“Indo Count Industries Limited Q2FY15 Earnings Conference Call”

November 17, 2014

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Q2FY15 Earnings Conference Call of Indo Count Industries Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. 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.

With this I would now like to hand the conference over to Mr. K.K. Lalpuria – Executive Director of Indo Count Industries Ltd. Thank you. And over to you, sir.

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

This is our first conference call, post quarterly results with investors and analysts, so let me start with a brief introduction of our company, Indo Count.

Indo Count is one of the leading integrated Home Textile companies in India with a huge variety of quality products and prestigious international names as our customers. It is fully vertically integrated from Spinning to Finish Made Ups. Indo Count has a long-term business relationships with large global retailers and global distribution networks spanning 49 countries across 5 continents.

Over the last few years, we have emerged as one of the leading players in the Home Textile segment. We are the 3rd largest manufacturer and exporter of Bed Sheets from India and 4th largest supplier of Bed Sheets into the US.

For the financial year 2014, in the Economic Times 500 list, out of 25 companies in the Textile sector, Indo Count stood 1st in terms of Return On Capital Employed, stood 2nd in terms of Asset Turnover Ratio, and are ranked 9th on Profit After Tax basis.

Before we move on to the financial section, we would like to update you on the outlook of the Textile industry as a sector. The Indian Textile industry looks very promising, buoyed by strong domestic consumption and good export demand. With consumerism and disposable income on the rise, the retail sector has experienced a very rapid growth. India's exports to its largest single market US has reported strong growth based on statistics reported by the US Department of Commerce that is OTEXA. The center's "Make in India" campaign is expected to push India's exports of Textiles and Apparel into the US market which is the largest single market globally. Along with the surge in US Textile and Apparel market, the raw material supply has also increased and helped Indian exports to grow. Macro conditions are also in favor of India, like demand in America has picked up, and the economy is recovering, there is an increased consumer spending, moreover challenges in competing countries like decline in Chinese exports to the US, currency appreciation in Indonesia, the labor unrest in Asian competitor Cambodia, and the safety concerns after a major factory fire in Bangladesh, they all last year turned to be advantageous for Indian exports.

Now to give you some idea on the market size, based on the statistics from US Department of Commerce, Office of Textile and Exports, the total global Textile imports in USA for the year ending September 2014 is US$107 billion, of which Made Ups constituted 17% of the total, that is, $18 billion. China, India, Pakistan, Turkey, and Vietnam are amongst the top five players exporting Made Ups to the US aggregating 85% for the total exports. The global imports of Made Ups into the US grew by 3% in the year-ended September 2014. India's exports are $2.8 billion of Made Ups to the US and that has recorded a growth of 11% against the competing countries which are all showing a single-digit growth. China grew by only 1%, Pakistan by 2%, and the other countries like Turkey and Vietnam showed 5% and 7% respectively, so they are all under single-digit growth whereas India had a double-digit growth of 11%.

The manufacturing advantages that India has combined with the challenges faced by the competing countries gives us tremendous opportunity to grow. As far as our company is concerned 2/3rd of our revenues are generated from US exports, as US is the single largest market globally. Indo Count is in a sweet spot to capitalize on the growth opportunity being an integrated Home Textile company, and with a state-of-the-art manufacturing facilities, with a strong customer relationship and a wide range of products, Our core competency is innovation and creativity wherein we innovate and introduce new products and make a very strong global presence. Further, we are expanding our manufacturing capacity by 50% from 45 million meters to 68 million meters p.a. The production is expected to commence from the next quarter and stabilize before the end of the financial year. To penetrate deeper into the markets with the higher production and wider product mix, we have set up a UK subsidiary and have formed a joint venture with an Australian established Home Textile supplier for the last 25 years to expand in the oceanic countries like Australia and New Zealand.

Now, I would like to hand over the line to Mr. Sundaram our CFO to update you on the operational performance of the company for the first half of 2015. Mr. Sundaram. Please.

R. Sundaram: Thank you, Mr. Lalpuria. Good Morning, everyone. I would like to take you around the revenue of the company. On a standalone level, the company registered revenue of Rs.479 crores in Q2FY15 as against Rs.429 crores in the same quarter last year, registering growth of 11.6% year-on-year. For the first half of 2015, revenue grew by 11.3% from Rs.714 crores to Rs.795 crores. This growth came mainly on account of growth in Home Textile segment. We are witnessing improvement in the demand of Home Textile products across geographies, especially US due to increase in consumer spending. The demand revival in US retail market has led to improvement in our realization and bettering of our product mix.

I will now come to EBITDA; in Q2FY15 EBITDA grew by 64.3% on a year to year to Rs.80 crores from 49 crores in Q2FY14; EBITDA margins expanded by 534 basis points year-on-year to reach 16.7% from 11.3%the previous year; in first half 2015 EBITDA is at Rs.132 crores as compared to Rs.83 crores in FY14, a growth of 58.2%; EBITDA margins expanded by 492 basis points to 16.6%; improvement in EBITDA is mainly on account of higher realization and better product mix.

I will now come to the PAT; profit after tax for Q2FY15 is Rs.43 crores as against Rs.25 crores in Q2FY14 a growth of over 67.5% year-on-year. Net profit margin is at 8.9% against 5.9% in the same quarter previous year. Profit after tax in H1FY15 is Rs.67 crores as against Rs.39 crores in H1FY14, a growth of around 71.9% year-on-year. Net profit margin is at 8.5% as against 5.5% in the same quarter the previous year. Our long-term debt-to-equity has come down to 0.55x in the first half of the financial year 2015 from 1.5x in the same period last year.

I would also like to give a brief overview about the CDR process. The company has agreed to extend the exit to the CDR with effect as on 1st of April 2014. The company and the lender have started the process of exit from CDR, There are 11 bankers, it will take some time, the company expects the process to be completed before the end of Q3, and so we start the new financial year in a different note.

With this I would like to open the floor for questions-and-answers by everyone.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: This is Pritesh. Just reading your numbers, what is the nature of this other operating income which has actually swing the EBITDA and EBITDA margins?

R. Sundaram: The company being an 100% export-oriented company, we always have a forward cover on the exports. As per the new provisions of the Companies Act, this has to be shown separately effective from 1st April 2014. So although we may have forward contracts, this has to be shown separately at the spot rate as a part of revenue and the incremental as a part of other income, in effect it is revenue income itself.

Pritesh Chheda: Can you tell us what is your FOREX management policy on that side – how much of hedges do you have? If one understands these are hedges where you booked mark-to-market on those?

R. Sundaram: Yes.

Pritesh Chheda: So generally, what kind of hedges do we carry?

R. Sundaram: We normally cover around 50 to 60% of our total exposure.

Pritesh Chheda: And would you quantify what is the extent of FOREX income gained in other operating income of Rs.24 crores?

R. Sundaram: It is Rs.18.93 crores for Q2 and the first half is Rs.26.11 crores.

Pritesh Chheda: My second question is sir, on the per meter realizations, typically, what has been your experience in terms of the per meter realizations that you would have got over the last 2-3 years on your product line?

K.K. Lalpuria: We as a company are trying our level best to improve our realization as well as product mix, but at this moment we will not be able to divulge to you about what is the specific increase, but we are trying to upgrade our product mix and we are trying to improve upon it in the near future.

Pritesh Chheda: Generally, what kind of realization do you earn on the product sales; a broad range should also be okay?

K.K. Lalpuria: It all depends upon what quality basically you sell and the demand keeps on changing As you see in the couple of years back as Cotton was hard pressed, in both supplies and prices, and there was a blend we started selling, so the realization did not matter, because it was for us to first sell the material what is being demanded. So basically we try to utilize our capacity as a maximum policy and secondly to improve upon our product mix and secondly to improve our product mix and sell to better customers. So that is where the range starts, from selling to mass merchants to specialty stores or departmental stores, so it keeps on differentiating.

Pritesh Chheda: Is it fair to guess that which should range all the way from Rs.100-125 a meter all the way up to about Rs.500 a meter an average, selling at about Rs.250 a meter?

K.K. Lalpuria: We in India are currently strong into selling basically from the mid-to-high segment, because Pakistan, Bangladesh and China, are dominating the opening price point at the lower end of the market, where we are not so competitive. So I would say that we focus upon the mid-to-high segment, and that is why we have been to realize much better, but it all depends on the economy and the market what they demand, but I would say like the range which you have mentioned maybe fairly taking care of the entire range.

Pritesh Chheda: When you were giving the initial comments, you said India is $2.8 billion Made Ups. How much of $2.8 billion should be Bed Sheets?

K.K. Lalpuria: It is fairly well spread, Bed Sheets being a high value item, it always does well, and it started from Rs.2500 onwards Sheets are doing well, and it is close to around 1.2 billion out of this 2.8 billion of total Made Ups to exports.

Pritesh Chheda: So that is the target market as of now for us, right?

K.K. Lalpuria: Yes.

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

Binoy Jariwala: If you could help me with the value and volume breakup in the Textiles division, how much was from Home Textiles and likewise Spinning?

R. Sundaram: In case of Q2, we have Rs.430 crores is the total revenue from textiles, out of which spinning is about Rs.58 crores, and the balance is coming from Home Textiles.

Binoy Jariwala: Likewise, what was this number the previous year?

R. Sundaram: The previous year, Q2 will be the same, it will be Rs.379 crores and Rs.68 crores Spinning and the balance is Home Textiles.

Binoy Jariwala: Likewise, can you help me with the number for H1 of FY15?

R. Sundaram: H1 for Spinning is Rs.118 crores and the previous year is Rs.126 crores out of the total Textile turnover of Rs.708 crores and Rs.629 crores.

Binoy Jariwala: How much of the growth would be volume-led in the Home Textile division?

K.K. Lalpuria: The Home Textile is growing out of India @11%, the total Made Ups exports. So we can say fairly that 10% to 12% will be the growth on the Home Textiles.

Binoy Jariwala: Sir, I am asking Home Textiles for us. I think this quarter on a YoY basis in your Home Textiles you have grown by about 19-20% or so. How much of this 19% would actually be volume or value-led?

K.K. Lalpuria: We cannot differentiate between the value and the volume, because as I mentioned earlier the market demand sometimes high value item depending upon the season and success from the retailers and sometimes demands a lower-end product or a blend product, which is lower value. The importance is as we grow, we stabilize our core products and we try to innovate new products and bring into the market to have a value-based strategy and growth of both value as well as volume.

Binoy Jariwala: So sir, in that sense, how much of the revenue growth actually would be on account of addition to customers or product mix-led or distribution-led, would there be a substantial jump in the revenue which is led by increase in customers or so?

K.K. Lalpuria: Yes, we do add customers as we grow our capacity, and we add on new customers based on our strength as well, so basically new customers are added at some point of time and when they have a bigger role in, like when they launched a new product, new line of business, at that point of time we get the additional businesses as well. So new customers who add new products also add on the revenues at a point of time.

Binoy Jariwala: Any new customers added in the first half of this year?

K.K. Lalpuria: Yes, we have a policy of growing with the customers and the customers are fairly large to whom we serve, so some of them are like say Bed Bath and Beyond, Walmart, Target, Sam's Club, & Others wherein they are huge and they try to grab their market share by increasing their product portfolio. So we get a fairly good chance of developing new products and providing them for a launch for which they get both good volume and value.

Binoy Jariwala: And sir, there have been substantial improvement in the operating margin also in Textile segment. If you could help me with the breakup, what would be operating margin for Home Textiles likewise or Spinning?

R. Sundaram: We have improvement in the EBITDA by about 5%, which has come out of about 3% from the improvement in the material consumption, and 2% is other deduction of other expenditure, and is mainly coming from the Textile division.

Binoy Jariwala: So all of this improvement would be from Textile?

R. Sundaram: Yes.

Binoy Jariwala: So if you could help me with the operating margin of the Home Textiles?

R. Sundaram: It is an integrated plant, which has got Spinning linked to the Home Textile, we cannot differentiate between the Home Textile independent of Spinning, and it has to be total of Textile division.

Binoy Jariwala: I thought that the Spinning, we are not using much of our in-house Spinning capacity I believe?

R. Sundaram: We have started using it, the percentage of usage may differ, but overall in the Textile division, which is an integrated plant.

Binoy Jariwala: Third question is on the CAPEX. On the expansion from 45 to 68 million meters, is it completely done?

R. Sundaram: It is in the process now, we should be finishing by end of this particular quarter, and hopefully we will have start commercial production partly in the next quarter, but the real benefit will come from the next financial year.

Binoy Jariwala: How much of the CAPEX is already incurred? I believe initial plan was about Rs.70 crores.

R. Sundaram: The entire Rs.70 crores of investment will be completed before December, so that the plant is ready for usage from next quarter, part of the benefit will come in the current financial year, and the majority will come from the next financial year.

Binoy Jariwala: Sir, if I am looking at the numbers for the first half and the CAPEX number for the first half was about Rs.33-35 crores. I was wondering if the remaining Rs.35 crores would be incurred in this quarter itself?

R. Sundaram: Right.

Binoy Jariwala: So the CAPEX is reached for Rs.70 crores?

R. Sundaram: Absolutely.

Binoy Jariwala: And that will be funded into debt-and-equity in what ratio?

R. Sundaram: Rs.70 crores will be funded by the debt and 30% by the internal accruals-cum-equity.

Binoy Jariwala: We have not drawn down any debt or have we drawn down?

R. Sundaram: We have not drawn down.

Binoy Jariwala: Sir, on the interest cost, when I look at the loan funds, the total short term and long term, it has actually gone down by approximately Rs.77 crores in the first half, but when I look at the interest…

R. Sundaram: On the interest front, if you compare the current quarter with the previous year quarter, the current half and the previous year half, there is an important element of interest subvention was there by the government to the Textile industry, which was there last year for 3%, so current year, from 1st April, that has been withdrawn, as of now there is no news by the Commerce Ministry to reinstate it. So that is the one factor incremental interest cost has gone up. The second one is on the incremental working capital. The third cost was till last year we were paying the interest as per CDR rate of interest. Now as I said in my speech, we will be exiting CDR as of 1st of April 2014. Now the revised rate of interest on term loan will go by about

2.25%, and the working capital will go by about 0.5% to 0.75% in the interest cost from April. The company has already made a provision from April-to-September, because that is what the understanding with all the lenders, so that includes the provision on this. These are the two factors. There is increment on the interest cost.

Binoy Jariwala: The 3% subvention that we get is only available on packing credit, right?

R. Sundaram: Packing credit, right.

Moderator: We have next question from the line of Abhijit Vora from Unifi Capital. Please go ahead.

Abhijit Vora: I have two questions. Firstly, are you seeing any fall in your raw material procurement cost? Because of this will there be a decline in the realization of your product going forward, what will be the implication of the same on EBITDA margin, suppose you are holding high cost inventory and because your final product prices are getting indexed to the current spot prices of Cotton in the market, then will that lead to any reduction in EBITDA margin going forward?

R. Sundaram: On the material consumption you had a point that whether we hold a very high value inventory. We as a policy, our holding of inventory is specific to the order, and we do not hold either cotton or yarn or other items in anticipation of future orders, The point is that if there is an increase or decrease in the material cost, a substantial quote of it has already been passed on to the customer either way thereby ensuring that our EBITDA margin remains at the same level.

Abhijit Vora: But are you seeing any decrease in Cotton procurement cost?

R. Sundaram: Whatever has happened has already happened in the last six months, we do not expect any further substantial decline in the Cotton and same so with other materials, material consumption as a percentage come down by 3%, whatever has been captured is already coming.

Abhijit Vora: Sir can you give me an idea as to what is the percentage decline in Cotton prices year-on-year?

K.K. Lalpuria: Actually, since we are into Bed Linen, which consumes Long Staple Cotton, we are hardly affected by the low end cotton, like Shankar cotton and H&M other types of cotton, we are basically affected with the long staple prices, which are quite stable. And secondly, as Mr. Sundaram has put in, the Cotton prices in general have already reached the minimum support price in the marketplace. So further deduction, it does not seem to be happening in the near future or in the long-term, and also whenever you see as a trend, whenever there is a new crop, there is more supply in the market, and that is the reason the pressure is on the prices. So already I think there is balance out, and I think we will see some stable prices of Cotton in the marketplace.

Abhijit Vora: The second question is a bookkeeping question; depreciation is coming down, the provision in P&L?

R. Sundaram: No, that is as per the New Companies Act provision effective from 1st April, it has already given the notes to the accounts, so we have based on the useful life of the assets, so that is the reason why the depreciation amount is coming down, not very significantly, but it is a slightly reduction compared to the previous P&L, the details are provided in the published financials.

Abhijit Vora: Would you be giving out any guidance on margins for the current year FY15?

R. Sundaram: We have been sustaining growth and we will try to endure a little bit of same sustainability. As of today, we will not be able to commit on the volume terms or on the percentage terms, we would like the market situation to take care of it.

Abhijit Vora: But the growth in top line will be maintained for the…?

K.K. Lalpuria: We will endeavor to maintain it.

Moderator: Thank you. We have next question from the line of Pritesh Chheda from Emkay Global Financial Services. Please go ahead.

Pritesh Chheda: When the new capacity comes up when you ramp it up, will the nature of the business change by any way, are we planning for any product lines? And second, if I just adjust the Rs.18 crores FX out of the EBITDA, then the margin is about 12.5-13%. Is that a more sustainable margin that one should look at your business, any thoughts there?

R. Sundaram: As far as the foreign exchange is concerned, it is part and parcel of the business model. Because of accounting standards which has been effective from 1st April, this has been shown separately. A company which has got about $200 million to $250 million of sales, then generally will have to have a forward cover to protect the margins. Since we have long-term deliveries this is a part of the business model, we cannot exclude this, it is not like other income, which is not other business income, and it is an income forming part of the revenue. I think there are no reasons to exclude this from the total margin.

Pritesh Chheda: The nature of the business with the new capacity coming, any product line diversification or any geography diversification that we have planned along with this capacity?

K.K. Lalpuria: Yes, sure, like we are focusing on our core business which is like manufacturing and supplying sheet sets but as we move forward, we are also enhancing our product mix and develop other product lines, like Fashion Bedding and institutional businesses, and then some part of it in Utility Bedding. So we are expanding in the same product that is Bed Linen and as a company we are focusing on it. Secondly, we have done our CAPEX to grow with our customers, to provide the necessary flexibility as well as to supply the market share, which is growing. So we try to service both their growth as well as our growth to the CAPEX. That is what we are trying to do.

Pritesh Chheda: When do you think that you will actually hit the peak utilization on this expanded capacity?

R. Sundaram: The business will start from the next quarter. Probably between 12 to 18 months is the idealistic time.

Pritesh Chheda: Sir, when you gave the thoughts on product mix on Fashion Bedding and Institutional Bedding and all, which means that directionally, you should start backing the whole $2.8 billion India piece or some $18 billion Made Ups piece is from US, that is how one should read it?

K.K. Lalpuria: Yes, from the $18 billion, because you see apart from the Cotton Sheet Set, which forms a major portion of the Indian Made Ups exports, there are other categories as well, which are exported by the competing countries, which we are trying to target, and we are trying to become like a 'One Stop Shop' for Bed Linen, and as a company, as a strategy, we are focusing just on the Bed Linen side of the business. So we will be keeping our focus on the core sheet sets which we supply currently, but at the same time we will become a 'One Stop Shop' for other Bed Linen products for all our customers.

Pritesh Chheda: Should this be margin accretive or margin dilutive?

K.K. Lalpuria: Basically when we go to Fashion Bedding and other products, it is margin accretive.

Pritesh Chheda: Lastly, on your capacities and all, we have been actually expanding in a single location and now you have reached closer to about 70 million meter. Is there any further scope for Brownfield? That is question #1. And question #2, if you do not have a scope for Brownfield, then does a new Greenfield also offer you a similar operating metrics and similar return metrics?

R. Sundaram: As of today, there is a minor scope for Brownfield expansion, and once we exhaust that, then we will go for Greenfield, and when we go for Greenfield also there will be same business model what we have done in the existing location, same thing will be expanded to the new location, which has not been thought of as of now.

Pritesh Chheda: On the Greenfield side, does it have a similar return ratio as what your existing facility has it?

R. Sundaram: Yes, will be.

Moderator: Thank you. We have next question from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, what would be your average rupee realization as of now?

R. Sundaram: We already addressed this point in the previous discussion; we would not like to disclose the average realization on rupee terms on our product mix.

Nisarg Vakharia: Rupee rate?

R. Sundaram: Rupee rate should be average of about 63.

Nisarg Vakharia: So what is the incremental turnover this new facility can generate for us in the next 2-3 years when it is fully commissioned?

R. Sundaram: The capacity is increasing from 45 to 68 billion, so there is an increment of 50% capacity, anybody can find out what is going to be the incremental revenue in growth keeping the capacity at the back of the mind.

Nisarg Vakharia: Yes, but that will be a function of what is the type of products you make because we do not have a sense on the realization, I think realization ranges from rs.200 meter to Rs.500 meter in the market?

R. Sundaram: It will be very difficult for us to predict right now, what it is going to be one year down the line, two years down the line, as I said the capacity will become utilized over a period of 12 to 18 months period, it all depends upon customer focus and customer needs, expectations.

Nisarg Vakharia: But in terms of the product it will be making, in terms of the market position on pricing, they will be similar to currently what you are doing or since these are going to be now you will have to see much larger volumes you could also look at products which are maybe little lower in terms of realization?

R. Sundaram: We said that we are in a mid-to-high-segment product; we do not wish to go into the low segment of the product. Naturally, with the newer product mix, there will be a better average realization, naturally, there is an expectation the revenue will go up, but as of today, we cannot quantify the exact amount.

Nisarg Vakharia: But, as you mentioned that now there is not too much of scope in terms of expansion at the existing site, this would mean that when we go in for the next expansion, we may not get the asset turnover that we are getting from the current expansion, is that understanding correct, in a sense, the capital cost will be significantly higher for million meter compared to what we have done in the current expansion?

R. Sundaram: There will be minor changes in asset turnover ratio, this is the model which is existing today, we may have to slightly modify, advantage to the asset turnover or negative it will be going only when we go into the project.

Nisarg Vakharia: The debt-equity, are we now comfortable with that or going forward you look in terms of raising some equity, now that the market condition has improved, look in terms of dilution to stabilizing debt-equity?

R. Sundaram: Until the board discuss and confirm, it is very difficult for me to confirm or deny on this.

Moderator: Thank you. We move on the next question that is from the line of Prateek Poddar from ICICI Prudential AMC. Please go ahead.

Prateek Poddar: One question is on the FOREX gain. You mentioned this quarter we had an Rs.18 crores kind of FOREX gain. What was the same amount in the last quarter as in 2QFY14?

R. Sundaram: Because at that time the accounting standards were different, it was part of the revenue; it was not shown separately as part of other income.

Prateek Poddar: Would it be possible for you to share the detail?

R. Sundaram: There may not be much of a difference, but we will have to check it up.

Prateek Poddar: On the Greenfield project, when we last spoke, the view was that you would always look at setting a processing house, because it leads to non-linear growth. That philosophy stands or when you set up a Greenfield project you would look into vertical integration. How is…?

R. Sundaram: That decision not come in as of now. We are now going for expansion, already been on board right now, it will take about 12 months for us to utilize the capacity. So as and when the next stage of expansion will take place, only when you start using the current capacity. So it will not be possible for us to comment right now for a futuristic.

Prateek Poddar: The current EBITDA margins, are they sustainable going forward or…?

R. Sundaram: It is sustainable for at least couple of quarters.

Prateek Poddar: Despite in a case where rupee appreciates, still these margins would be sustainable or rupee has to be kind of stable?

R. Sundaram: We have a policy on forward cover policy, whenever the order comes, we always cover the forward contract, and it is a conscious decision which the management is taking. So keeping that factor in mind, the margin should be sustainable.

Prateek Poddar: Would it be possible for you to quantify the margin increase would be due to the product mix change?

R. Sundaram: It will be difficult to quantify how much is product mix, how much is new customers; it is a composite business division.

Prateek Poddar: My understanding, once you are out of CDR by the start of next financial year, there is a retrospective interest cost which you have to pay. That has been accounted for or you would account that for in the next year, how is that?

R. Sundaram: In a previous query, I had already mentioned there is an incremental interest cost in the first half that is already captured for the incremental increase due to exiting CDR, our effective trigger date for exiting CDR is 1st April 2014. So effective from current year, we are taking the market linked rate of interest.

Prateek Poddar: But, when we last spoke, you said that since you went into CDR in 2008 or '09, the difference for those four-five years…?

R. Sundaram: Right of Recompense is being worked around. Once we exit our CDR at the end of December or whenever it takes place, we will have to make a provision, this provision will effect as an exceptional item in the current year.

Prateek Poddar: If you could just give us a ballpark figure or in a range how much this number would be and this would obviously pick your cash flows, right?

R. Sundaram: It is not a significant amount, we have already indicated our calculations to the banker, and the bankers need to confirm it. But, my guesstimate is somewhere between Rs.15 crores and Rs.20 crores will be the maximum Right of Recompense.

Prateek Poddar: This would be a cash outflow?

R. Sundaram: It will be cash outflow, but there is also a process of, it can be deferred over a period of one or two years time, that depends upon that.

Prateek Poddar: While modeling tax rate, how should we go forward, sir, because currently you are taking MAT credit, but going forward, when do you see the tax rates start to go up from the current levels also?

R. Sundaram: The MAT will be closed by end of the current financial year and from next year onwards it will be a regular tax only, and with a benefit of whatever the expansion comes in, or depreciation comes in, but the cash outflow will be slightly lower, and sit in the benefit of the MAT accumulation till the end of the current year.

Moderator: Thank you. We have the next question from the line of Ravindra Nayak from SBICAP Securities. Please go ahead.

Ravindra Nayak: This CDR-related additional interest cost that we will be charging, it will be coming in the next quarter or by the end of the fourth quarter?

R. Sundaram: By the end of fourth quarter, in the current year itself, we will be closing it.

Moderator: We have next question from the line of Dhaval Shah from Siddhesh Capital. Please go ahead.

Dhaval Shah; Sir, you mentioned about enhancing the product mix – getting into Fashion Bedding and Institutional Bedding. So what exactly you mean by Fashion Bedding – are we going to tie up with some brands and take up, so can you just dwell a little bit more on that?

K.K. Lalpuria: Basically we have been supplying like sheet sets, which is a core product on the Bedding side, and by Fashion Bedding, we mean, products which are on like Comforter, Duvets, which are sort of a dressing to the bed, and then there are products like in Utility Bedding, which are like Protectors, which protects the bed and the mattresses, like there are pads and pillow protectors, and mattress protectors and all that.

Dhaval Shah: Like Bed Covers and all that?

K.K. Lalpuria: Yes, Bed Covers are in Fashion Bedding side, the Quilts and the Comforters and all that. The third is supplying to the institutional side of the business, which is like hotels and resorts, and cruise ships, basically at the higher end level like supplying to four stars, five stars and other people. What we are trying to do is to focus on the Bedding side of the business, and we are enhancing our product mix in such a way so that for the retailers or our customers, we become a one-stop shop.

Dhaval Shah: As we are moving little up the chain in terms of product mix, so which company would you call as a competitor from India or there is no guy present in this space currently?

K.K. Lalpuria: As far as the competition is concerned, we are not focusing on any competition, everybody's business model is different, we are just into Bed Linen, so there are people who are into other ranges of product in the Made Ups segment, we as a company are focusing for the next couple of years on the Bed Linen side of the business. So as such we are not trying to imitate any competition in our business model. So we are just trying to be, how we can serve our existing customers and build on to new customers and do ourselves.

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

Binoy Jariwala: Two questions. First, quick one on the capacity. You mentioned the incremental capacity, which is about 23 million meters. You expect to hit peak capacity utilization within 12 to 18 months, is that right?

R. Sundaram: Yes.

Binoy Jariwala: Second question is on the pricing. We have been in this segment from about 2008-to-date. I want your observation that we can take price increases through introducing innovative products or is it the price increases are also easy to come by through just about higher pricing?

K.K. Lalpuria: We are into the made-to-order business, and we service retailers worldwide making products which are demanded by of their customers. So it is all demand driven, #1. #2, like we always tend to position ourselves like as what we have mentioned earlier, we have positioned between mid-to-high segment, and in the mid-to-high segment, the consumers are always aspiring for new products. So we tend to innovate and bring in new products in order to satisfy the demand of our customers. So, we always tend to enhance both our product mix as well as the value what we provide to our customers, thereby enhancing both volume and value. That is what we are trying to focus on.

Binoy Jariwala: Should I consider that it is only product mix that can actually drive pricing?

K.K. Lalpuria: Not that, but innovation also helps into bringing new products, so you have like an advantage of being there for the first time selling that product to the customers, so you are always judged as a better supplier and that makes us demand a fair price for our products.

Binoy Jariwala: Within the distribution channel, so for instance, mass merchants, specialty, departmental stores and institutions, how would these channels stack up in terms of pricing and margins, which have the higher margins, which has the lower margins?

K.K. Lalpuria: Each segment has got its own price model, like as you know it is good, better, and best in each segment of the businesses. So if you are positioned into the better and best categories, you try to target them and sustain your margins. That is the strategy we pursue.

Binoy Jariwala: No, I understand sir, but within these categories, my question was actually which one are the higher margin and which one are the mass market…?

R. Sundaram: These are all certain business-related information, which will be very difficult for us to share.

Moderator: Thank you. We have a follow-up question from the line of Pritesh Chheda from Emkay Global Financial Services. Please go ahead.

Pritesh Chheda: In the current time, when Cotton prices are coming down, is it just fair to assume that part of your realization should be indexed to Cotton and hence had you sold the same Bed Sheet last year and you are selling the same Bed Sheet today, the prices would be lower?

R. Sundaram: This question was addressed earlier in another participant question. The Cotton pricing has already come up to an acceptable level right now. We are sourcing a different Cotton altogether. So this will not get changed right now.

Pritesh Chheda: Lastly, what is the nature of the Consumer Durable business that we have?

R. Sundaram: We have a separate division for manufacture of electronic goods on OEM-to-OEM basis.

Pritesh Chheda: Any intent of the board to hive it off?

R. Sundaram: As of today, there is no plan to hive it off.

Moderator: As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Lalpuria for his closing comments. Over to you, sir.

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 strategic growth advisors, our investor relations advisors. Thank you once again for on the call with us. Wish you all the best. Thanks. Bye-bye.

R. Sundaram: Thank you.

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