"Indo Count Industries Limited Q2 & H1 FY2018

Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q2 and H1 FY2018 earnings conference call. This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K.R. Lalpuria, Group President of Indo Count Industries Limited. Thank you and over to you Mr. Lalpuria!

Kailash R Lalpuria: Good afternoon and a very warm welcome to everyone. Along with me, I have Mr. Mohit Jain, our MD, Mr. Dilip Ghorawat, our CFO and SGA, our Investor Relations Advisor. I first begin with industry discussion. 2017 has been an eventful year for the textile industry in India. This was primarily led by various policy changes by Government of India, which has impacted industry's performance in the short run. On July 1, 2017, government has implemented GST. It is a positive move by the government, which has resulted into transparency in the system and enabled robust tracking of movement of goods across states, higher compliance and has widened the tax base. Government has levied the GST rate of 5% on the cotton textile sector. This move of the government will impact the industry in the short run, but over the time GST will accelerate the formalization of the economy and will further accentuate the growth of the organized segment. The GST would be available as an input tax credit to us.

In addition to GST, the government has come out with modified duty drawback rates for exporters, which came into effect from October 1, 2017. The new rates have come down to 2% as compared to 7.5% earlier. Further the ROSL rate has also been revised to 1.55% from 3.9% earlier and this also got applicable from October 1, 2017. The overall impact on our business is around 2% to 2.5% due to the reduction of these government incentives. Our industry is in the process of representation at appropriate level to the government on these issues and we expect an outcome in the near future. Easing of the cotton prices have given some relief to the industry, increase in acreage nationally will result in a bumper crop thus putting pressure on the cotton prices in the new season. Other countries are also expected to harvest a bumper crop therefore, cotton prices are witnessing a downward trend.

India continues to remain at a competitive advantage with presence over a complete value chain of high quality, product line, skilled labour and robust availability of raw material. Presently, India's market share in exports to the US has increased to 51% from 49% in particularly the bed linen segment. With increased dominance of India in the US market, we continue to gain market share in the overall bed linen segment with host of new product offerings and adding new customers. Also, we remained well poised to further penetrate other geographies such as UK, EU, Middle East, Australia and Japan. Indo Count will keep on leveraging on its inherent strength to elevate its position as a leading global player in the bed linen market on the back of world class manufacturing facilities, strong customer relationship, owned and licensed brands and with a proven track record of performance, we would constantly innovate and offer solutions to our customers, which in turn will help us encash the growth opportunities.

On the domestic front, our brand Boutique Living is doing well and gaining good ground traction. We currently have presence across 20 states and selling across 87 cities and are available in 406 stores. In order to cater to the demand of vast customer base in India, we are also present online on www.boutiquelivingindia.com. We expect our branding initiatives and efforts in the domestic market to start contributing to a topline meaningfully over the next three to five years. As guided in Q1 FY2018, our performance in Q2 FY2018 was in line. As per our expectation, we have achieved 14% Q-on-Q growth in revenue, 9% Q-on-Q growth in EBITDA and 12% Q-on-Q growth in PAT. The volume growth has also shown an increase of 22%. We expect this trend to continue our thrust on new product category, new clientele, and promotion to newer geographies which will start delivering growth in the coming years.

With a stable economy in US, Europe and our continuous focus in venturing into newer geographies, we are confident as a company of scaling back to a growth trajectory.

Lastly, I am very pleased to inform you that now we have moved to a leadership position in the home textiles bed linen segment having started our journey in this space in 2007. We have won the prestigious GOLD Trophy for the highest exports of bed linen, bed sheets, quilts in Category III for the year 2016-17 awarded by TEXPROCIL, which is The Cotton Textile Export Promotion Council of India. That is from side. I would like to handover to Mr. Dilip Ghorawat, our CFO for the financial highlights.

Dilip Ghorawat: Thanking you Mr. Lalpuria. Good afternoon and a warm welcome to everyone present on the call. I shall now share the financial highlights. We have uploaded the Q2 FY2018 presentation on the Stock exchanges and Company's website. We have circulated the presentation to all the investors and analysts. I hope you have been able to have a look on the same.

Coming to the standalone financial performance for the Q2 FY2018 and H1 FY2018, Total revenue stood at Rs.493 Crores for Q2 FY2018 versus Rs.432 Crores in Q1 FY2018 registering a growth of 14% Q-on-Q. We are now witnessing an improvement in the trend and believe this to continue in the near future.

Revenue for H1 FY2018 is Rs.925 Crores as against Rs.1,069 Crores in H1 FY2017. The company reported an EBITDA of Rs.71 Crores for Q2 FY2018 as against Rs.65 Crores in Q1 FY2018 registering a growth of 8.9% Q-on-Q. The EBITDA margin for Q2 FY2018 is 14.4%. This is mainly on account of volatility in raw material cost, changes in forex, GST and Government Incentives.

EBITDA for H1 FY2018 is Rs.136 Crores as against Rs.227 Crores H1 FY2017.

Profit after tax for Q2 FY2018 is Rs.36 Crores as against Rs.32 crores in Q1 FY2018, registering a growth of 12% Q-on-Q. Profit after tax for H1 FY2018 is Rs.68 Crores as against Rs.123 Crores in H1 FY2017. We recorded an EPS of Rs.1.82 on a facevalue of Rs.2 per share for Q2 FY2018.

The Company's Net Debt to Equity as on September 30, 2017 was 0.24 times. The company's Net Debt to EBITDA (on an annual basis) stood at 0.78 times for H1 FY2018. Interest coverage stood at comfortable level of 7.26 times in H1 FY2018. Interest cost has come down by 19% to Rs.17 Crores in H1 FY2018.

Return on Capital Employed (ROCE) stood at 25.7%, while Return on Equity (ROE) stood at 16.2% at the end of September 30, 2017.

We are pleased to share that CARE Ratings in August 2017 upgraded the Company's credit rating for long-term debt to CARE AA from CARE AA- with stable outlook. The short-term credit rating for short-term bank facilities has been reaffirmed at CARE A1+. The upgradation of rating and reaffirmations with revision in outlook by CARE are demonstrative of the Company's sustainable financial position.

ICRA has reaffirmed the long-term rating to ICRA AA- and short-term rating to ICRA A1+. The outlook on the long-term rating has been revised upward to positive from stable.

With this I would request the moderator to open the forum for questions. Thank you.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Congrats on like we are coming back to positive traction after two- three quarter disappointment. My first question is can you give us the volume number for the second quarter and first half, absolute volume?

Kailash R Lalpuria: The absolute value is around 14 million in the Q2 FY 18 and in the first quarter we had crossed 12 million. Total volume for H1 FY 18 is around 26 million.

Giriraj Daga: What was the year-on-year number last year?

Kailash R Lalpuria: I think we clocked around 30 million last year.

Giriraj Daga: 30 million in the first half?

Kailash R Lalpuria: Yes.

Giriraj Daga: In terms of prices like are we, last quarter we spoke about a bit of pricing pressure, so how is the situation now, has the price stabilized now because now the visibility in cotton prices is also there, so how is the discussion with the customer in terms of prices?

Kailash R Lalpuria: No, the market is stable as we all know the US is having positive GDP and lower unemployment rate, so it is a stable economy out there, so we do not see much of downward trend on the price front in the market where we are positioned.

Giriraj Daga: Can we expect that the recent decline what you are witnessing in cotton prices will not be passing it on to customer?

Kailash R Lalpuria: No, it does not happen like that because we see always cotton from an annualized point of view, so if at all there is a huge like decline more than around 15% to 20%, which it would not, than there is no price revision, which does happen like every quarterly basis.

Giriraj Daga: So, what is the last cotton season purchase price and what is now?

Kailash R Lalpuria: Earlier cotton prices were ruling around Rs. 42,000 a candy and now the market is quoting around Rs. 38,000 a candy.

Giriraj Daga: So, roughly about 10%, but less than 10%.

Kailash R Lalpuria: Yes.

Giriraj Daga: My second question is related to our customer addition in fashion and utility, we are discussing about the segment for last couple of quarters, so have we added any new customer, what kind of traction we are seeing any number you would like to give, guidance for next year FY2019 from this segment?

Kailash R Lalpuria: No, we will not name the acquired clients due to competitive reasoning. Yes, we have been able to get few good names on board and it will take a few quarters to get meaningful contribution from the clients, which we have added, so we keep on adding new clients, we keep on showing our product line and we hope we are doing better because there is a good acceptance in the market to our products.

Giriraj Daga: I understood Sir! Thanks a lot, and all the best.

Moderator: Thank you. Next question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak: Sir, my first question is regard to the accounting entry. Last quarter we had around Rs. 32 Crores shown in the other income, so this quarter that same entry shown in the line item of other operating income, so if you can help us bifurcate that where the changes have been and from next quarter onwards we would not be reporting other income just the other operating income?

Dilip Ghorawat: This is a part of other operating income because this constitutes a forex treasury income realized on a submission of export documents to adjust our forward contract rate booked, so this is our normal business activity.

Dimple Kotak: So, we will see similar trends like last quarter we had Rs. 32 Crores as a part of other income and not other operating income?

Kailash R Lalpuria: We forget to mention other operating income. It was other operating income only. It is a part of normal business income.

Dimple Kotak: Sir, last quarter as we spoke about de-stocking in the US markets, how is the outlook now?

Kailash R Lalpuria: The outlook is positive, as we are witnessing a pickup in the demand. The kind of projections we are receiving now, are positive and we will see an improvement going forward. So, there is an improved demand and we are hopeful that we will fare better in H2 FY 18 as compared to H1 FY 18.

Dimple Kotak: Sir, what is coming from one of your competitive conference call, they said that US market still looks dim and H2 FY 18 will be like in November they have not seen much uptake?

Kailash R Lalpuria: It depends on how you are positioned in the market, what sort of customer you have, what strategy you adopt on innovation and product offering and which area you do business with, it all depends on various factors, but as far as we are concerned, we are seeing improved numbers.

Dimple Kotak: Got it Sir! Final question that we had seen last year there were extended summers in US due to which our Q3, which is one of the best quarters was impacted. Since we are almost in November the second month one month only to go for Q3 FY18, so how it is spanning out?

Dilip Ghorawat: Now, you must be reading the weather report, there are no extended summer at this time, so the winter is back, so I think the sale should improve and with the festive season, which is approaching. We all expects the festive reason to do well this time, which will overall improve our results further.

Dimple Kotak: That is all from my side. Thank you so much.

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

Abhilasha Satale: Sir, just a couple of questions. I want to understand what is our current capacity utilization and how do we expect to improve in H2 FY18 and FY 2019 and secondly in the backdrop of reducing cotton prices and ROSL benefit, how do we see our margin shape up in H2 FY18 ?

Kailash R Lalpuria: We have already mentioned that the volume what we have clocked in H1 FY 18 is around 26 million. Now in last year FY 17 l we did around 56 million, which was 85% of our capacity on 68 million. We increased our capacity to 90 million meters, so going forward we see a better trajectory in capacity utilization and in the next two to three years, we intend to fully utilize our increased capacity. Currently, we have given a guidance of flattish volume in FY2018, so we feel that going forward we will start utilizing our incremental capacity and we intend to utilize it fully by 2021.

Abhilasha Satale: So, in FY2019 like we can see another 12% to 15% kind of increase in our volumes?

Kailash R Lalpuria: Yes, we are expecting that because there will be a growing trajectory, we are adding new clienteles and we are approaching newer geographies. We see that the projections, which we receive from our existing customer and the new customers', are encouraging, so we feel that we shall improve our numbers next year.

Abhilasha Satale: Sir, on margin?

Kailash R Lalpuria: We have given in the investor deck that because of the structural changes in the Indian context, i.e. reduction in duty drawback, ROSL, the higher contribution from the low margin spinning business, on account of increase in some raw material cost and increase power and fuel cost, has impacted the margin. We have indicated in our earlier con-call for the first quarter that the margin shall be anywhere around 15% to 17%.

Abhilasha Satale: Sir, basically I just want to understand on a quarter-on-quarter, do we see margins improving because of cotton price is going down because this quarter it is on the lower end of our margin guidance?

Kailash R Lalpuria: We see that the cotton prices are softening, which will start showing the impact only from the fourth quarter because some part of the raw material we always hedge and it marginalizes overall during the year, the overall cost of cotton that is what we had even mentioned in our first call that the cotton cost would marginalize going forward, so we see that it would add on to our margin to some extent, then we are seeing some positivity in the rupee depreciation off-late, but the volatility is quite high. So, if the forex improves then also it will help us plan our business better and plus we have approached the government to revise the duty drawback and ROSL rates as we have provided them the details of the embedded taxes which we are paying, so they are also considering it positively. Hence all these factors on the Indian context side shall help us improve our margin going forward and of course as a company we always focus on adding value to our products through innovation, offering to better customers and better clientele, which will help us grow our margin, so we are not saying that the margin will be stagnant around 15% to 17%. Our endeavor would always be to grow up from there.

Abhilasha Satale: Thank you Sir!

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir, one of our competitors reported that lot of customers are moving towards online, so are we in a big way trying to tie up with this e-commerce players to sell incrementally in the US?

Mohit Jain: Currently, what is happening is that the online and the brick and mortar environment is all going to coexist, so which means more OMNI channels, You can buy online, pick it up in a store, you can buy it in a store and get it delivered to yourself, so there are different ways you can buy it on your phone, go and see it in the store, get it delivered to your house, so it is going to coexist, so all large retailers whether it is Walmart, Target, Bed Bath & Beyond, they are playing the game from an online and an offline perspective. For example, Walmart has acquired a company called jet.com, a company called aneedle so it is a world, which will coexist. As far as Indo Count is concerned, we have a presence in the online channel, we supply to almost eight to nine online customers today. We have a separate warehouse in the US that we can pick and pack and ship direct to consumer and of course this is going to be a part of another channel of sales for the business going forward. Also, we are not witnessing any media traction in the e-com space because in home textiles still it forms 1% to 2% of the total revenue for all the online players, which exist today. The customer still prefers to touch and see before buying bed linen as they have to colour coordinate with other items in home textiles such as rugs, carpets, curtains, etc. However, we are looking at the space actively and we have a complete backend in place with warehousing and drop ship arrangement and if we witness a major traction in the segment we will be able to deal it with methodically so we are in this business as well as in this channel of business as well.

Bhavesh Chauhan: Thank you. That's it from my side.

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

Ashutosh Somani: Sir, this is Ashutosh Somani here. Sir, the first half has been a tough half for most of the players in the home textile sector and the structural challenges are well understood almost everybody has reported a topline earnings, but in that background I think Indo Count has reported the sharpest drop in earnings in the first half at 45% decline in PAT, there is a 11% decline in volumes, so are there any company specific challenges that you want to highlight and how are we sort of tackling it in the second half?

Kailash R Lalpuria: See first of all, let me correct you that there was nothing like sectoral impact in the business. This is a regular business for us and we are into make to order business. There was only a postponement of orders which we have witnessed in first half. It was a de-stocking done by our customers as a strategy because every country has policy changes and they have to do business according to those policy changes as what we also witness in India. So this was a regular business thing happening and we as a company we have to accommodate our customers and because of that de-stocking we have to delay on various shipments. So first of all it was a regular feature so there is nothing sectoral, the business would move on and therefore what we are witnessing that in the coming quarters and in the coming years business would normalize once again because there is high demand out there and we as a county are faring very well with a good market share. We have already a proven track record and we have so far only promoted our products majorly in the US market. We are not there in EU and other developed markets like Australia, South Africa, Middle East, Japan, etc. In these countries, we clocked very low numbers, very low market share, so we feel that as a young industry we have a long way to go and these momentary hiccups will not affect the overall demand existing out there.

Ashutosh Somani: So, just 45% drop in the first half you see it getting better in the second half in terms of the dropping earnings at least directionally?

Kailash R Lalpuria: Come again.

Ashutosh Somani: The 45% drop in earnings in the first half you see it getting better in the second half directionally?

Kailash R Lalpuria: Of course. We are witnessing the pickup of demand and whatever reasons which affected our earnings that have been explained in our investor presentation like the raw material, forex and the government incentives all that clubbed together, which are in Indian context affected our margins. I think there would not be continuing to that extent and so we would see a positive trend going forward.

Ashutosh Somani: Sure Sir! Thanks.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera: Sir, this is regarding the note that you have given in the presentation regarding revenue forecast for FY2018, you have said that because of spinning revenues will be lower by 5%. Can you just explain that?

Kailash R Lalpuria: So, as we are modernizing our spinning, we are bound to use more yarn in-house, so we would see a good number volume of yarn getting utilized in our home textile. This would impact our revenues by almost by 5% if you compare to our 2017 revenue on an equivalent basis.

Sachin Kasera: So, you are saying your outside sale of yarn will be lower by Rs 100 Crores in FY2018 versus FY2017 is that what this like?

Kailash R Lalpuria: Yes, exactly.

Sachin Kasera: And that is because of a higher utilization in-house?

Kailash R Lalpuria: Yes, because we are modernizing the spinning, so we will better utilize our own yarn, so that is why we on an equivalent basis we are just trying to provide you that at the end of 2018 when we say flattish, these are the things, which you need to consider into equalizing our revenues on that basis.

Sachin Kasera: Sure. Second is Sir, can you throw some light on geography wise the number that we have seen for the first half, which is around 10% to 12% lower volume, is it across geographies and across segments or are there certain segments, certain geographies, which actually held well and done much better?

Kailash R Lalpuria: We feel that US has impacted more than the other markets and this was also momentary. We feel that the projections, which our customers are providing now are encouraging, so I think we would move on to business as usual and the other segments are responding quite well, so we feel that we will be also growing.

Sachin Kasera: Sure, which geographies have done better this first half for you other than US, which has been little low, which geography has done better?

Kailash R Lalpuria: All of them like we said that EU is doing well, Japan is doing well, Australia, then Middle East, and then certain other countries, they are all doing well.

Sachin Kasera: And this year Sir, what is the mix we can expect between US and non-US in rather key geography in FY2018 compared to FY2017, it will be same as FY2017 or there will be some changes?

Kailash R Lalpuria: Always there would be changes. You see we have already mentioned that US is a very big market and an organized market, we always have around 65% to 70% on US business and the non-US business is around 30%-35%. Of course we always tend to grow our non-US business as we expand our product line, we are bound to offer retailers around the world as now we have a complete product solution in bed-linen.

Sachin Kasera: Sure. You had in between mentioned some time that you are looking some good inroads in Japan market. Can you update us on that what is the outlook there and have you made any further progress there?

Kailash R Lalpuria: See, Japan is looking towards India overall and they have started buying some quantities because in Japan usually it takes some time to gain a customer, so what we feel that it is still slow for us, but we are hopeful that we will get a breakthrough in the coming future. We will not be able to comment on this much until and unless we see major concrete thing happening as it takes time for a market to change because they have been sourcing out of China and now they do not enjoy good relationship with China. So we expect this to grow and now they had started outsourcing from Vietnam, which is also facing cost increase. We hope that they will look at India in a different light.

Sachin Kasera: Sure, and Sir one question on the competitive intensity both from India as well as from China, one has the competitive intensity from India reduced a little bit last one or two quarters and secondly have we seen any resurgence of increased competitive intensity from China in the last two to three quarters?

Kailash R Lalpuria: No, we do not see because if you look at the market share, India's market share has grown in US and other areas as well, so the Chinese competition as we explain that because of the higher cost, their focus on domestic industry and consumption and because they are also very heavily costed on the cotton side. So, we feel that for us in our category of products where we are positioned in finer count of yarns and fabric there is not much of competitiveness from China. I would also like to add that in the last three to four months lot of facilities in China have shut shop across due to pollution reasons, so in fact that has created another issue for them domestically that now their business is concentrated more around a fewer players in China, which was spread out a lot more. So the government has closed down hundreds of facilities due to pollution reason, so this is also creating impact on the pricing as we speak.

Sachin Kasera: Sir, this closing down of Chinese facilities is more on the spinning side or also on the home textile side?

Kailash R Lalpuria: It is more related to dyeing and finishing, which is where pollution gets generated.

Sachin Kasera: So, this is impacting the ability of the home textile guys?

Kailash R Lalpuria: In home textiles wherever you are selling finished products, not for cotton spinning and weaving.

Sachin Kasera: Sure Sir, basically because of this the home textile guys are having supply chain issues and they are not able to produce at the level that they were producing earlier?

Kailash R Lalpuria: Yes, it would be for anybody who is in apparel or in home textiles where you are selling a finished product. To a large extent their home consumption is increasing by 17% CAGR, so they have better home, the demand of better end products, so I would rather say that after five years they may become net importer.

Sachin Kasera: One small question on institutional and the fashion bedding what is the progress there if you can comment on that and are we still on the target, I think we are looking at 22% to 25% from the segment by FY2020 are we still sticking in the target or we are using that number?

Kailash R Lalpuria: Whatever target, which we have earlier provided we are working on that. The contribution through this business is on the rising trend and we are close to around 13% in the first half of this financial year and as we said earlier we are quite optimistic of closing 30% contribution by FY2020.

Sachin Kasera: Sure, what was this 13% number last year Sir?

Kailash R Lalpuria: Last year it was around 10%. It is growing because you see in our businesses you will start with new clientele then the traction improves.

Sachin Kasera: Thank you very much Sir!

Moderator: Thank you. The next question is from the line of Milind Muchhala from Julius Baer. Please go ahead.

Milind Muchhala: Good afternoon Sir and congrats on this sequential improvement in volumes. Sir, can you just have the comparable figures in terms of what were the volumes in corresponding quarter in the first half of last year?

Kailash R Lalpuria: Corresponding quarter last year was around 14 million in the first quarter and 16 million in the second quarter and this year we did 12 million and 14 million.

Milind Muchhala: Do you think there is some scope kind of going beyond that volume guidance?

Kailash R Lalpuria: See, we have already given the volume guidance of having a flattish year this time and since as we mentioned earlier there are better projection coming from our customers, so we are quite hopeful that we would continue with this flattish guidance. If it improves it improves. We are quite hopeful about it.

Milind Muchhala: Especially considering this traction of 14.5 in this quarter itself, wherein earlier we were looking at a kind of subdued quarter so that kind of mix is more hopeful that it should be much better and that is where on a sequential basis this should kind of trend up so that is where that look like a likelihood that we should kind of cross that 56 million?

Kailash R Lalpuria: Of course, we are intact with all our customers. The customers are growing slowly. They are coming back with their demand, so we are quite hopeful.

Milind Muchhala: But any specific reason for this sharp improvement in the volume so compared to 12, 14.5 is a significant improvement, so what led to this improvement?

Kailash R Lalpuria: As we said the customer sides were de-stocking. It was nothing like that they lost their own business or market share. It was a policy, which they pick about their own reason, existing in their economic policies in the country, so we reported that and now we see they are coming back to their normal business.

Milind Muchhala: So, you are employing that the environment has now normalized so the restocking is taking place and what we saw in the first quarter was more like an aberration?

Kailash R Lalpuria: Yes, exactly and it never continues for a long time unless and until there is a very big change happening because we are in the need-based product it is in good demand, India is the largest producer of cotton, we have a competitive advantage wherein we have a proven track record and now we hold around 50% market share, so we are there.

Milind Muchhala: In terms of volumes, what you are indicating is the worst, so Q1 was like the bottom and now we should see sequentially improving trend?

Kailash R Lalpuria: No, nothing like the word worst, if you want to call it but actually it is a postponement of businesses, which happens because as we start by year they provide projections and if the projections are revised due to some reason the business is as usual. There customers are existing, there are people who are demanding and it is a need-based product, it is a consumable thing, so the demand is existing, but the only thing is that there is an aberration certain time according to the economic situation in that country, otherwise there is a good demand.

Milind Muchhala: Sure, and Sir, another thing on margin, so again this time the margin has been on a slightly weaker side and basically because of the lower gross margin, so any specific reason for that?

Kailash R Lalpuria: Gross margin as we mentioned last time also that due to the raw material pricing and additional job work charges to some extent and then the power and fuel cost, then lower utilization of capacity, not being able to marginalize the expenses and then the structural changes happening in the Indian context as regards to reduction in the duty drawback, ROSL rates, introduction of GST, notional MTM losses and all those factors had impacted the margin. So if you look at these factors and at the business independently, you would see that the business margins are intact.

Milind Muchhala: So, for the first half you have done 14.8% and you have guided for 15% to 17% margin, so that still remains or you think there could be some changes over there?

Kailash R Lalpuria: That still remains as I mentioned earlier we have given guidance and things like on the raw material side are improving. If the government gives us some better rates on the ROSL we will further get some benefit out of it and by better utilizing the capacities, changing the product mix to good clientele and changing the clientele mix also going forward. All these factors will further substantiate our guidance to 15% to 17% going forward.

Milind Muchhala: How do you see that margin trajectory is stabilizing in the next two years or so, do you think that there is room for going back to that 19% to 20% kind of a scenario?

Kailash R Lalpuria: We all expect that in business you always attempt to sell better products to better customers, so as you grow your business, if the regulations of the government are favourable to us going forward and if the raw material prices are intact and if we do cost reduction through operationalizing and utilizing our capex better, so all these factors would improve, the business is there. There is a margin out there to grab in the higher end businesses, which we are doing, so we do not rule out that, but yes, we have to work hard to get those margins back, which we will attempt definitely in the coming two years.

Milind Muchhala: Thanks a lot and all the very best.

Moderator: Thank you. We have the next question from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: Now one or two quick questions. I think we do not need to discuss 17-18, it is a year of learning and it is a layer of challenges, but going forward in 2018-19 what sort of volume growth could you be visualizing given the lay of the land today, how would you see 2018-19, it would be a sharp recovery over 2017-18?

Kailash R Lalpuria: As what we have mentioned we will end up this year FY 18 on a flattish note and our attempt that if we keep up all the projections going then we are seeing a growth of around 10% to 12% of volume growth in the coming year.

Jiten Doshi: But you have built up a capacity, which is very high right?

Kailash R Lalpuria: We have built up a capacity which provides flexibility on the product mix side and also to increase our customer base, because the fragment is based on the customer demand, quicker delivery in smaller countries, so we are at a better position to service them and which we will do and we are getting good traction in new geographies, which we are attempting and which will provide a growth impetus to our volume base as well going forward.

Jiten Doshi: So, basically your capacity is roughly somewhere in the region of about 90 million meters am I correct, so this year you should land up at about 55 to 56 million as your utilization this year, so when do you see capex next?

Kailash R Lalpuria: We are already at 90 million meters we have done capex wherein we can always add new technologies depending upon the customer demand. But as far as capacity expansion is concerned we have done our dyeing finishing capacity to 90 million meters, we will be adding up some looms as we had informed earlier in order to get a specialized fabric, we are already in the process of modernizing the spinning as we mentioned earlier, so all this capex would bring about revenues in the next two to three years. We have already mentioned that we will be able to utilize the complete capacity by 2021.

Jiten Doshi: And the recent movement in exchange, that should also benefit you in the second half?

Kailash R Lalpuria: To some extent because we look up on as you know we have a prudent policy wherein we look at plain vanilla whenever the order comes we book and we hedge our risk, so of course as an exporting company rupee depreciation has helped to us in our competitiveness.

Jiten Doshi: What percentage of sales you see coming from India over the next three to four years?

Kailash R Lalpuria: The domestic market is moving well for us, in the next three to four years we see that we should reach at least around 50 Crores to 60 Crores of business in our branding.

Jiten Doshi: With good margins?

Kailash R Lalpuria: Of course, the domestics are always good margin because we are in a mid to high position.

Jiten Doshi: All the best. Thank you.

Moderator: Thank you. We have the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir, my question is regarding what is our realization currently because we normally have six months in advance, so we must be getting some premium also, so what is the current realization?

Kailash R Lalpuria: That we do not disclose, that comes like along with whatever Dilip just now mentioned in the other operating income we do show whatever gain, which we have realized on our products, it is a part of business income we should not look it at separately because we always consider the export rate what we fetch.

Sunil Kothari: Sir, my next question is we have improved our value added products from 10% to 13% during this first half and particularly on this second quarter, almost first half we are up by 30% year-on-year, but our realization per meter if we count, it has fallen quarter-on-quarter and year-on-year also it is stagnant per meter roughly Rs.355 to Rs.356, so will you throw some light why realization per meter is not improving for us?

Kailash R Lalpuria: In our business product mix keeps on changing, It is never static because there are so many quality, there are so many permutation-combination, the market also tends to change if there is more winter like thicker fabric is desired, if there is summer thinner fabric is desired, country to country also the product mix changes, so all these factors the consumer demand changes as what we are seeing now that more print demand is there rather than solid demand, so in Japan the requirement would be different, smaller prices would be there, so all these factor keep on affecting the realization per meter. We never look upon in our business as per meter realization.

Sunil Kothari: So, we consider this is the trend what we are realizing, or any change will happen?

Kailash R Lalpuria: As I said earlier we always tend to sell value added product and on cost plus basis, so we always tend to sell whatever quality desired out of us on which we add our margin and sell.

Sunil Kothari: Sir, if it is a value-added products and realization per meter should be better?

Kailash R Lalpuria: No, it changes know, as I mentioned from country to country, client to client, season to season like it keeps on changing, I say earlier if you are selling somewhere around 400 thread count and if the customer demands now 300 thread count, on an absolute term it goes down, margin the position of the product also from a higher to mid segment, mid to segment, higher to premium segment so all this keeps on changing. It is retail dynamic out there.

Sunil Kothari: Sir, my last question is this change in government incentive structure what we are conveying in it will hurt by roughly 2% to 2.5% of the revenue, but ultimately it will trickle down to bottom-line only because it is incentive right not just revenue?

Kailash R Lalpuria: Duty drawback has been reduced from 7.5% to 2%, and the ROSL was revised downward from 3.90% to 1.55%. So all this affected a net of 2% to 2.5% on the margin, which we have reported also.

Sunil Kothari: Correct and that will be effective from October 1, 2017 current quarter?

Kailash R Lalpuria: These will be effective from 1st October 2017, because till September 30, 2017 the old rates were existing.

Sunil Kothari: So, this 2.5% difference in margin will be effective from current quarter right?

Kailash R Lalpuria: Of course, and we had informed earlier that we would try to improvise upon this margin through our various means of savings on operational mix.

Sunil Kothari: Right. Thank you very much. Wish you good luck.

Moderator: Thank you. We have the next question from the line of Jiten Parma from Aurum Capital. Please go ahead.

Jiten Parma: Congratulations for some improvement in the Q2 numbers compared to Q1. My question is on what are the plans for reducing the debt. I mean I have seen it go down, but by when do you think the company can be debt free?

Dilip Ghorawat: We shall be carrying out our capex program in the next two years which will be funded by mix of debt and internal accruals. If we compare H1 FY18 to H1 FY17, net debt has reduced to Rs. 212 Crores from Rs 279 Crores. So working capital going forward in the next three years can come to a negligible level, but capex loans will continue under A TUFFS.

Jiten Parma: But we are running at about 55% to 60% capacity what is the rationale for doing more capex?

Mohit Jain: First of all we have no objective to be a debt free company and of course our objective is to use our finances prudently, so at this point of time our earnings go automatically in reducing our working capital limits because we are not investing in liquid fund or mutual funds the company's money at this point of time. Our net debt-to-equity ratio as a company policy will be below 1:1. So we are here to grow the business, we are focused on this business of home textiles, we do not know what opportunity is in front of the organization and we will evaluate each one as we move forward. As far as the capex is concerned, this is our second phase of capital expenditure. The first phase was completed in March 2017, the second phase has just started, which will get completed by March 2019. The Rs300 Crores of capex of different phases to it, one part is the spinning modernization, the second the larger part of the capex are the Rs225 Crores is investing in weaving where we are investing in specialized looms to help our fashion bedding business as we look at we are growing the future and then the third part is adding some specialized equipment on the processing side as well as processing dyeing, finishing and the cut and sew side. So all that unveils capex program of Rs.300 Crores, out of the Rs. 300 Crores this financial year we will be investing around between Rs. 70 to Rs. 75 odd Crores and the remaining will happen by March 2019.

Jiten Parma: So, somehow I think there was a lot of talk on the margins and all that I was looking at the competitor's margins and all that somehow our company margins are still much lower or have fallen much higher, fallen by a greater extent than the others so is there some pricing pressure or is there not able to understand the fall in margins for Indo Count much higher than the others?

Kailash R Lalpuria: First of all, every business has got its own strategy and positioning in the market place. We as a company are focused in bed linen segment whereas may be our peers may be in other part of businesses, so we as a company would like to focus on bed linen side of the business in home textile area first of all, so we should compare company specific rather than comparing margin to others. Of course, we shall do better and we have provided the reasons why our margins were impacted very clearly, We also have stressed upon that going further we should improve our margin and as we improve our margins and we get more base around global home textile market we would see that we further make value addition happen, which will improve our margin. So there is no question of comparison between us and anybody else among the peers.

Jiten Parma: My last question is basically on automation, there is talk of lot of automation going to happen in the future where lot of these jobs could be done by robots and all that what is your thought on this?

Kailash R Lalpuria: Of course we are a growing company, we are a globalized company, we always look upon technology absorption and this may be a part of the future, so we always alternate to see how we can efficiently produce and increase our productivity, so that always as and when the technology improves we will keep on absorbing.

Jiten Parma: Yes, my question was this labour arbitrage is something, which might go away, so that is something to ponder on then why would the people want to do it in India if they can do it by automation in let us say in US or something that is my basically worry for the future?

Kailash R Lalpuria: No, in our category you see first of all you need raw material and wherever the raw material is grown, raw material gets converted into the finished product, the competitiveness is there, so it will not go away just for labour arbitrage, like say for example, earlier five years before Vietnam came up very strongly today the labour cost in Vietnam has increased and it does not have raw material advantage, so it will not be able to compete, so we have to consider not only the labour arbitrage as the sole thing to impact our businesses. To some extent for a couple of years it does look attractive, but in time it faces out.

Jiten Parma: Thanks. That is all from my side.

Moderator: Thank you very much. Due to time constraints we will have to take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Kailash R Lalpuria: So, as what we have mentioned earlier we are consciously moving up the value chain by adding new products, we are entering into newer geographies, we are also enhancing our focus on the new categories of businesses like fashion, institutional and utility and therefore we are quite confident to fully utilize our expanded capacity by FY2021. 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 us or Strategic Growth Advisors our Investor Relation Advisors. Thank you once again.

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