



“Indo Count Industries Limited
Q1 FY2020 Earnings Conference Call”

August 09, 2019



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



Indo Count Industries Limited
August 09, 2019

Moderator: Ladies and gentlemen, good day and welcome to Indo Count Industries Limited Q1 FY2020 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 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, Executive Director and CEO of Indo Count Industries Limited. Thank you and over to you Sir!

Kailash R. Lalpuria: Thank you. Good afternoon and a very warm welcome to everyone. Happy to connect with you all once again to discuss the Q1 FY20 performance. I hope everyone must have got a chance to look at the presentation and the press release by now.

At the outset, we wish to say that in the US which is our largest market, the retail trade sales are growing. There is consumer confidence and higher spending power with accelerated growth. This, along with the currency support, will enable better sales in the US market going forward. Europe retail sales are also picking up on the back of increased consumer confidence and demand.

India is also gaining advantage in home textile market in the US due to the benefits of abundant availability of cotton. Customers all around the world are switching to organic and other cotton-based products in home textile. As per the recent SBI trade report, cotton imports into the US from China has decreased whereas imports from other countries including India has increased. Given the current market opportunity, we are all set to capitalize on the value and volume growth. Our state of art manufacturing facilities, adequate and flexible capacity and relatively under leveraged balance sheet, has benefitted us on the grounds of being optimistic of growth going forward.

I wish to update you on the recent development with reference to custom related matter. The company has received show cause notice from customs authorities for refund of excess export benefits by way of MEIS claimed to the extent of Rs.73.62 Crores along with interest thereon. The company replied to the SCN denying the allegation and thereafter held various consultations with the lawyers and the authorities. Post this consultation, in the larger interest of business and exports and to avoid prolonged litigation, the Board of Directors on July 4, 2019 decided to pay and settle the matter. Till date, the company has paid Rs.83 Crores to Customs on this account.



Indo Count Industries Limited
August 09, 2019

As the matter is under adjudication process and the amount is not finalized, provision will be made on finalization of the amount. Towards this liability, we wish to state that there is no incremental debt.

Now coming to the financial performance, I would start with the volumes. For the quarter ended June 30, 2019, we have clocked volumes of 13.9 million meters as compared to 14.4 million meters in Q1 FY19. The drag was on the back of heavy monsoons in Maharashtra, which resulted in deferment of volumes to the next quarter. However, for FY20, we continue with our guidance for 63 to 65 million meters.

Total income: standalone total income for Q1 FY20 stood at Rs.477 Crores as against Rs.457 Crores for Q1 FY19 registering a growth of 4.4%. The growth was 18.8% on quarter-on-quarter basis, which reported total income of Rs.402 Crores in Q4 FY19.

EBITDA: standalone EBITDA for Q1 FY20 registered a growth of 8.4% and stood at Rs.69 Crores versus Rs.64 Crores for Q1 FY19. EBITDA margin was at 14.6% in Q1 FY20 versus 14% in Q1 FY19 registering a growth of 53 bps on Y-o-Y basis. The growth in EBITDA on quarter-on-quarter basis was more than 240% with a margin expansion of 949 bps.

PAT: Standalone PAT for the quarter stood at Rs.34 Crores as against Rs.29 Crores, a growth of 16.8% on a Y-o-Y basis. PAT margin for the quarter stood at 7.1% as against 6.3% on a Y-o-Y basis, a growth of 75 bps. The growth in PAT on a quarter-on-quarter basis was more than 650 bps on a quarter-on-quarter basis.

For financial year 2020, we expect the maintenance capex to be in the range of Rs.25 to Rs.30 Crores.

That is all from my side. I now leave the floor open for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Nitin Agarwal from JM Financial. Please go ahead.

Nitin Agarwal: Thank you for giving me an opportunity. Sir, can you elaborate more on the MEIS liability of Rs.83 Crores, which period does it relate to and why was that we have claimed excess fund on MEIS?

Kailash R Lalpuria: See, this is a product classification issue. We were exporting certain products in a particular classification for nearly 4 years as per the customs regulations and trade guidelines. With some of the products, which were not specifically defined under specific classification, there was an interpretation issue later on raised by the customs. The authorities took a different stand and said



Indo Count Industries Limited
August 09, 2019

that the classification is incorrect and due to this, whatever additional MEIS, which we had claimed during the last 4 years on some of these products has to be refunded. Our bonafide belief was correct for 4 years, but since we have to see the larger interest of the business and to avoid longer litigation, because we meet the custom authorities on a day-to-day basis for our exports, and with a view to not to affect our business, the Board took a conscious decision to settle this matter amicably and move forward.

- Nitin Agarwal:** So, we are not disputing this and we have agreed to the notice and we have paid the liability?
- Kailash R Lalpuria:** Yes, the adjudication process is still on, we have paid around Rs.83 Crores, which is part of principal and part of interest and once the adjudication process is over, we would know the final liability.
- Nitin Agarwal:** Is there possibility of additional penalty amount also coming over and above this Rs.83 Crores?
- Kailash R Lalpuria:** No, As far as the show cause notice is concerned, it does not raise any penalty issues because the custom authorities have been allowing us for last 4 years the same thing, only now they have raised this objection due to interpretation.
- Nitin Agarwal:** Sir, you said that we will not be raising any debt for this payment, so as on March ending 2019, our cash balance was Rs.33 Crores and investments were around Rs.46 Crores, so how are we funding this Rs.83 Crores payment and going forward, how will the net debt move because of this?
- Kailash R Lalpuria:** As mentioned earlier, we would not raise any long-term debt for this. We would pay out of our cash accruals.
- Nitin Agarwal:** Sir, if we see as per your annual report, March ending net debt was Rs.315 Crores while in the press release at the end on Q1 you have reported Rs.427 Crores of net debt, so what led to this increase of Rs.112 Crores in net debt?
- K. Muralidharan:** This is due to the increase in working capital for the orders which we have got now, so this is nothing to do with the custom liability.
- Nitin Agarwal:** But the payment of Rs.83 Crores will be over and above this, so once we pay that, our net debt should increase by Rs.83 Crores more?
- K. Muralidharan:** No, we have enough liquidity by way of cash accruals, and we have already paid a substantial portion of the refund amount..
- Nitin Agarwal:** But, still the net debt would increase from Rs.427 Crores?



Indo Count Industries Limited
August 09, 2019

- Kailash R Lalpuria:** No, it will not increase because as mentioned by Muralidharan, our CFO, we have orders in hand and the inventory levels have gone up, so therefore we needed working capital towards building up inventory to supply to our customers, which you would see some of it in the next quarter, so that is the reason both inventory and the working capital has gone up.
- Nitin Agarwal:** Sir, my second question is that if we see our revenue has increased by 4.4% while volumes have declined year-on-year by 3.5%, so what are the drivers of revenue growth in this quarter, I believe major part of it would have been due to the increase in export incentive, am I right on that?
- Kailash R Lalpuria:** Yes. The increase in Revenue is a combination of increase in export incentives and product mix.. However, you will only get a clear picture once we report our full year performance which is an average of higher and lower realization products.
- Nitin Agarwal:** Sir, one more question, what led to the change in inventory of Rs.54 Crores in this quarter?
- Kailash R Lalpuria:** As I mentioned to you because of the orders, which we have got, the increased orders from our customer, the inventory has gone up.
- Nitin Agarwal:** I have been talking about the change in the P&L?
- K. Muralidharan:** The WIP has gone up following the order position we have to execute, so this is more towards the increase in the WIP
- Nitin Agarwal:** Sir, my last question is, are we still maintaining the full year guidance of 12% to 14% EBITDA margin?
- Kailash R Lalpuria:** Yes.
- Nitin Agarwal:** Thank you. I have few more questions, I will come back in the queue.
- Moderator:** Thank you, Sir. The next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.
- Manish Ostwal:** Sir, thank you for the opportunity. Sir, your comment about the retail sales in US is growing, so can you talk a little bit about the inventory levels at customer level and secondly, how do you see the growth of the revenue in full fiscal 2020?
- Kailash R Lalpuria:** See, as I mentioned, the accelerated growth and higher spending power with the customers in the US has led to growth in the retail sales. we see a positive trend and as I mentioned earlier, there is restocking happening with some of the key customers and this will help us grow our revenues



Indo Count Industries Limited
August 09, 2019

and what we have indicated as volume of around 63 to 65 million for this FY20, we maintain that and you would see revenue growth as well comparatively.

Manish Ostwal: The second is on the raw material price scenario, so how do you see the raw material pricing in the current fiscal?

Kailash R Lalpuria: As far as cotton is concerned, we are covered for this season, and we are waiting for the new season to start that is from November onwards. The international prices have crashed, but the Indian prices are still maintaining the same levels, sooner or later they will both catch up, so we are waiting and watching how the new season will unfold because of good monsoons, we expect it to be better and I think the demand would be met by supply, so we see on the raw material side particularly things should ease out to our expectation level.

Manish Ostwal: Sure Sir. Thank you very much.

Moderator: Thank you Sir. We have next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Good afternoon, Sir. Good set of numbers and very strong guidance. Sir, few question on the industry and the company, as I understand, the latest 10% duty levied by Mr. Trump is on China is applicable on home textile imports into US from China, so what you think is my interpretation correct and would that lead to more market share movements towards India and better pricing for Indian exports?

Kailash R Lalpuria: Yes, you are right. Mr. Trump has imposed 10% tariff on the balance goods, which is around 300 billion \$ in which our category of products are also there. So, we are waiting to see how it unfolds and it would certainly have a positive and moderate benefit to our trade as well and that expectation is there, so it should move in the right direction and India should gain advantage.

Bhavin Chheda: Second Sir, what would be our sales mix between US, Europe and rest of the world?

Kailash R Lalpuria: As I had mentioned earlier, US is around 70% and Europe and rest of the world is around 30% and US is still the largest market.

Bhavin Chheda: And Europe and all other markets are also growing or they have been flattish, so how has been the trend or visibility from customers because Europe per se is slowing down, so I am not very sure, but our base is very low, so are we seeing some growth there also or that should wait for next year or so?

Kailash R Lalpuria: See, the challenges are there, but as we see cotton being consumed more and more, we believe that Europe and rest of the world market should respond to Indian goods, because the cotton-



Indo Count Industries Limited
August 09, 2019

based products are getting into the shelves. We feel that in the years to come, as India improves its advantageous position towards other countries, definitively it will add on to our growth.

Bhavin Chheda: Sir, you peer company's home textile exporters are currently reporting margins between 18% to 20%, your margins has been slightly lower, but I understand your growth guidance is much stronger and government incentives have been much stronger for home textile exports, now rupee is also depreciating, so can we expect a fill up on margins or what is your view on EBITDA margins because I think that 13% odd still looks low compare to peers, so what is your outlook on that?

Kailash R Lalpuria: The business models are different. We are focused on one product company so far and I think our margins are pretty decent, what we had reported earlier and what we are reporting today and definitely we are all making full attempt to grow our margins by increasing value added products like fashion bedding and institutional and utility bedding, opening offices regionally in different global markets to take that advantage to supply to the best retailer out there. So definitely there is a difference, which I agree to, but we will see how we can make all round efforts to catch that up in our business.

Bhavin Chheda: Sir, I missed out, what was the net debt number as on June 30?

Kailash R Lalpuria: It is Rs.427 Crores.

Bhavin Chheda: This is term plus working capital?

Kailash R Lalpuria: Yes.

Bhavin Chheda: Any Capex target for this year, because you have guided a very low capex number, so what can be expect by March 2020 or so?

Kailash R Lalpuria: About Rs.25 Crores to 30 Crores as we have reported this is the capex, which we would need.

Bhavin Chheda: I am saying how much is the debt repayment planned this year, what is the net debt number we should expect by March 2020?

K. Muralidharan: I think it should remain more or less the same or may even come down.

Bhavin Chheda: Thanks a lot, Sir.

Moderator: Thank you, Sir. We have next question from the line of Ajay Sharma from Cycas Investment. Please go ahead.



Indo Count Industries Limited
August 09, 2019

Ajay Sharma: Thanks for taking my call. I am not sure if this has been mentioned yet, so could you please talk a little about the show cause notice from June 2019, what exactly is it about and how do we benefit from the settlement, why do not we go the courts and one more question about this, the note says that the company has paid Rs.83 Crores already, but where is this mentioned in the P&L?

Kailash R Lalpuria: As I mentioned earlier, this is about product classification of some of the products, which we exported, they sell under a certain HSN code and the authorities allowed us for the last 4 years to export under that particular classification, now later on the interpretation by some of the officials got changed and they said that the classification is different and having said that, they further mentioned that whatever additional benefits we have claimed earlier has to be refunded. Now, the reason why we did not go for litigation because in India it takes around 6 to 8 years to clear up this litigation and we are an export company, so in the larger interest of the company, we had to pay up and move forward. The reason being otherwise they had put an alert in their system, so whenever we put up a shipping bill, the goods were going for 100% examination, which took almost 6 to 7 days for clearance. As you know that in India the customs cargo clearance moves at a very slow pace and then it depends upon the officers availability and their attitude towards it. We saw that because of this alert, it was hampering our exports to our customers and since we supply to all major global customers where the deals are defined, if we miss out a shipment, we have to either airfreight or we stand to lose the customer. In the last 27 years as a company, we have been on the right side of the law as a good corporate tax payer, so we have never litigated with the government as such on any matter and our corporate governance spells our values, so we at the Board took the conscious decision to move forward by paying up refund amount amicably. So this is what the whole case has been.

Ajay Sharma: And when will this appear on P&L?

Kailash R Lalpuria: Because the case is under adjudication process now, we have paid Rs.83 Crores towards principal and interest and the customs, once they hear us out and they adjudicate the matter, the final liability amount would be decided and once that is decided, we will have it mentioned in our P&L.

Ajay Sharma: So, it will be happening in this financial year?

Kailash R Lalpuria: Yes, it will be happening in this financial year.

Ajay Sharma: That is it. Thank you very much.

Moderator: Thank you, Sir. We have next question from the line of Pankaj Kumar from Kotak Securities. Please go ahead.



Indo Count Industries Limited
August 09, 2019

- Pankaj Kumar:** Good afternoon Sir. My question pertains to the incentive that we have got in the quarter, so what would be the breakup of the same and how much we have got in the quarter that we have booked as profit?
- Kailash R Lalpuria:** Sorry, come again.
- Pankaj Kumar:** What is the incentive that we have got in the quarter that we have booked in this?
- Kailash R Lalpuria:** I cannot say the complete figure of incentive, but I would say that whatever incentive the government has declared is the increased one, we received this quarter.
- Pankaj Kumar:** So, this 2.2% and 8.2% that government had announced earlier, Have we got the entire benefit in this quarter?
- Kailash R Lalpuria:** Yes.
- Pankaj Kumar:** Have we claimed this MEIS also in this quarter?
- Kailash R Lalpuria:** Yes, it is there, but it might be discontinued that is what the rumor is. That is what I had mentioned in my earlier call that net-net impact will be around 2% because the government has refunded all the center and state levies they do not want to incentivize as per the WTO Guidelines.
- Pankaj Kumar:** But since we have claimed this MEIS also, so additional 4% would have also come in 2% plus additional 4% would be there?
- Kailash R Lalpuria:** No, in this EBITDA the impact would be around 3.5% and that is it.
- Pankaj Kumar:** Any notification that is coming on MEIS from the government side still we are claiming?
- Kailash R Lalpuria:** There are rumors in the trade and we all know from the newspaper that the WTO has raised objections to India providing this MEIS because that falls under incentive and subsidy, so India is making the presentation as far as we know from the trade bodies, but we do not know as such that when it will be withdrawn, but I think it is a sore point and it may get withdrawn.
- Pankaj Kumar:** Sir, can you get the breakup of net debt in terms of working capital and other project loan?
- Kailash R Lalpuria:** Can we give it offline to you?
- Pankaj Kumar:** Okay Sir. Thank you, Sir.
- Moderator:** Thank you. We have next question from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.



Indo Count Industries Limited
August 09, 2019

Saurabh Patwa: Good afternoon Sir and thanks for taking my question. This question is regarding your hedging policy, so while looking at your annual report, it appears that, I can just share the page number as well as it is page 187, last year you had a forward cover of close to Rs.2,000 Crores and this year it is close to 1,000 Crores, so can you share what is the kind of policy, which you would like in terms of percentage or is it, what are the parameters which will let us to decide these kinds of forward contracts?

Kailash R Lalpuria: See, we have a forex policy in place as approved by the Board and we hedge around 70% of our exposure and that we follow it religiously. Only in the previous year when the rupee appreciated and it went up to 63-63.50, we took up a position to save our costing for the future business and our competitiveness, so there was additional hedging, which got reflected in the balance sheet and now, we have again corrected because the rupee has again depreciated to 70s level and we expect a volatility in that. Whatever we have covered is as per the policy of around 70% as of now.

Saurabh Patwa: Is this forward contract one of the reason why we had very volatile forex expense in FY2019?

Kailash R Lalpuria: Yes.

Saurabh Patwa: So, going forward, this volatility should not be there to that extent?

Kailash R Lalpuria: Yes, that is what we expect because now the rupee is ranging between 69 to 70 and 70.50 a dollar and it has gone to the level of 71 as well, which we all observe, so we are keeping our fingers crossed that there should not be more volatility, it should be range bound to what it traditionally used to be like depreciate by around 4% to 5% annually.

Saurabh Patwa: So, we had taken a call in last year to have it more than 100%?

Kailash R Lalpuria: Yes, around 18 months order position, because you see when the rupee was 66 around March 2017, it went down to ~ 63.50 in August 2017, and we had to protect our costing, so we took that call, like all the peers everyone in the trade we all had to take up a position because we did not want to lose out on the competition front and on the business front.

Saurabh Patwa: Thanks for that explanation and all the best.

Moderator: Thank you Sir. As there are no further questions from the participants, I now hand the conference back to the management for closing comments. Sir over to you!

Kailash R Lalpuria: At Indo Count, we are expanding our footprint to newer geographies and penetrating deeper within existing ones. Our focus going forward continues towards increasing utilization levels and increasing the share of value-added business in our revenues. We believe our approach to doing



Indo Count Industries Limited
August 09, 2019

business and strong relationship with clients will help us to maintain an edge in the global markets. Thank you very much.

Moderator:

Thank you very much, Sir. Ladies and gentlemen, on behalf of Indo Count Industries that concludes this conference call. Thank you for joining us. You may now disconnect your lines.