally. So, to strengthen the product portfolio, we are looking at licensing brand as well and in the future we will soon be declaring that because we are in discussion with some licensing brands both in the US and UK and this complete new brand strategy has found a good acceptance in the market place as you know our target customers have started accepting us as one of the key players in the fashion arena.
- Niket Shah:** The manufacturing will be done by the owner of the brand and not by us or will be by us as well?
- K. K. Lalpuria:** No we will be doing the manufacturing process here in India and that is why we are expanding our setup in Kolhapur by putting on new facilities so that we can deliver this fashion bedding as well as the utility bedding.
- Niket Shah:** So essentially the path going forward as far as sales is concerned in the fashion bedding will be through the in-licensing of some of these premium brands?
- K. K. Lalpuria:** Yes, just to correct one thing like we are owning this brand, Boutique Living, Revival and The Pure Collection all three lifestyle brands we are owning, now when I say licensing brand is to license from people who are owning this brand by paying them royalty.
- Niket Shah:** Okay, so you bought out these brands basically?
- K. K. Lalpuria:** No, we created this brand in fact.
- Niket Shah:** Okay and what would be the average count of bed sheet that would have sold this year, rough number if you can broad base?

- K. K. Lalpuria:** This is a propriety number so we do not disclose that because that is in order to clarify it is not relevant to our consideration because you see it is a market demand, we are in made-to-order business and sometimes if certain times 200 thread count is in move or 300 is in move or say 400 is in trend so we sell different thread counts and we do different value addition. So, it might be that 300 thread count selling as a normal commodity maybe our 200 thread count can meet that expectation level. So for us selling a product is entirely at the backend call of the retailers and also since we do innovation, we create value in the product to see that the thread count is effect is minimized.
- Moderator:** Thank you. We have the next question from the line of Chirag Lodaya from Valuequest Investments. Please go ahead.
- Chirag Lodaya:** If you can help me with the stand alone sales breakup of home textiles and yarn for the quarter as well as full year vis-à-vis volumes?
- R. Sundaram:** Home Textiles is close to around 90% and the balance will be off spinning yarn.
- Chirag Lodaya:** Absolute term if you can give me the breakup?
- R. Sundaram:** In value terms, 90% of total revenue you can take it from home textiles and 10% total revenue take it from yarn.
- Chirag Lodaya:** For full year?
- R. Sundaram:** For the full year.
- Chirag Lodaya:** And for the quarter?
- R. Sundaram:** Quarter all remains same maybe 0.5% or 0.25% here and there maybe difference, will always remain the same percentage.
- Chirag Lodaya:** And in terms of volumes for this quarter vis-à-vis last quarter same year?
- R. Sundaram:** That is what I said earlier this quarter it is about 12 million with a growth of 15% over previous quarter. In one of the previous questions the same point was replied.
- Chirag Lodaya:** Can you give me the FOREX gain for the year, absolute number?
- R. Sundaram:** It is close to about Rs. 20 crores.
- Chirag Lodaya:** And export incentive number?
- R. Sundaram:** Export incentive is only a percentage of drawback and so, I do not have a figure right now but the export incentive is in duty drawback, licensing and other activities.

- K. K. Lalpuria:** It is considered in the revenue itself.
- Chirag Lodaya:** And sir lastly on our proprietary brand, if you can throw some light on what kind of investment we are looking this brand in globally, not in India and what kind of working capital we will require for the same?
- K. K. Lalpuria:** See, these brands earlier we were selling home brands to the retailer so it is the same process. There is not as such any special investment which we are doing in creating this brand. Of course the hiring of the people within the company, their salaries and developing the showroom and all that are some of the initial investment which we will be doing in order to project and improve our image, so that are just an investment, once we get started with this brand, whatever CAPEX which we are doing on a special cases to improve our spinning or buying new looms or creating cut and sew operations automated and the new line for comforters and quilts, all this will be the investment which are considered in the CAPEX but there is no as such investment which we are going to do on promoting this brand because we have already got the ordeals of all these from customers.
- Chirag Lodaya:** But just to understand when we are third party vendor, we sell to the retailers like Wall-Mart, Target, JC Penney, etc., where it is make-to-order, where inventory is not in our books but in this case we will be having the inventory, right?
- K. K. Lalpuria:** No, when we say when we are promoting this brand it will be also again a made-to-order, the selection will be done by the retailer, when we showcase them this complete collection and they will be based on made-to-order only and not made-to-stock.
- Chirag Lodaya:** It is just; it will be sold in our brand name.
- K. K. Lalpuria:** Yes, so when you say you go to a store and you see Nautica or some other brand, you will see our brand like Boutique Living in the same shelf space.
- Chirag Lodaya:** Sir in terms of margins, if you can throw some light, what will be the differential margin we will be gaining from this?
- K. K. Lalpuria:** See when you offer a brand and a complete collection plus complete value you always tend to sell it at a better price and so margin improvement always there which you would charge for creating that brand and that collection and making that buyer buy an end-to-end solution otherwise you see the retailer has to go back and develop its own designs and trends and everything for which they have to spend their own money so that we will be providing them that solution so definitely we will be charging for that. So those will be like 100, 200 basis points we will be able to gain extra.
- Chirag Lodaya:** And lastly, when we say we will be licensing some brand in US and Europe so there also the same thing, inventory will not be in our books?

- K. K. Lalpuria:** No never because you see we are overall in made-to-order business, when you take a license you pay a royalty to the license holder and then you create that entire fashion brand and promoting the sale in the way like your own brand to the retailer and once the retailer places an order you would go back and produce. So you are again not creating any inventory as such for this brand except for the sampling.
- Moderator:** Thank you. Our next question is from the line of Amit Vora from PCA Securities. Please go ahead.
- Amit Vora:** Our company name is PCA Securities. My question pertains to what has been the breakup from the new facility and the old facility for the 54 million meter that we would have done?
- R. Sundaram:** We have only one facility, it looks like a 2 different possessions, the same plant.
- Amit Vora:** The new CAPEX that you commissioned this year, what was the volume from there?
- K. K. Lalpuria:** We had expanded from 45 million meter to 68 million meter which we had done by 31<sup>st</sup> March, 2015, so we are trying to utilize this capacity, the 68 to 90 million capacity expansion will come during the year and as Mr. Sundaram pointed out, this is one capacity which we are considering. There is nothing like different capacities at different location.
- Amit Vora:** Okay, so 54 million is from the same. The new brands that you would have launched this year that is the Boutique Living and the other two brands, what are our internal estimates on this and what are the margins that we have on these products?
- K. K. Lalpuria:** As I mentioned earlier in last year con-calls when the other revelations which we had done quarter wise, we are today currently selling 10% of our volume in fashion bedding, utility bedding and institutional bedding, we intend to grow this percentage to 30% in the years to come. So we expect the volume growth as well in these new categories as well as these brands which we have launched which will give us an edge to develop new relationship with customers in the fashion bedding area. Now as far as the margins also, I had put across that we stand to gain 100 to 200 basis point extra than the sheets which we sell today. So there would be both like volume growth and margin growth in this area.
- Amit Vora:** Generally, we used to give the order book situation like for the next 6 months to 8 months we have order books, so what is it currently that you are at over 6 months?
- K. K. Lalpuria:** We are at 6 months today.
- Amit Vora:** 6 months is the order book as of now. And my last question pertains to that we were very much aware that our funding the for new CAPEX, which you explained with the subsidies from the State and Centre would be around 4-4.5% term loan, is that the right assumption?
- K. K. Lalpuria:** Right.



- Amit Vora:** So what made us go towards the direction for equity dilution?
- K. K. Lalpuria:** We dint went for equity dilution, this was just an enabling resolution for the company to go in for getting for their CAPEX during this entire year, so this was just first of all a standard enabling resolution, secondly, you see we were a CDR company before and we came out on 31<sup>st</sup> March, 2015, so we were quite conservative on our debt approach. So the company thought that in order to once again raise the debt, instead of that why not think about other areas where it can raise the fund. So it was not a substantial debt raising which we thought about and we put across our thought process to the board. we have a very strong board. So they clarified that we do not need this at this level because you are doing the CAPEX over a period of 1-1.5 years where you will have internal accruals and secondly – we have a strong credit rating of AA+, so we will not be finding difficulty in raising the fund and debt and we having a strong financial ground today, you see the debt which we will raise will be quite miniscule comparing to the whole situation, so we never contemplated to as a dilution but we were just thinking of various means of raising funds and debt, this is just a standard enabling resolution which we had put across.
- Moderator:** Thank you. We have the next question from the line of H.R. Gala from Panav Advisors. Please go ahead.
- H.R. Gala:** We read a few reports in the press sometime back that US has been pressing very hard that I think probably we have overshot the limit of doing away with all the export incentives for textile exports, what is your view on that Mr. Lalpuria?
- K. K. Lalpuria:** See the export incentive also today we cannot term it as incentive, those are some of the duty inputs which we are doing while having all these inputs into our export, so basically the government is giving us back, we have to pay this in the first instance and then we get the refund. So basically, those are not incentive that is why it is termed ‘duty drawback’ and some incentives are provided like the Focus market and Focus-linked product, those are given to promote exports in those countries which are expensive for promotion stand point. Say for example, say Latin America they are providing incentives because the freight cost itself is \$4500 to ship there. Now this will be prohibitive is for us because China is shipping there in \$1500, so all these areas are being considered and then the government thinks of providing a level playing field so that our exports are not only sustained but they increase in the time to come.
- H.R. Gala:** But I think probably US Government is taking the view that some of the incentives that are being given like this interest subvention, etc., they are really not level playing field but we are putting India in an advantageous position.
- K. K. Lalpuria:** No, if you see the Libor plus rate in the US, it is Libor plus 2%, whereas that for India is having 10%, so if India is providing 3% interest subvention where it is wrong, still it will cost us 7% on working capital as compared to 4% in the US. So you see they know this fact, the

only thing is that like you see in some cases they would stand to object at certain places so that does not provide them undue advantage into giving one country and to their market, so if you have a trade pact with them they will normalize your subsidies. If you do not have trade pact with them they will shout that you are having undue advantage, so this is the form of the game.

**H.R. Gala:** And the last thing from me is anything more you have heard on the Transpacific Treaty?

**K. K. Lalpuria:** Nothing it is just like you see they are still deliberating with providing the TPP it all depends on the new government once elected in the US to take that view and as you see off late way I just read TEXPROCIL news letter saying that Vietnam and Cambodia as well as Indonesia in this last month March has lost in fact on exports in comparison to South Asia like India, Pakistan, Bangladesh and Sri Lanka altogether. So the moment their cost goes up because Vietnam is the only country to consider as far as TPP is concerned and they are where cost is going up and particularly in our case the duty component is 6.7% only, so it is not as compared to what is in apparel which is more than 12%. So, and secondly they do not have fine count yarn and it is yarn forward policy, so they will not get advantage if they buy fabric from outside and process there. So, all these regulations on the policies will not be effect to particularly our segment and we feel that it will take some time to materialize also even when we attend some of the workshops on TPP they say that it will only effect India post 2020.

**Moderator:** Thank you. We have the next question from the line of Ankit Gor from Systematix. Please go ahead.

**Ankit Gor:** I understand that out of Rs. 475 crore of CAPEX, Rs. 250 crores would come from borrowings and remaining from internal accruals that will be great if you can give me phase wise debt positions, like in Phase-1 which is of Rs. 175 crores, what would be debt component and internal accruals and phase-2 Rs. 300 crores, what would be debt component and internal accruals?

**K. K. Lalpuria:** See, Phase-1 Rs. 175 crores we have already spent Rs. 110 crores out of our internal accruals. We have a sanction Rs. 49 crores as a term loan which we have not drawn so far which we intent to draw because that will be at 2% interest rate, so out of Rs. 175 crores Phase-1 we will be drawing almost Rs. 50 crores for consideration and out of say Rs. 300 crores balance we will draw around Rs. 200 crores, so overall in Rs. 475 crores, it will be 1:1 that is Rs. 250 crores debt and the balance through internal accruals.

**Ankit Gor:** Okay and sir my second question with regards to our geographical breakup, still US dominance at 65% of our home textiles sales or has it come down?

**K. K. Lalpuria:** No, it is 65%. See US is a large market and it is an organized retail we all have to consider that India is one of the largest exporter to the US and US is considered as one of the largest market for India, so for all categories, so by structure it is a large market.

- Ankit Gor:** And my last question to Mr. Sundaram, what would be our debt repayment in FY17 and '18 if you can guide me please?
- R. Sundaram:** FY17 is Rs. 15 crores and FY18 it will be another about Rs. 30 crores because if you draw this Rs. 49 crores there will be repayment of another Rs. 10 crores for the first year.
- Ankit Gor:** Okay, so net-net we will be paying Rs. 30 crores in FY18 then?
- K. K. Lalpuria:** About Rs. 25 crores-30 crores.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to the management for their closing remarks. Thank you and over to you.
- 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 SGA or Mr. Sundaram. Thank you once again for being on call with us.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Indo Count Industries that concludes this conference. Thank you for joining us and you may now disconnect your lines.