"Indo Count Industries Limited
Q4 FY20 Earnings Conference Call"

June 15, 2020

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

Moderator: Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q4 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on 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 participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K.R. Lalpuria – Executive Director of Indo Count Industries Limited. Thank you and over to you, Sir!

K.R. Lalpuria: Hello and good afternoon everyone. First and far most I hope you are all keeping safe and healthy. I hope everyone must have got a chance to look at the presentation and our press release by now.

Now first of all let me explain the impact of COVID-19 on the economy.

This is a very unusual and a very extraordinary time where no company, no government, no individual has ever seen a crisis of this magnitude and this scale. The black swan event of COVID-19 has taken a huge toll on life, not just from health point of view but also economically. As the world fights the situation as one, we at Indo Count are leaving no stones unturned to keep our associates, employees and stakeholders at the center above everything else.

Since the outbreak of the pandemic, the major retail stores in our marketplace with US and Europe were predominantly closed excluding the bigger stores, which were selling only essential items. Retail stores have started opening now in a phased manner in June 2020 and we expect further visibility on the business in the next couple of months as stores resume regular operations.

The textile industry did witness a slowdown during the lockdown where companies have shut their manufacturing units. As we talk today almost all the textile players have resumed operations. From Indo Count point of view due to the lockdown situation in India, we had temporarily closed our manufacturing units situated at Kolhapur from March 23, 2020 till end of April 2020. In the ending week of April 2020, we partially resumed our operations after taking requisite government permissions.

We believe that the Indian Home Textile Industry is in a sweet spot as many brands are expected to reduce dependence on a single geography and India is likely to benefit due to abundant availability of raw materials, skilled manpower and along with it our steady capability and capacity which is available for growth.

Now let me explain what we are doing as a company to navigate through these challenging times.

During the lockdown, we had swiftly moved to work from home model where we could provide work to our employees through technological means. We also provided training to employees in multiple functions to enhance skills and improve productivity and extended our full support to the workforce both financially and mentally. Now after the ease in lockdown, we have started offices partially with limited workforce; while operating we have ensured to follow all the required measures to ensure the safety and security of all our employees.

On the working capital side, we foresee no major risk given the high quality of our customers and the strong balance sheet to support our operations.

On the cost control measures, all cost heads are being reviewed with increased focus on improving productivity and rationalizing and optimizing the cost. Quick monitoring of fixed cost has been implemented to improve our operating efficiencies.

Now coming to the impact of COVID-19 on Indo Count

As regards to the impact of COVID-19 on the company on the volume side, shutdown of operations due to COVID-19 pandemic, led to volume forgo of 2.5 to 3 million meters in FY20. Due to temporary stoppage of operations, orders value approximately Rs.95 Crores could not be executed in Q4 FY20 and which stands postponed to FY21.

The COVID-19 situation is evolving, and it is still too early to know the true economic and earnings impact of the pandemic.

Considering the fact that the situation is exceptional and is changing dynamically, the company is unable to guage the future impact on its business prospects. However our insistence on balance sheet strength has kept us in strong position to power through even the toughest of times. We are making a lot of efforts on e-commerce, digital marketing, developing health and hygiene products and finding out other innovative ways to reach out to our customers and strengthen our relationship with them. In the past, we have made investments in building our capabilities and the capacities wherein we expect the benefits to flow in the near future.

Now coming to the financial performance

Starting with the volumes for FY20, volumes stood at 61.8 million meter as compared to 57.5 million meter in FY19, a growth of 7.5%. We strongly believe that Indian manufacturers are gaining a stronger foothold in the global home textile markets, brands are very keen to create a credible supply chain and derisk themselves further from the large supply exposure coming from a single geography. With integrated manufacturing base for textiles in India, we believe, we have a significant opportunity for sustainable growth in times to come.

Consolidated total income, the consolidated total income for Q4 FY20 stood at Rs. 425 Crores as against Rs. 442 Crores for Q4 FY19. For FY20, consolidated total income stood at Rs. 2,135 Crores as against Rs. 1,945 Crores in FY19, a growth of 10% on a Y-o-Y basis. The growth was an account of greater customer and market penetration through innovative products, modern designs and other functional products. FY20 total income does not include the MEIS benefit earned from April 1, 2019 to December 31, 2019 of Rs.53 Crores as the same was discontinued retrospectively.

Consolidated EBITDA, EBITDA for Q4 FY20 registered a growth of 126% and stood at Rs. 35 Crores versus Rs. 16 Crores for Q4 FY19. EBITDA margin was at 8.3% in Q4 FY20 versus 3.5% in Q4 FY19 registering a growth of 478 BPS on Y-o-Y basis. EBITDA for FY20 registered a growth of 43% and stood at Rs. 238 Crores versus Rs. 166 Crores for FY20. EBITDA margin was at 11.1% in FY20 versus 8.5% in FY2019 registering a growth of 259 BPS on Y-o-Y basis.

Exceptional items, exceptional items for FY20 includes Rs.94.27 Crores provided against refund of excess export benefits of earlier year by way of MEIS as per the adjudication order issued by the office of the Commissioner of Customs.

PAT, Q4 FY20 PAT stood at Rs.8 Crores as against loss of Rs. 5 Crores in Q4 FY19. FY20 PAT stood at Rs.73 Crores as against Rs.60 Crores in FY19 despite exceptional items totaling to Rs.98 Crores which includes Rs.94.27 Crores provided against refund of excess export benefits of earlier year by way of MEIS as per the adjudication issued by Office of the Commissioner of Customs. FY20 PAT grew by 22%.

Dividend, the Board has recommended final dividend of 30% that is Rs. 60 paise per equity share of Rs.2 each for the financial year ended March 31, 2020.

Networth, as on March 31, 2020, the networth of the company stood at Rs.986 Crores.

Debt, as on March 31, 2020, net debt stood at Rs.198 Crores. The net debt equity ratio stood at 0.2x.

Now that is all from my side. I now leave the floor open for the questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Congratulations for a good set of result in these difficult times. Sir just couple of questions, one is can you help us with other income breakup of 54.63 Crores? What does it include?

K.R. Lalpuria: I will ask my CFO to answer.

K. Muralidharan: This includes foreign exchange gain of approximately Rs. 49 Crs.

HR Gala: The export incentives whatever are for April that will be included in your sales number?

K.R. Lalpuria: That is a part of our export revenue. we have mentioned Mr. Gala earlier as well that the other income in which our forex gain is a part of our business income.

HR Gala: Yes. Absolutely right. So just wanted to know the numbers because I believe that last year, we had Rs. 31 Crores forex loss.

K. Muralidharan: But time keeps changing.

HR Gala: Yes. That is the reason, correct.

HR Gala: The second thing is this Rs. 32.71 Crores sales which has been reduced on account of that MEIS, you have changed the classification does it impact in Q4 also or you just changed the full year numbers?

K. Muralidharan: In Q4, the revenue was reduced because it never got accrued. So it was not included in Q4 as well.

HR Gala: Rs. 32.71 Crores is not included in Q4 also. So if we add that amount?

K.R. Lalpuria: The Exceptional item of Rs. 32.71 Crs pertaining to the period from April 1, 2019 to September 30, 2019 which was earlier shown as exceptional item has now been regrouped and reduced from Revenue from Operations of the Group in the Year End financial results. Since the MEIS benefit was reversed retrospectively, there was no MEIS benefit for the Q4 FY20 quarter.

HR Gala: Otherwise as you said that you lost some of the sales, then it does not really match because then. So Rs. 32.71 Crores has been reduced only from the annual sales?

K.R. Lalpuria: Yes.

HR Gala: Sir third question, what is the reason for 10% improvement in the gross margin in quarter four, any particular reasons like was it product mix or what was the reason?

K.R. Lalpuria: Basically the increase in wip/finished goods impacted the overall raw material cost but if you look at the overall annual number, it is comparable.

HR Gala: Annual is matching.

K.R. Lalpuria: Yes. So only the finished goods increase

HR Gala: In this particular quarter any particular reason was where the 57% material cost is reduced to 47.7%. I was just wondering.

K.R. Lalpuria: Mr. Murali, you would like to answer?

K. Muralidharan: See the finished goods have absorbed all the cost actually. So all costs got loaded onto the finished goods; as the finished goods move out, we could have the same percentage, unfortunately because of the COVID condition, we could not move the finished goods.

HR Gala: Okay. And that inventory is reduced from the material cost.

K. Muralidharan: So this will get corrected in the following quarters.

HR Gala: Right. I understand. Sir last question from my side, in the presentation, you have mentioned that you are seeing some consumption and buying pattern change. So can you just highlight what kind of the changes is expected and how will it auger for our EBITDA per meter?

K.R. Lalpuria: .What we are seeing is that there is a change in consumption pattern as many people are buying online and picking up the ordered item from the stores, so lot of changes are happening in the point of sale and consumption pattern as well. So we are being informed that you see the soft furnishing sales will be better as people will be working from home more. So that is what we are expecting, that is what we mean by consumption pattern and point of sale means because stores have to maintain the social distancing and all desired safety measure in order to sell their product. So definitely these changes will happen at the marketplace and we as a company are quickly adapting to these changes and thereby addressing them to the desired levels of our customers.

HR Gala: Okay. So the present indications are we should be able to do more than 61.8 million meters that we did in FY20?

K.R. Lalpuria: Looking at the current environment, the situation is evolving and it is still too early to know the economic and earning impact of the pandemic. While the consumption pattern and point of sales are changing but we as a company we are positioned well. We are having a healthy capital adequacy and stable liquidity position, we are having good customer base, a wider geographical distribution along with innovative product mix and company is confident to deal with the challenges posed by COVID-19. So we are in a situation where we have a strong customer base, where we are mutually working together to see how we build a sustainable model around it because the ecosystems are changing. So we are addressing that.

HR Gala: Correct and in FY20 we can look at something similar EBITDA margin at around 11% type?

K.R. Lalpuria: As just mentioned, it is too early to provide any guidance on margins or volumes, etc., because the situation is still evolving. It is too early to make a commitment because as a responsible corporate citizen we do not want to do any guesswork. We want to as a philosophy, give right guidance to all our stakeholders.

HR Gala: Can you share major capex plan current year?

K.R. Lalpuria: No. It is all routine capital expenditure.

HR Gala: Thank you very much Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analysis. Please go ahead.

Ayush Mittal: Good afternoon Sir. Sir I wanted to broadly understand that as things might be, what kind of visibility for order situation are you seeing from the customers as of now?

K.R. Lalpuria: The stores are just opening up and they are being opened selectively by the retailers, they are selling essential goods and other goods which are selling well. So they are doing business, once the stores get opened up and they come into regular operations, we will be able to see more visibility. We will be able to give future outlook only when operations normalize.

Ayush Mittal: The large workforce what have we been doing about them?

K.R. Lalpuria: We are operating at 65% to 70% of our capacity and are located 20 kilometers from Karnataka border in Kolhapur in an MIDC where availability of the workforce is there locally as well, and whichever workers are able to come across, they are also coming. There is some issue of course on the migrant labor, but as a company we are floating various schemes in order to retain them and provide them incentive and better working conditions and comfort to work again. So we are confident that in times to come nothing unfortunate happen, we will be able to tide over this problem.

Ayush Mittal: Have you reduced the workforce or not it remains the same broadly?

K.R. Lalpuria: We have got reduced workforce because we are operating at 65% to 70%, first is to come to normal operation and then only we can see on various other issues like productivity, etc.

Ayush Mittal: Sir this kind of lower operation might continue even for six months or one year, is that what you feel is a reasonable expectation like 60%-70% capacity?

K.R. Lalpuria: The situation is evolving and it is very fluid and uncertain. Nobody knows the correct answer. So what we as a company are doing our best to see how we can tackle this situation by providing the workforce with the safety and comfort to work in this condition and we have got a good workforce and we are confident that since the company is providing by all means a better atmosphere to all our workers and taking good care of them, we feel that in time to come, the production will normalize as the situation normalizes. But regarding the COVID-19, we cannot mention anything whether it is 6 months or 3 months or 12 months, nobody knows about that.

Ayush Mittal: Of course, but good to know Sir that you are taking care of your employees. Sir what are the incentives by the government in your sector as of now, any changes in that?

K.R. Lalpuria: No. We have not availed fiscal stimulus provided by the government in any way. Infact, we have paid our loan and EMI on time and we have not extended any loans or we have not gone for any moratorium and any other smaller means of whatever stimulus which the government provided is not material enough and we have not availed anything.

Ayush Mittal: I meant the incentive on your production on the textile, what are the incentives as now? The duty drawback on the raw material how much other rates?

K.R. Lalpuria: Drawback is around 2.6% and 8.2% is RoSCTL.

Ayush Mittal: Okay. So total around 10.8%?

K.R. Lalpuria: Yes. 10.8%, but it get reduced to almost 9.5% because it depends on item to item like say sheets, pillow cases and all those are different and some of the items like even comforter, we are not provided with any incentives yet and the realization of the scrip is also less, so we have to discount it to sell it in the open market. That also gets reduced. So finally that gets reduced to almost 9.5%.

Ayush Mittal: Any improvement in the receivables from the government of these incentives or these spending like usual?

K.R. Lalpuria: Yes. There is some improvement, but still as the government offices are not fully operational, we are finding delays in some of the receivables, which we are addressing it. The good thing is that the government is listening to our issues. Thus when the government fund comes it will be disbursed. So the good thing is that the allocation of fund is important from the government side to get the receivable back. But I think more improvement is needed on this side as well.

Ayush Mittal: Sure. Thank you.

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

Chetan Shah: Good afternoon Sir and thank you for the detailed explanation of the business. Sir just one thing on your raw material side can you just give some update about the status of the raw material availability, pricing and how are we have positioned ourselves because the cotton availability is quite in abundance compared to what it was a couple of years back and the prices also in our favor. So how are we preparing and taking advantage of this situation despite of there is some kind of uncertainty on the one side of the business. If you can give some flavor on that that will be very helpful, please.

K.R. Lalpuria: Yes as you rightly said, there is abundance of cotton availability as of now because of the COVID situation as the mills are not operating fully and secondly it is the fag end of the season where everybody covers for the good quarter of March and keep in their stock. So the mills are having cotton stock as what we also have around three to four months of cotton stock, which we had bought earlier because the cotton availability during the season and the good quality. So going forward, we have to wait as the current market price, which are around Rs, 35,000 is very low but in order to supplement, the government has provided MSP of an increase of 5%. So as things normalizes, I think we need to wait and observe how the prices pan out but looking at the export situation because India is a surplus cotton country and it used to export almost 5 million to 6 million bales; but China has been a big buyer which is currently not buying. So there will be availability on the supply side of cotton in the coming year that is what we expect and the prices also needs to be watched and also how the crop is and how these mill uses is also we need to watch both in order to ascertain what prices it will come, but I think surely we can expect the prices at a bit lower level than last year.

Chetan Shah: Right Sir you have in very detail elaborated in terms of our potential estimates or volume for the current year and you said that it is very difficult to quantify looking at the situation as of now, but if we assume that by say July or August, things turns out to be normal. Do you see that we do somewhere between 60 million meters and 62 million meters of number or that is as of now little difficult to predict and we should wait for this quarter to get over?

K.R. Lalpuria: I think we should wait for that because looking at the current environment which is very evolving, so it will be too early to make some sort of guesswork, but as I mentioned earlier that since the company has got a strong customer base and it has delivered in the past along with good relationships and we are over communicating and focusing on our business because we are into bed linen and focused product. So we do not have many other products in home textile. So as a focus company, we have a complete competitive advantage in the market place and are recognized as a good supplier. So that will help us and we are keeping a close watch on the market and taking deeper insight into how the situation and the whole ecosystem is panning out. So that is helping us to adapt quickly to those changes and build the product line the consumer would expect from us and that is what we are capable of. So supported by the capacity, capability, strong customer base and good liquidity position I think we have performed in the past to the expectation of our customers worldwide, I think the position is very clear that given the situation normalizes in the future, they expect us to do more.

Chetan Shah: Correct. Sir one last question from my side, given the situation which is there of the globe, both in terms of supply and demand side, what are you hearing from some of our competitive countries like Vietnam, China, Bangladesh and other countries. Do you have any sense in terms of how are they doing and what our customers are giving us the feedback in terms of their priority countries which they will be comfortable with in terms of doing the business going ahead? This is purely for the three to four year time horizon, because now lot of things have changed post COVID and how do they read and give you feedback about things on the ground?

K.R. Lalpuria: As I had mentioned earlier, you see both Bangladesh and Vietnam are labour arbitrage basically, so these countries have their strengths in labour force and now due to this pandemic situation and social distancing, this is the very difficult thing to handle for them and apparel as such is a sort of a fashion product, in which they were having predominantly the volumes and the value. So they have been impacted more unlike India, so we are into home textiles, which is need based items. So we are not into apparel and fashion items. So first of all because of their labour arbitrage, once the economy improves in these countries, definitely their cost would go up. However, we are into a category where we are having finer count yarn within India as a supply source, what they do not have is the local sourcing of raw material i.e. cotton. So these countries like Bangladesh and Vietnam have to import cotton. Also, they are not fully present in our category. . So competition from them like in the next three to four years, we feel should not be there; that is what we assess but we are keeping a close watch on each and every producing country and we feel that India being a largest cotton producer and having a good advantage of cotton as a crop will be having an upper hand into supplying cotton textiles particularly home textiles.

Moderator: Thank you. Chetan. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Good afternoon Sir. Sir I was seeing your market share slide where it looks like that India is gaining market share particularly in sheets and pillow pieces but bedspread has been more or less flat. This is a calendar year data so I think another we are almost six months in calendar year 2020 and during this period also this COVID related China backslash has happened, so are you seeing some more from client enquiries who are shifting from China to India in case of home textiles or there is no such trend yet.

K.R. Lalpuria: So as I mentioned in my earlier calls, clearly at that time even the sentiments of sourcing from India, the fashion bedding, utility bedding and the institutional bedding have started happening. So as a company, we have to invest both in time, effort and money into this category as they are quite competitive. Going forward, we feel that because of this COVID-19 the sourcing teams are now trying to be not dependent upon a single geography because Chinese share in home textile is at 39% and India share is at 11%. So we have a lot of room to grow and in India cotton availability is there but as far as polyester is concerned, we are still expensive than China. So whatever polyester driven product or blend driven product are there, the China is today predominantly supplying, India could not supply. I think all these factors if we may consider and because of this COVID-19 situation, we believe that in times to come there will be a shift of businesses of these categories as well as other categories like even bed spread to India.

Bhavin Chheda: I think you are not sharing outlook for FY21 that is fair because the things are evolving but we are already into quarter one, so can we assume in quarter one, there has been more than 50 to 60% volume fall in the demand as US has fallen by that extent in quarter one?

K.R. Lalpuria: As I mentioned, the stores were closed and if the stores are closed there is no sales happening except for stores which were selling essential items and now they have started opening and as I mentioned earlier also in reply to one of the questions about volume guidance, the situation is evolving and now the stores are opening up and everybody knows that the Q1 is under pressure definitely because here also in India, we had lockdown in April and May. So we only started our operations partially from say 26th and 27th of April. So things are improving and I think we should expect improvement in the other quarters to come, our entire focus is into how we can normalize the business once the situation normalizes. So in a need based product, I think the consumption would withstand the pressure of the market place and work from home culture, will also promote more of soft furnishing. So that is what the market trends are and that is why we expect things to improve only, we should not look at Q1 alone, we should look at the overall year as a performance now.

Bhavin Chheda: Okay and my last question Sir, I just missed the question on this MEIS, ROSL and all other government benefits of till March 2020, so how much is outstanding at the year end and how much was received in the quarter?

K.R. Lalpuria: I will ask my CFO to give you the correct numbers or we can provide you offline.

Bhavin Chheda: Any outflows from state or central government happened in quarter four?

K.R. Lalpuria: I did not get clearly your questions, state outflow?

Bhavin Chheda: In quarter four, there are state benefits also and central benefits also though I think ROSL was refund of state levies, it has to come from state government?

K.R. Lalpuria: Both like central and state levies, ROSL is about refund of state and central taxes and levies.

Bhavin Chheda: So that comes I believe from state also and central, so anything was received in quarter four or everything is really?

K.R. Lalpuria: Yes. We did receive, normally how it happens is when you export, you can apply online and you get your regular RoSCTL. Only as I mentioned earlier, when the government is short of funds to some extent even if your RoSCTL amount is approved online on the screen, only when the funds are available to the government, you get your amount, so that is how the government works. I think these are all into normal situation and the company has been receiving on a regular basis whatever its claims are.

Bhavin Chheda: Thank you Sir.

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

Prerna Jhunjhuwala: Thank you for the opportunity. Sir, just wanted to understand your customer profiling in terms of essentials and department and e-commerce that will help us in understanding the impact that could have that we can estimate for your company? Before COVID time Sir, not now, current I do not want, maybe for FY20 as a whole period, what would be the share of essential stores in your total sales?

K.R. Lalpuria: That will be difficult to mention because the promotion of a product line in a particular store depends on their own retail strategy. Now in the US basically the mass merchants are larger stores just like the likes of Wal-Mart, Target, Costco, Sams and all others they are the large stores which also tend to sell essential and there is departmental stores and then there is specialty stores like Bed Bath & Beyond and then there is clubs as well as and Discounters as well like TJ Maxx. So we sell to different retail base according to their positioning and our positioning. So we have a mix of all customers. Our top 10 customer's forms 50% of our value and so it is quite a good spread which we do and we sell around 70% to the US and 30% in UK, Europe and other countries. So the spread is not between pre-COVID and post-COVID because these customers are there and they are existing and they are opening up their stores and they were also selling during this COVID times because they were selling essential items like essential goods also. We feel that we have a good customer base and it will be too difficult to mention about the profiling pre and post COVID. So as I mentioned we have a strong customer base which is spread up between different positioning of each retailer.

Prerna Jhunjhuwala: Have you seen more demand coming in from e-commerce channel as compared to brick and mortar store in this COVID period?

K.R. Lalpuria: We have also seen like the online business is moving ahead because people are not going to the stores. So definitely whatever their needs are, they are ordering online and secondly the other business norm which has developed as buying online and pickup from the stores so the stores are also making those arrangements on how customers can pick up at the stores once they have bought their goods online. So these are different channels, which have opened up and we are also addressing it because we have a good spread in selling on the e-commerce also with all major customers so that is also growing. So we do see a growth there as well.

Prerna Jhunjhuwala: So there is no major distinction now in online ordering because even the brick and mortar stores have picked up investment there and offering the same options to the customers to survive, is the right way to see. And with respect to price negotiation, are there any price negotiating happening because the demand is weaker at the current time and even raw material prices have corrected and rupee has depreciated, so our customers asking for any benefit in terms of either price negotiations or higher credit period or any other negotiations that they are looking at?

K.R. Lalpuria: See currently the major focus with everyone including all our customer is how to they revive the business. So at the moment, we do not see any price negotiations, but as we had mentioned earlier, the price negotiation do happen every six months. So in case if there is, then we will address it as and when it comes, but I do not think so today we have that issue.

Prerna Jhunjhuwala: Okay and some of the other companies in the textile sector were also talking about that customers asking for higher credit period. Is that happening with US and what is the kind of increase with number of days that is being asked for?

K.R. Lalpuria: Yes. You are right. We are also assessing that some of the customers are asking extension of credit terms but as a company we have a good risk management policy in place, so to assess our risk to that particular customers we have secured ourselves through ECGC. So we are fully secured through ECGC and all customers where we provide the material on credit terms, so we do see some of the customers asking for extension of credit terms.

Prerna Jhunjhuwala: Okay. Sir financial question, we have seen your cash balance increasing humongous in the last one year from Rs.23 Crores to around Rs.140 Crores, and investments also declining from Rs.46 Crores to Rs.0 Crores, current liabilities increasing. Can you just explain us what is really happening why current liabilities have increased by 120 Crores on Y-O-Y basis and investments have also declined, so is that the reason why cash balance is gone up or is there any other reason behind it?

K.R. Lalpuria: I will request my CFO to answer this, Mr. Murali

K. Muralidharan: Basically, other current liabilities are the main component which has gone up on account of the OCI liability, which is to be accounted as a current liability. Rest of all are accrued expenses; due to closing of our offices and we have not paid the statutory liabilities, which normally we used to pay;, even the operational expenses, which you would have paid to the vendors, so these are normal liabilities, which have built up; plus the repayment of current maturities of the term loan is about Rs.20 Crores. Practically everything is normal here except that the other current liability also includes Rs.56 Crores of the OCI liability that is the major component; otherwise everything is practically normal operational liability.

As far as your second question on the increase in cash balances, we had healthy operational cash flows and by the end of the year we were facing this COVID situation which was creating some sort of uncertainties in the business. In order to insure ourselves from any cash flow mismatches, we thought that we would build a buffer and mainly in the sense that since we are predominantly exporting company, banks should not come in the way of financing at that point of time. So to keep ourselves say in a better financial condition, we had created this buffer.

Prerna Jhunjhuwala: Okay and this was created by reducing our investments, I mean liquidating your investments?

K. Muralidharan: Investments were liquidated much before. Basically, this is done out of the operational cash flows.

Moderator: Thank you. Prerna. The next question is from the line of Chirag from Valuequest. Please go ahead.

Chirag: Thank you for the opportunity. Sir my first question if you can help us understand what is the current order book visibility, as I understand you work on a program basically with the retailer. So what is the current visibility and what is the current dialogue with the retailers. How we are seeing the next three to six months that could be helpful?

K.R. Lalpuria: We have a strong customer base and we have not lost any customer and neither of our customers have gone for bankruptcy except for a couple of them, which we are dealing with. In our business, there are segments like replenishment and promotional and we have earlier informed that we are majorly into supplying replenishment businesses and not into promotional businesses. So those businesses still continue for us. Now we need to see how they pan out, once the store opens up. So that is what I had mentioned that it will be like since the situation is skewed, it will be wrong on our part to give any guidance on the order book position for the next three to six months. So we will come back to give better picture, in our Q1 call that will be the appropriate time when we will be able to throw some light on this, on the rest of the year.

Chirag: But Sir retail stores over there would have opened for now more than one month, and so you are having some understanding because you need to order at the same time, is that you have three to six months visibility at least, some color will be helpful, if you can give?

K.R. Lalpuria: Of course, we are doing business. As we mentioned that we are operating at 65% to 70% so definitely we must be producing something on to need to order basis and delivering, but to talk about three to six months projections, will be wrong on our part. It cannot be a guesswork.

Chirag: Got Sir. Can you help us understand what would be the inventory levels at your customer end I mean your debtors, that would be helpful?

K.R. Lalpuria: So debtors are at a normal level and we are realizing the money.

Chirag: And what are your Inventory levels with the customers?

K.R. Lalpuria: See the inventory levels as the stores were closed whatever was in their distribution center and in the stores, they are still carrying with. But you see as we are into replenishment business as and when they sell their four-week stock or six week stock, they reorder. So once they start selling, we will be able to get a better idea how it pans out, the sales pans out. Because it is not even one month, all stores have opened. They have opened selective stores like if somebody is having 1000 stores, they have opened only 300 stores so it will be hard for us to give any indication about what is the volume and what is the actual numbers, how it is, because the complete ecosystem has changed.

Chirag: Lastly at what rates our forward you have been booked currently?

K.R. Lalpuria: Next year FY21, we should be around Rs.73 per USD

Moderator: Thank you. The next question is from the line of Suman Kawatra from Taxen Consultant. Please go ahead.

Suman Kawatra: Thank you. Two questions, one is what is your excepted debt level at the end of next year. Secondly, I think you are supplying to big stores in USA where some of them have gone under stress. Do you expect some losses because of that? Are you supplying to Macy's there and thirdly one question some of the companies are planning to launch some anti-COVID textiles or something, are you thinking on those lines?

K.R. Lalpuria: First of all, we are not going into any anti-COVID product line as on date. I cannot promise you of the future, how the business pans out, but we do not want to follow the herd community because we are well positioned into supplying various products. We cannot go into a very basic need-based product as a company. Secondly as far as Macy's is concerned, they are our customers, but we are not doing larger volume with them. So it is not material for us and I think Macy's is a cash rich company and they would sustain that is what we hear about them from the market place.

As far as the debt is concerned, we have earlier mentioned that whatever internal accruals are there, we try to reduce our debt. This year we have reduced our net debt from Rs. 304 Crores to Rs. 198 Crores. So the entire philosophy of the company is to reduce their debt and have a very under leverage balance sheet and a strong liquidity position. So that is what is the philosophy is. So we were on the value system.

Suman Kawatra: At the moment, you do not expect any NPAs from your big stores in USA where you might feel as they will go under or something, you are absolutely clear on that?

K.R. Lalpuria: See what we hear about some of the stores which have gone out of business, major Discounters and to whom we do not supply because we are positioned into the mid end to the high end and premium products. We are not into the lower end. Basically, the issue is about the low-end product because their margins were low. They could not sustain their expenses. Stores like Bed Bath & Beyond and stores in the specialty and departmental and to some extent the mass merchant who were selling essential items could sustain during this COVID time also, I think for them business would turn out to be usual very quickly. Only thing is that how the COVID-19 pans out there, so whatever stores which they were able to operate and they were doing well, they have opened up selectively. So I think we all need to be like waiting and watching this how it pans out and as a company we are cautiously optimistic about the whole situation because we are quite equipped with the capacity, capability, liquidity and good customer, innovative, product mix, we are well positioned, we are focused, we are having a good workforce and we are situated in the state of Maharashtra where all the inputs and availability of power etc., everything is there and India as a country also has an advantage about the cotton and whole situation under cotton towards the inputs. So I think going forward, we should wait and watch the situation, how it improves. As a Company, we are well positioned to tackle all the situation.

Suman Kawatra: Thank you.

Moderator: Thank you. The next question is from the line of Deepika Mehta from Axis Bank. Please go ahead.

Deepika Mehta: Thank you for giving me the opportunity. My first question is because cotton prices has fallen versus February, or even before that, do you expect any inventory losses there and otherwise how is the inventory positioned in terms of number of months of finished goods, raw material you said I think cotton three to four months of cotton you have?

K.R. Lalpuria: Cotton we carry for our spinning unit where we do captive consumption and we usually have around 3-4 months of inventory depending upon what type of cotton is it, whether it is branded cotton or whether it is regular Indian cotton. But as we are operating at 65%-70%, this will get extended to 5-6 months at least, so by end of September, I think we should be able to consume this cotton and the market of course is not offering good spread between the yarn prices and the cotton, so currently we are not in a good position as far as any profitability is concerned on spinning side, but definitely as and when the season starts, we will be able to know what prices are being offered and how the crop also comes. So you see we have to wait and see about the pricing of the cotton in times to come and we have to see how it pans out on our raw material cost. However, the abundance of availability of cotton in India as on date, seems that the prices will be lower to last year.

Deepika Mehta: But then India does not have a competitive advantage because of the MSP versus the global cotton prices, is it tend to lose out on competition right Sir, do you import more and take by less of Indian cotton?

K.R. Lalpuria: No. We all use mostly Indian cotton. The imported cotton is basically the branded cotton like the Egyptian and Supima and any other organic cotton or BCI cotton. So mostly we tend to use Indian cotton only and India does have a very big advantage in cotton because there is surplus availability of cotton. See countries like Bangladesh, Vietnam, and Cambodia and all these people they do not even have cotton. So if you do not have raw material at your disposal, then the country cannot be competitive in exports. So we have a long term advantage of having cotton, grown in India and definitely this has helped the home textile industry to garner 50% market share in the US. So that was one of the main reasons for India achieving this growth against China and other countries.

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

Prerna Jhunjhuwala: Thank you for the opportunity again. Sir just wanted to know export incentive amount for the year?

K.R. Lalpuria: See so far 2.6% is the drawback rate and 8.2% is the RoSCTL, so these are two incentives which we get and so it comes to almost 10.8% but the resultant incentive get discounted because it is in scrip form and also on some of the shipment categories, we have lesser RoSCTL refund. So if you summarize we tend to get around 9.5% out of the total.

Prerna Jhunjhuwala: Can you give me the absolute number?

K.R. Lalpuria: Absolute amount we can give you offline.

Prerna Jhunjhuwala: Sir also wanted to understand the cost reduction initiatives you mentioned in your opening remarks that you are looking at all the fixed cost with a 360-degree approach and wherever you can reduce, can you site some example the major ones, if you can help us understand what kind of cost reduction we can expect going forward on the cost side?

K.R. Lalpuria: You see every company is going through this process of optimizing its cost and better resource utilization, Our company is also not an exception, so by using more technology and automation and by reducing unwanted expenses like traveling, replacing meetings with virtual presentation, low subsidiary cost overseas due to travel restrictions, reduced expenses on the designing side to some extent so a lot of expenses are being reviewed as of now and as the situation normalizes a little bit, we will be able to know which expenses to cut, once we fully understand the ecosystem but as a company, we are aware about financial prudence and we are taking the desired steps towards cost optimization.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

K.R. Lalpuria: With good customer base, capital adequacy, wider geographic distribution, extensive sectoral understanding of products and product development as well as a relatively underleveraged balance sheet, we are all well prepared to quickly adapt to the changing customer ecosystem. With this, I would like to thank everyone for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisor or our CFO and our Investor Relation Advisor. Thank you.

Moderator: Thank you. On behalf of Indo Count Industries that concludes this conference call. Thank you for joining us. You may now disconnect your lines.