



“Indo Count Industries Limited
Q4 & FY21 Earnings Conference Call”

May 18, 2021

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MANAGEMENT:

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**MR. K. MURALIDHARAN – CHIEF FINANCIAL OFFICER -
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Moderator:

Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q4 FY21 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 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. Mohit Jain, Executive Vice Chairman of Indo Count Industries Limited. Thank you and over to you Mr. Jain!

Mohit Jain:

Thank you. Good afternoon and a very warm welcome to all of you to Indo Count Industries Q4 and FY21 Earnings Call. I hope you and your families are keeping safe and healthy. I have with me Mr. K.R. Lalpuria, Executive Director and CEO; Mr. Muralidharan, our CFO and Strategic Growth Advisors, our Investor Relation Advisors.

The world is still battling the COVID-19 pandemic most countries are in the middle of the second wave with rising cases each day; however, vaccine rollouts should play a major role in the next round of economic recovery and upheaving business confidence. In these challenging times, I am happy to share that our team relentlessly worked with a focus of serving our new customers which resulted in highest ever sales volume and revenue in FY21.

The end markets have been supportive leading to a record growth in FY21. However, it is important to note that large part of this growth has been on the back of a lot of efforts by the team that have been sown over the past two to three years in terms of creating new products to gain market share.

Our focus on offering an integrated bedding solution with innovation and keeping customer preferences of the future in mind has resonated well with all our buyers. Having entered the largest sub-segment of fashion, utility, and institutional bedding in 2016, we have continued to make all-around efforts in terms of innovation, service, delivery and capacity to grow our brand equity in these segments. I am happy to share that these segments today contribute 15% of our revenue.

In 2021, our main market, the United States showed strength with all-time high retail sales, adoption of omni-channel distribution, consolidation towards big box retailers increasing importance of health, hygiene and wellness products along with, most



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importantly, home becoming a center stage, have all contributed to the rising trend. We believe India's edge in the global Home Textile market has led to India becoming a preferred trade partner as the China Plus One strategy plays out.

We have continued to focus on growing our branded and domestic businesses. For FY21, branded business stood at 10% of sales, domestic business at 1%, and e-commerce at 4%. We are embarking on increasing the contribution of these value-added segments and have accordingly set our target for FY23. Our domestic business, we are targeting to reach 3% of sales and e-commerce, to reach 8% in the next two years.

Our focus continues to remain on increasing service levels and communication with our buyers to understand the evolving needs and create products of the future to stay ahead of the curve. At Indo Count, we have evolved from being capable by leveraging our knowledge capital, to being adaptable by defining capabilities with strong foundation, to being reliable by building a trusted corporate house.

Now I would like to handover the call to Mr. Lalpuria to share the business performance.

K.R. Lalpuria:

Good afternoon everybody. Thanks, Mohit. I am happy to announce that we have been able to achieve volume guidance of over 75 million meters. FY21 volumes stood at 78.17 million meters. For FY22 we expect volumes to be in the range of 85 to 90 million meters.

Capex: In order to address the growing demand, during the quarter, we announced expansion of our bed linen capacity by 20% from the existing capacity of 90 million meters. We propose to scale up to 108 million meters by debottlenecking and balancing facilities.

This, along with the Brownfield investments for adding commensurate cut & sew facilities and for enhancing the capacity for Top of the Bed products would entail a capex of Rs.150 Crores.

We are also modernizing our spinning units with compact modern technology. This would entail a capex of Rs.50 Crores.

These investments are expected to increase the revenue by Rs.600 Crores over the next two years post commissioning.



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At Indo Count, we have delivered growth in a challenging environment on the back of flexible balance sheet, continuous research and innovation, presence in health, hygiene and wellness products, consistent focus on value-added segment of fashion, utility and institutional bedding and also a quick adaptations to market trends.

In order to create a strong B2C and D2C foothold, we have established offices and design studios in key cities of the world to understand customer preferences and create products for the future. Accordingly, we have entered various brands through launch of 'Wholistic', a health and hygiene brand, 'Sleep RX', which is a performance brand, 'Pure Earth' on the sustainability side, a brand well recognized, 'Boutique Living', mid-market aspirational brand in the domestic market and this year, we had launched 'Layers', a value driven mass brand.

We are now focusing on creating more visibility through digital marketing channels. We are trying to create a pan India distribution network to MBOs and LFS formats. In today's world's e-commerce omni channel and B2C have become important channels of distribution, globally. Due to this additional channel of distribution, a wider section of people in Tier 2 and Tier 3 cities have also got an opportunity to buy products, both offline and online.

As a company, we have taken the right steps towards adapting to the new avenues of sales according to the changing customer ecosystems. Our performance during the period has provided us with a renewed confidence in exploiting this new channel of distribution and grow further. We believe there is a huge opportunity for a quality brand and product in the Indian market and are confident of creating strong brand recognition for our domestic branded business.

On the ESG side, Indo Count we will continue to remain ESG focused organization with well-defined principles, roadmaps and targets. We are enabling a sustainable approach in all our operations, be it sourcing of raw materials, manufacturing, supply chain and waste recycling. The company has taken various initiatives across ESG segment as detailed in our investor presentation.

Let me now share with you our operational and financial performance.

FY21 volumes stood at 78.17 million meters as compared to 61.8 million meters in FY20, a growth of 26%. Q4 FY21 sales volume stood at 21.65 million metres.. Our order book continues to remain healthy. We are optimistic and expect volumes for FY22 to be in the range of 85 to 90 million meters.



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Total income clocked Rs.705 Crores in Q4 FY21 versus Rs.425 Crores in Q4 FY20 a growth of 66% on YoY basis. For Q421, we have not considered RoDTEP benefits in revenue as the rates have not been notified by the government so far.

Our revenues are Rs.2557 Crores in FY21 versus Rs.2135 Crores in FY20 a growth of 20% YoY.

EBITDA recorded Rs.106 Crores in Q4 FY21 versus 35 Crores in Q4 FY20, a growth of 200% on a YoY basis. EBITDA margin stood at 15% in Q4 FY21 versus 8.3% in Q4 FY20, an increase of 671 BPS on a YoY basis.

Our total EBITDA stood at Rs.415 Crores in FY21 versus Rs.238 Crores for FY20, a growth of 74% on a YoY basis. EBITDA margins were at 16.2% for the full financial year FY21 versus 11.1% for FY20, an increase of 507 BPS on a YoY basis.

PAT of Rs.58 Crores in Q4 FY21 versus Rs.8 Crores in Q4 FY20 showed a growth of 600% on a YoY basis. The PAT margin stood at 8.2% in Q4 FY21 versus 1.9% for Q4 FY20, an increase of 625 BPS on a YoY basis.

The total PAT stood at Rs.249 Crores in FY21 versus Rs.73 Crores for FY2020 a growth of 241% on a YoY basis. The PAT margin stood at 9.7% in FY21 versus 3.4% for FY20 an increase of 632 BPS on a YoY basis.

On the dividend front, the Board of Directors has recommended a final dividend of Rs.1.50 per equity share subject to approval of the shareholders at the ensuing AGM. The face value of our share is Rs.2 which please be noted.

Net debt as on March 31, 2021 total net debt stood at Rs.263 Crores implying a net debt to equity of 0.20x. The working capital days have increased primarily on account of increasing debtors due to extension of delivery schedules on account of logistical challenges faced in end February and March. We expect this to normalize in Q1. For FY21 our ROE is at 19.4% while our ROCE at 24%.

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

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tarang from Old Bridge Capital. Please go ahead.



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Tarang:

Good morning. Congratulations for a very strong set of numbers especially in H2 and having beaten your guidance. Just a couple of questions; one so how the 85 to 90 million meters guidance that you have given what is the source of the confidence to achieve this, and the second question is that if I were to do a like-to-like Q4 versus Q3 revenue in the sense that it is the RoDTEP rates which you have eliminated in Q4 but if I were to do a like-to-like what would have been a like-to-like revenue without RoDTEP for Q3? That is the second question. The third question about Rs 50 Crores for the compact spinning capacity. If you could just explain what the benefits are qualitatively of this and how will it help you in terms of profitability.

K.R. Lalpuria:

Thank you for your questions. First of all, I would answer on the guidance. We have a strong momentum and acceleration on the order book position and our order book position is quite healthy as of now for the next two quarters and that made us provide you the reason that the guidance is 85 to 90 million meters. We have capacity. We are debottlenecking the capacity as well as we move forward, which will be coming into play by Q4 FY22. So, we will be able to serve the customers very well and the US market in particular is doing quite well. As you can see the retail sales in US are growing almost 7% to 8%. The vaccination drive is also trying to bring in confidence among their consumers. So, we strongly feel that we should be doing good volumes as we have added up some new product categories and some new customers going forward. So that explains about the guidance part.

The second is the RoDTEP. The rates have not been notified yet by the government and for that reason we have not accounted that in Q4. If it would have happened that the government would have notified it then we could have added up another 45 Crores to our revenue. So, in this year probably whenever the government decides this rate as we are mentioning that in our shipping bill and the government has also mentioned that it will provide us with RoDTEP on a continuing basis. We feel that whatever duty credits which will accrue this year will be accounted for and we will report that whenever it gets notified. So that answers your second question.

The third question on the spinning front. As our spinning captive consumption which we would like to increase with compact spinning and modernized spinning, we would like to see that we make yarn which is usable in our Home Textile facilities. So that is the reason we are modernizing the spinning to see that we can provide more quality yarn to our Home Textile division and gain advantage as we were selling this yarn ; because the old spinning mill was established almost 30 years back and at that time we did not have our Home Textile division. So, this will bring in our value addition because we



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will save money on the yarn which we would captively use from our spinning division in the Home Textile division.

Tarang: Will that then supply a good part of your existing capacity also? The fact that you will be deploying compact spinning, you will be making it as a compact spinning mill, will therefore all the yarn that is coming out of there, will that completely flow into the Home Textile value added segment.

K.R. Lalpuria: Not completely, some part of it, because we are modernizing only a part of it.

Tarang: Thank you Sir.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.

Praveen Sahay: Thank you for taking my question. Many congratulations a very strong set of numbers and getting the guidance as well. My question is related to the inventory and the debtor's number. So that has increased, both the things have increased and there is a reason for some logistical issue. Can you elaborate more on that why the debtor number has increased, what were the challenges in the logistical front you had faced and secondly has that normalized now?

K.R. Lalpuria: See what has happened like due to logistical challenges the orders were bunched, and they got extended a little bit from end February towards mid of March and as we provide some terms to the customers, the realization would happen in the current year. So, this will normalize going forward which we will report in Q1FY22.

Praveen Sahay: Just more on that Sir. What exactly the logistical issue? It is a lockdown issue for internal lockdown, domestic lockdown or it is something else?

K.R. Lalpuria: No, it is the logistical challenge not getting containers, freight, movement of trucks, etc., and the frequency of the ships also got delayed at the end of this year due to the Suez Canal issue.

Praveen Sahay: Yes, that is the six days of a lockdown because of the Suez Canal. So that because of our debtor numbers has increased and now you are seeing normalization in that?

K.R. Lalpuria: Yes, this quarter it will normalize.



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Praveen Sahay: Similarly for the inventory as well because inventory also we had observed that some 10 days increase. So that is also because of that only?

K.R. Lalpuria: No. The business is growing, and we have added revenue this year so in absolute numbers there was an incremental inventory lying. Secondly, because of so many uncertainties in the market, lockdowns, restriction of interstate movement of goods, the availability of containers, the frequency of the ships arriving from different places so all these factors considered what we have done is, we have built in a buffer stock in order to serve our customer better for the standardized quality, and that is the reason since we have adequate capital with the company in order to serve the customer better, to keep the supply chain intact and help us deliver the customer on time. So, all these reasons go towards building up the inventory for the standardized product because not only in Maharashtra, but there are also issues in other states where we source materials from. So, we have to be building the inventory levels to a reasonable parameter where we can serve our customers much better going forward.

Praveen Sahay: Sir second question is as you had mentioned about the new product and the new client can you give any sense on contribution for those new product or new clients in last nine month or a quarter?

K.R. Lalpuria: As we have been saying that we have ventured into the fashion utility and institutional bedding, and we are able to attract the brands and the retailers to acknowledge our product and buy from us and we have built in a strong image in the marketplace as well as the backup in India. So, we are able to design some new products and sell in the marketplace. We have also launched a couple of sustainable and performance brands which have found very good acceptance in the health, hygiene and wellness category. So those are the new products like antibacterial, antiviral as well as some other organic products we have launched to keep up the sustainability flag flying, which have found good acceptance in the market as people are becoming more and more aware about the climatic change and the sustainability. So those are the new products which we have added. We have also launched 'Layers' this year in which we have addressed the mass merchant requirement in the domestic Indian market. So, this is also a good product launch which we have achieved in our product portfolio. Going forward, we see that there is a good market on to sustainable fiber and various other products in organic and BCI cotton which we will latch up onto. Our core competence, being innovation and product development, which is providing that competitive edge to promote newer products. As far as new customers are concerned, yes we always add on new customers and new countries and as you know we are exporting to almost 54 countries; so we keep



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on adding some new customers going forward and that is why you are seeing the growth.

Praveen Sahay: Thank you for answering my questions. All the best Sir.

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

Bhavin Chheda: Congrats Mr. Lalpuria Ji and management team for excellent numbers overall and buoyancy in overall company and Home Textile market. Sir few questions on your capex is Rs200 Crores will entirely be spent in FY2022 itself or is it in a phased manner how is the capex scheduled?

K.R. Lalpuria: As I mentioned we will try to spend during this year only because we need capacity and the modernization of the spinning will help our Home Textile division and also we need once we increase our capacities on the processing side we need to commensurate it with the cut and sew facilities as well. So, it will be our endeavor to invest the Rs 200 Crores during this FY2022 only.

Bhavin Chheda: Is it adding any spinning capacity, or it is just modernization?

K.R. Lalpuria: Modernization.

Bhavin Chheda: What is the spinning capacity right now with you?

K.R. Lalpuria: We have around 60000. We will add up a few thousand more spindles to end up with around 70000 spindles.

Bhavin Chheda: What is the geographical mix of sales like US is how much, Europe is how much, and India is how much?

K.R. Lalpuria: Currently, we are at 75% to the US and 15% to EU and 10% to UK and other Rest of the World countries.

Bhavin Chheda: What is your expectation in RoDTEP rate since that was a very large number at almost like 10.5% earlier we have not provided this number now. So, what is the industry body represented into government and any update on same?

K.R. Lalpuria: See the RoDTEP is basically the refund of taxes, levies and duties which the Pillai Committee earlier decided upon the rate by taking into consideration all non-GST



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refunds and they had recommended to the Ministry that this rate has to be provided to the textile industry so that we do not end up exporting taxes. Our council has represented that the same rate should be carried forward because the taxes have not reduced so far. So, we hope that the government will recognize this fact and will provide appropriate rates in the coming year, and we are very hopeful and are pursuing with the ministry to provide similar rates which existed earlier because the rates have not gone down, but we will await the government notification for the new rates.

Bhavin Chheda: What is the current status? Are your factories operating at full capacity at reduced capacity due to various lockdown measures of state government if you can update on this thing?

K.R. Lalpuria: Yes, the District Collector has recently in Kolhapur issued a guideline where they had asked us to lockdown for 8 days only so we are following those guidelines because we are very much concerned about the safety of all our workers and employees. So we are following this guideline but we have duly reported to the Stock Exchange that there will not be any material concerns on our business and because we have built a supply chain in such a way that to absorb such uncertainties going forward we will be able to serve our customers and maintain similar revenues as what you have seen in the previous nine months as you can recognize the fact that the first quarter was a washout and in spite of that we were able to maintain the supply chain and deliver to our customers with a volume and revenue growth of 26% on standalone basis.

Bhavin Chheda: Thank you and best of luck.

Moderator: Thank you. The next question is from the nine of Aman Sonthalia from AK securities. Please go ahead.

Aman Sonthalia: My question is that Sir recently the industry has shown a lot of price increase so whether we got that price increase from our customers, or it will be gradually we will receive from the customers?

K.R. Lalpuria: See we have long-term relationship with the customers, and we have joint business plan; whereas, they have the retail platform, on which we are able to supply the material and that reaches to the end consumer. So we both are on the same boat; they do understand whenever there is an adverse situation they negotiate prices with us but they do pass on because it is a two-way treaty. Secondly in the past also we have handled such situations and we should be able to handle such situation going forward also because we do understand that cotton being a commodity there will be ups and downs which we need



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to manage and with our product portfolio we have been able to offer the competitive advantage to our customers; so they have agreed to some of our price challenges and have given us the necessary support.

Aman Sonthalia: Sir second question is how much of our total requirement of yarn is from our captive, we are producing captively?

K.R. Lalpuria: See we are producing almost 25% to 30% of yarn in-house and the rest we source outside. India has got a very big capacity of spindalage plus cotton is available in abundance, so we feel there is a good supply of cotton yarn in India as India exports a good quality cotton yarn to many of the European countries and Japan as the quality is also appropriate. So, we feel that there is a good supply system recognized by everybody in the textile trade that yarn is available in very good quality and at competitive prices in the Indian market.

Aman Sonthalia: Sir after this expansion and modernization of the spinning mill and the percentage of the captive production will remain same around 25%?

K.R. Lalpuria: Yes, it will be to some extent, it will go up of course by another 5%, 7%, but we have flexibility which is a large tool as we are using many specialized yarns as well.

Aman Sonthalia: Thanks a lot.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Sir my question again is on your guidance. So just for clarification you did mention before the increasing yarn prices would be passed on to customers. with the volume that we are guiding will we be able to and the customer would be receptive for that?

K.R. Lalpuria: The Customer is already receptive, and we also need to see that what value addition we provide. whenever there is a raw material increase, we have to look for avenues how we are able to add value to our product and give the customer in their market an edge to sell, we have to improve our operating efficiency, we have to see that now what product mix we sell, we need to see how we can realize more or add value, or we look for other distribution channels. So, these are all the permutations and combinations as a company we need to look for and we have to see that we just cannot go back that the price has gone up and you just provide us because in their market also they have the similar challenges, but we have to scale up to the occasion and manage it. We have to hedge our



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raw material properly and see that how we can provide long-term relationship to our supply chain.

Lokesh Manik: Apart from yarn prices they would also be flexible in terms of other variable costs like logistics cost has suddenly goes up what we have witnessed in the last year. So, they understand that?

K.R. Lalpuria: The water finds its own level in the market. The market forces always will be volatile but then they also know that they have to exist and we also know we have to exist. So, it is two way.

Lokesh Manik: Why do you see average margins for the company given that it has been quite volatile in the past few years or since almost six, seven years on an average where do you see that settling down to?

K.R. Lalpuria: See, we had given margin guidance on last concall, of 15% to 17% and we would like to maintain it.

Lokesh Manik: Other businesses in terms of your e-commerce and the new opportunities that you are tracking which fashion utility all these things combined if I am not mistaken would be 30% of their business, am I correct on that Sir?

K.R. Lalpuria: We have said, we are sitting on the larger base so if you see our base has moved up and our percentage is also maintained so we have grown that. . But we want to tread along well with all our customers because it is design-oriented, it is a specialized item. we need to build up a proper backup with skill sets etc. So, all this needs to be done and so there is a learning curve which we have travelled so far; I think as the China Plus One strategy moves to India's favor we should do well in this category in the long-term like three to five years.

Lokesh Manik: Any update on the India, EU FTA which is supposed to be beneficial and can be a growth driver for us or entry into EU?

K.R. Lalpuria: Yes of course once the EU FTA comes into play the whole market will open up. We are at 9.6% tariff that of Pakistan and Bangladesh to 0. I would like to also ask Mohit to just provide you some more information on the growth and the outlook.

Mohit Jain: Mukesh just quickly you asked a question, just want to make sure that you get it correctly, are those four categories add up to 30% of business, that is not really, I mean,



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what we have given is the breakup of how much we have done category wise but some of that might be interchangeable that will not become 15% but some of it is interchangeable let us say there is a branded business which is 10% and some of that would be in e-com also so you cannot just do a plain math and just add it to 30 just to clarify that point. Just to reiterate of what KK said that if you look at the US market, India today, as at end of March, has a 59% market share in bed linen which is substantial I mean for the Home Textile business and 43% on the towel side. There is no reason that we as a country and then as Indo Count and other players would not benefit as FTAs from Europe and the UK get into play. but we are not basing any of our plans for that to happen; as and when that happens of course we will be ready for that.

Lokesh Manik: Any vision for the company in terms of how do you see your non-bed sheet products or value add like fashion, utility and institutional segments as a percentage of topline say going five years down the line to what they are today?

Mohit Jain: For us we are a very focused company on the home side of the business Home Textile and within Home Textile on the bedding side of the business that is where all our growth is going to come from so as we grow our core business which is predominantly sheet sets; we will see, substantial growth coming from fashion bedding, utility bedding as well as institutional that is why as we augment our capacity of dyeing and finishing from 90 to 108 mn. Metres, we are also augmenting our filled product capacity which is on the fashion and the utility side. As we speak about our branded business, e-commerce, all of these last year we have grown double, I mean 100% in these businesses; of course, would it remain 100% for each year to come, the answer is no, but I think let us say this year our ecom business would also grow by more than 50%.

Lokesh Manik: But are you targeting any percentage of sales as a topline for the next five years from these businesses?

Mohit Jain: We have not set forth an exact percentage but I would say that each one of these would be substantial; also endeavor is as we grow our business to see that a fair chunk of our business goes from a B2B model to a B2C and a D2C model which is a journey that we have to go through; we have to tread carefully but that is the journey that we have entailed for the company that how do we start selling more under our own brands whether it is a B2C or direct to consumer.

K.R. Lalpuria: Overall, we have also given you in our earlier concall that in the next four, five years we would like to double our revenues from here so that is what the reason is.



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- Lokesh Manik:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.
- Ronak Vora:** That is a good set of numbers. How do you see your EBITDA margins stabilizing in the long run?
- K.R. Lalpuria:** We have already given margin guidance for 15% to 17% as of now.
- Ronak Vora:** is that including duty or excluding the new tariff that would be given by the government?
- K.R. Lalpuria:** Excluding.
- Ronak Vora:** Thank you.
- Moderator:** Thank you. The next question is from the line of Sajal Gupta from FE Securities. Please go ahead.
- Sajal Gupta:** Congratulations for a good set of numbers. My question is the kind of percentage growth you people are showing right now. When can we see the organization aspiring turnover of \$1 billion revenue? can this be achieved in next four, five years?
- K.R. Lalpuria:** As we move forward see we are taking right steps in the right direction and we have been duly recognized by our customers and what we have recognized the fact earlier and which we have mentioned also that we were catering to US\$ 4 billion sheet sets at market value earlier; we added up around \$10 billion target market when we added up fashion, utility and institutional bedding in which India was having earlier only 7% market share. China was dominant there and China is losing ground not only in sheet sets but all these categories. So, there is a big opportunity out there because there are only few countries like in Asia which are supplying textiles to the world 85% of textile is supplied by these five countries. Now Bangladesh and Vietnam are labor arbitrage. Pakistan as we know has got limited cotton and they are into short staple basically towels and linen. Whereas India has got a versatile supply chain of short staple, medium staple as well as long staple and India also has an established spinning segment. So I think there is a big opportunity out there and India is well positioned as well as the companies, our peer group ourselves we are all well positioned because we have performed in the last two, three decades and have served brands and retailers



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worldwide; so the recognition, the performance and the opportunity all are there and that is why we have mentioned in our investor deck, that from capability we have adapted to the situation where because the pandemic has shown in some new consumer behavior which we have adapted as an organization and now we have proven our reliability that even we can absorb 26% and sweat our capacity and in spite of all these challenges in the environment we have delivered to our customers as best we can. We have capital adequacy. We have the desired knowledge and expertise for making textiles. So, I think the opportunity exists for Indian companies to accomplish so I think we can become and we would become a billion-dollar company in the times to come both organically or inorganically we are taking the opportunities as it is coming and as we mentioned we have entered the next orbit of growth as a company.

Sajal Gupta: So, it would be safe to assume that next five years we should be reaching this target of \$1 billion I am correct?

K.R. Lalpuria: I cannot quantify. I had already given that we will make 2x and I mentioned that may your words come true.

Sajal Gupta: Sir another question is what is your thought on the dividend payout policy as right now you have given us around approximately 10% dividend payout is there?

K.R. Lalpuria: I think it is 12%.

Sajal Gupta: But as a company do you have any dividend payout policy which you have in mind.

K.R. Lalpuria: See so far the Board decides on recommending the dividend payout and the dividend percentage looking at the situation what, as a company we have done is, we are building buffer of resources so that we can do growth, we can serve the customers better, we can absorb technology, we can invest into digitalization, we can invest into supply chain, we can invest into brands and licenses and we can invest into talent and other things. So all these areas, we need to take care and move ahead. We are a global company and we are having global impact so we need to watch that very carefully as an organization and sustain all of this so that is the reason the board takes into consideration all these factors into deciding the dividend, but as a company we have always been a dividend paying company and we believe that we should give back to our shareholders all the time which we will do in the future as well.

Sajal Gupta: I am asking you this question because most of the companies today have a dividend payout policy of 20% of the profits or 25% of the policies all the good companies and



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with our company right now it is just around 12% so do we see this percentage going up in coming years?

K.R. Lalpuria: Of course, as I say the intention is there and we have very positive attitude towards this that we should reward all our shareholders from time-to-time but we are building a company as you said in order to build a \$1 billion company we need resources so we need to look at each of these factors to see that how we grow.

Sajal Gupta: Thank you Sir and all the good luck to everyone.

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

Prerna Jhunjunwala: Thank you. Congratulations Sir on strong set of numbers. Sir I wanted to understand the opportunity when Europe has reviewing with GST plus status to Pakistan what is the kind of opportunity that we are looking at and how do we stand and in terms of competitive advantage when that happens?

K.R. Lalpuria: As you all know that the European Parliament has mentioned about issues in Pakistan over human rights and so they have recommended that why we should provide GSP plus preference to Pakistan where they enjoy lower duty. This we are pursuing strongly with our government to see when they sign up our FTA with them at least we will come to a level playing field. Now EU as we all know is a very big consumer of Home Textiles equal to the US market. We have not been able to capture that market because of this duty difference between us and the other textile producing countries like Bangladesh and Pakistan. Also, we are facing one more issue on the higher taxes and duty on the MMF side. We are expensive as a country by almost 30% in MMF. If the government rationalizes and reduces duties towards this supply, we will become competitive in polyester as well as polyester blended fiber, polyester blended cotton products in this marketplace. So I think once we sign FTA there will be a huge market opening up for our products and we will be able to grow our market base out there; also it will neutralize our entire focus on the US market and this will give an opportunity to many Indian companies as well as opportunity to grow business in many product categories over there; so I think this will be a big opening of opportunity for companies like us and all the Home Textile supplying companies.

Prerna Jhunjunwala: Even if FTA is not signed and only GSP is removed then also do we come at the level playing field?



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K.R. Lalpuria: Yes of course because once the duty is removed but this is only with Pakistan. The difference is not with Bangladesh. Bangladesh will still enjoy so that is why I am saying if FTA is signed then we will be at level playing field.

Prerna Jhunjhunwala: But Bangladesh does not have a huge Home Textiles exposure I am just trying to understand from your company's perspective?

K.R. Lalpuria: It is at the lower end at opening price point, and it has got processing capacities where it prints very well and it supplies to the UK market in a big way as well as to European countries; so they are recognized as a supplier of Home Textiles, though some of the products.

Prerna Jhunjhunwala: Sir in this COVID times the last one year that we have gained huge market share in the US market can we bifurcate how the demand has been in the low-price segment, mid-price segment and high-end products whether it has been driven by some particular segments and the other segments can catch up which can drive the demand further with reopening or gaming jobs, etc. So, some color on the US market from that perspective will also help?

K.R. Lalpuria: As we have mentioned the health, hygiene and wellness sector has grown during the pandemic over there and there is a lot of awareness about what products to use, So the consumer behavior has stepped up their value addition on products which are intimate to their skin and bed linen is used on beds where person sleeps for eight hours and he uses them every day; so the consumption of bed sheets and the awareness of using much more hygienic bed sheet has gone up. So, we feel that going forward there will be value addition segments which will increase in time to come, as people are also focusing on the sustainability drive. They are recognizing more sustainable products to absorb and use; so we feel that the segment in which we are there will be definitely value addition. The lower segment also has moved up because of the affordability issue as many of the people had lost jobs; so the affordability also has been a prime reason for moving the lower segment as well because whenever a category moves up in consumption they are all three segments whether it is lower or mid or high but what we have also seen that the e-commerce has given the brand and the license is also a recognition so that segment is also moving up, which will give us a competitive edge to supply as well as to sustain and grow our business to the value added products.

Prerna Jhunjhunwala: Sir how much was the export incentive booked in FY2021 in FY2020 it was around Rs168 Crores.



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- K.R. Lalpuria:** I will tell you the figure offline, Prerna.
- Prerna Jhunjhunwala:** No problem and Sir employee cost on a Q-o-Q 12 basis has seen a substantial increase why would that happen?
- Muralidharan:** Basically, one is that in the last quarter we had our annual review so we had increments for the staff and the workers. y. So partial increase is coming due to the normal reviews, based on their performance, we normally check the performance review the performance from January to December so this quarter we have given the performance benefits. The second is also the management's some commission payments to the Executive Directors based on the performance. This is recommended by the Board that the performance has been good .so they should be rewarded; so in this quarter there are provisions for that.
- Prerna Jhunjhunwala:** So, which means at current capacity around Rs50 Crores of employee cost is sustainable?
- Muralidharan:** I think yes, your assumption is right.
- Prerna Jhunjhunwala:** Sir my next question is also on the job work expenses, job work expenses have increased in the industry due to the increasing the yarn prices and difficulty in operations due to COVID time; how is the possibility of sharing with the customers; how acceptable they are on job work charges, or it has to be managed by us only?
- K.R. Lalpuria:** The job work charges you see they vary as per the product mix Prerna. So, they have to be seen collectively for the full year and if you look at our gross margin you will see that we have been able to maintain and in fact better it. So collectively you should see the overall raw material cost in totality.
- Moderator:** Thank you. May I request Ms. Jhunjhunwala to please rejoin with queue, we have participants waiting for the turn?
- Prerna Jhunjhunwala:** Sure, no problem.
- Moderator:** Thank you. The next question is from the Kapil Jagesia from Edelweiss. Please go ahead.
- Kapil Jagesia:** I have two set of questions. Firstly, if we see the overall revenue growth that is around 66% whereas the volume growth is around 68% so would there be a realization decline of 2% or so is my understanding correct?



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- K.R. Lalpuria:** No. if you compare our standalone numbers which is our core business to the volume increase, they are equivalent like 26% to 26%. Only to some extent like we have one of the subsidiary, Pranav Aditya which temporarily stopped its operations, so that revenue of around Rs60 Crores we missed out and there was higher captive consumption of yarn so we lost revenue there too that all added up to on the consolidated basis; whereas on the standalone basis you will see that our revenue as well as the volume they match up to about 26%.
- Kapil Jagesia:** Thank you for that. My next question is your e-commerce contribution has increased quite a lot now it is around 4% of sales and you are targeting around 8% of sales so the margin growth or the margin addition from this segment would be how much higher to the overall as compared to the other segments?
- K.R. Lalpuria:** See we have laid down the backend and we are just like growing up on a smaller number; so we will be able to provide you much better guidance on our next concall as we grow in this business because what has happened is the pandemic has provided us this opportunity wherein we have grown this number substantially by 100% but that is on a smaller base; but we expect this business to grow in the future and we will provide you guidance on the same as well going forward.
- Kapil Jagesia:** There is an outlook on cotton prices like when do you see the cotton prices being on a downward trend like right now it is on the upward trend only?
- K.R. Lalpuria:** The cotton crop has been good in India. We are waiting now for the monsoon to pan out and the sowing will get started; so depending upon the sowing and the monsoon. we will get to know how the crop in India will be; and we will be able to give you a much better insight on our next concall. Having said that the cotton prices has remained below 45000 a candy and whatever surplus cotton was there the Cotton Corporation of India has brought in order to maintain the supply chain in India. India has also exported to some of the country's cotton so India is still a surplus country with cotton and I think prices should remain in the same range.
- Kapil Jagesia:** Thank you for all the questions Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Sunil Agrawal from Caring Capital. Please go ahead.
- Sunil Agrawal:** Congratulations Sir on good set of numbers. I have some very specific questions on your trade debtors basically you have given a reason that the trade debtors is mainly



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increased due to your logistics issues and all that right. So, what is the exact number if the logistics issues were not there what was the exact number that the trade debtors has increased Sir for this logistics issue?

K.R. Lalpuria: Around Rs150 Crores. So even if we take out this Rs250 Crores.

Sunil Agrawal: So even if we take out this Rs150 Crores.

K.R. Lalpuria: 250.

Sunil Agrawal: Yes, 250, not 150.

K.R. Lalpuria: Yes.

Sunil Agrawal: Everything will be realized in the next quarter right the coming quarter?

K.R. Lalpuria: As we speak it is already being done.

Sunil Agrawal: There are no claims from the customer and anything on this or any dispute that is happening?

Mohit Jain: No, nothing and all our shipments are insured by ECGC; so there is no concern at all and this is the regular course of business; it just happened to be so in a particular period.

Sunil Agrawal: Understood and I am from the same apparel business, so I am aware of these things. Second question is regarding.

Mohit Jain: Normally to business, because otherwise we lose our capital.

Sunil Agrawal: Absolutely. Sir another question is on the FTA side like you mentioned that you have competition maybe a little bit from Bangladesh and Pakistan so you have never thought of shifting any, not shifting maybe when you are expanding to put any manufacturing base in Bangladesh because there are a lot of advantages as far as our garment sectors and textile sector goes like labor; there is no GST to Europe so you have never put it on the board that you want to go outside India and do some manufacturing maybe your marketing everything remains in India because you are already a large base and everything just for manufacturing to go out to take that advantage of GST which will add on to your margins and everything?



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Mohit Jain:

Good question Sunil, Mohit here. So, in our business a) in the United States which is our main market the import tariff is 6.7% on the finished goods so which is a pretty low import tariff compared to apparel as well as when you import bed linen into the US it needs to be fabric forward; so you cannot put up a cutting sew facility in a country and then import it into the United States. So, the country and everything goes with where the fabric is produced. So those require very large investments. Now if you want to make those very large investments for labor arbitrage as well as saving 6.7% and India is actually growing the raw material it is we have looked at it but it does not make logical sense.

Sunil Agrawal:

No, my question is mainly if you are exporting into EU countries so you have a big advantage GST advantage you do not have to pay any duties at all if you are exporting it to Europe so my question to you is basically for EU countries because there is a big advantage just shifting the manufacturing base everything fabric everything and you get a lot of advantage otherwise also you can import fabrics from china there are new duties into Bangladesh if you are exporting it and because china is definitely as far as fabrics and other accessories and all these things grow they are much cheaper than India because we import out of India and China as well. So, my question is specifically to EU countries not to US? This is the opportunity of an idea to do that or you want to do that or not you do not want to shift your base from India that is that is my point?

K.R. Lalpuria:

From time to time we do study all these countries even Ethiopia we considered or Bahrain we considered, where there are duty advantages but that is not the only advantage which we should look into and what Mohit said see we in India are there for almost now 30 years as an industry and we have established very strong roots in India where we know the systems, the processes, the movement of the goods, the logistics part and the people etc. So, it is easier that you cannot compare all these advantages just to a commercial advantage at one time. It may happen otherwise in the future that they may be impose some duty after two years just like how it is happening to Pakistan. So just for a duty say you do not shift industries out of India to any other country just like nobody in apparel also shifted to Vietnam. So we do study all the time this different advantages of different countries who are supplying but I think India with the kind of raw material as I mentioned has a definite advantage, producing textiles and in time to come you will see that the brands and retailers will be very much comfortable in sourcing whether it is textiles or apparel or any other technical textile to source out of India because India when it grows into a 5 trillion dollar economy with kind of digitalization, with the kind of labor force it has, I think so the textile will mature into a very big industry in time to come out of India and India will become a big sourcing partner to the developed economies of the world but having said that we have not closed



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our mind in order to study this. We keep an eye on it; and over and above this if you look at our company's positioning and India's positioning as well, we are into the mid to high segment where Bangladesh and Pakistan are in the lower segment. If you look at our market share also we have been able to gather almost like 58% in the US for bed sheets and more than 40% in towels in these two decades. So, I think as a country we have a competitive advantage; we are recognized by the buyers and the retailers that we have a good supply chain and a good logistic as well as a good raw material support and plus the policies also the regulatory policies in our country just like Make in India or the Atmanirbhar Bharat or the refund on duties taxes are all inclined to provide the necessary support to textiles. So, I think with such a competitive advantage we will be able to grow our business out of our country very much not only in the near future but also long-term.

Sunil Agrawal:

Thank you so much. I got your point. Thanks a lot. All the best for the future.

Moderator:

Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I would now like to hand the conference over to the management for closing comments.

K.R. Lalpuria:

With the recent announcement on capacity expansion, we remain confident to cater to the growing demand for our products and consequently increase our market share. We would also continue to focus on increasing our penetration through B2C and D2C foray. With this, I would like 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 Advisor, our Investor Relation Advisors. Thank you.

Moderator:

Thank you. On behalf of Indo Count Industries that concludes this conference. Thank you for joining us and you and now disconnect your lines.