“Indo Count Industries Limited Q3 9M FY17 Earnings Conference Call”

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MANAGEMENT: MR. K.K. LALPURIA – EXECUTIVE DIRECTOR, INDO COUNT INDUSTRIES LIMITED

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Indo Count Industries Limited Q3 FY'17 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'm now glad to hand the conference over to Mr. K.K. Lalpuria – Executive Director of Indo Count Industries Limited. Thank you and over to you, sir.

K.K. Lalpuria: Good afternoon and a very warm welcome to everyone. Along with me I have Mr. Dilip Ghorawat – our CFO, and SGA, our Investor Relations advisor. It gives me immense pleasure to share with you that the Board of Directors has declared an interim dividend of 20% i.e. Rs. 0.40 per equity share of the face value of Rs. 2 each for the financial year 2016-17. Also, I take this opportunity to share that our Executive Chairman , Mr. Anil Kumar Jain was honored Business Today Best CEO Awards for Textiles and Apparel Sector for the year 2016. The award was presented by Hon'ble Union Minister of Law and Justice, Government of India, Shri Ravi Shankar Prasad in the presence of Mr. Aroon Purie, Editor in Chief, Business Today and Mr. Manpreet Chadha, Wave Group Vice Chairman at Business Today Best CEO Awards 2016 in New Delhi.

Now, coming to our CAPEX plan, Phase-I towards automation of cut-and-sew, warehousing and expansion of our processing capacity from 68 million meters to 90 million meters is on schedule and will be completed by March 2017. Phase- II CAPEX plan is also under progress. On the domestic front, Indo Count Retail Ventures, under the brand Boutique Living commenced domestic operations from October 2016. For our 9M FY17 performance, I would like to say that despite some challenges, our business has shown satisfactory growth, and has been in line with our expectations. Our efforts like dynamic response to market trends, long-end customer relationship, our approach of 'Customer First' and strong product portfolio has helped in building Indo Count as a global brand. As we are moving up the value chain and entering in the next phase of growth, we foresee several untapped opportunities along the way. With better acceptability of our offerings in the three new segments of Fashion, Utility and Institutional bedding, this will provide further impetus to our growth in the coming years. We are happy and feel proud for the positive response to our recently launched brands in the USA market. The company is also putting efforts towards widening its footprint world over by making strides globally to reach some of the best retailers around. Having said that, we are passionate and solely focused on bringing complete comfort and better product experience to all our clients and consumers. The expansion of the capacity will further enhance our position in the global market. We are confident that our focus on innovation, customer centricity and prudent business practices will lay the foundation for growth in the years to come. We continue to maintain strong relationship with all our customer base and in fact growing our share of business with them and adding up new clientele with the new categories which we have launched couple of years back. That is from my side. Now I would like to hand over the line to our CFO Mr. Dilip Ghorawat.

Dilip Ghorawat: Thank you, Mr. Lalpuria. A warm welcome to everyone present on the call. We have uploaded the investor presentation on BSE, NSE and company's website, and it has been circulated to all investors. Coming to the financial performance for this quarter and nine months ended FY17, Revenue - for the nine months ended Dec 2016, revenue stood at Rs 1572 crores with a growth of 2.4% compared to the same period last year, which stood at Rs 1535 crores. The Q3 FY17 revenue was Rs 503 crores as against Rs 501 crores for Q3 FY16. The EBITDA for nine months FY17 stood at Rs 329 crores as against Rs 321 crores with a growth of 2.2%. The EBITDA margin for the first nine months stood at 20.9% same as last year. The EBITDA margin for the quarter stood at 20.3%. The total comprehensive income after tax for nine months FY17 stood at Rs 179 crores as against Rs 169 crores in nine months FY16, a growth of 5.5%. The PAT margin for nine months FY17 stood at 11.4% as against 11.1% in nine months FY16. The increased bottom line translated into an EPS of 9.08 (not annualized) for the nine months FY17 as against Rs. 8.60 in the same period, on the face value of Rs. 2 per share. The company earned a cash profit for the nine months FY17 of Rs. 244 crores as against Rs. 218 crores for the same period last year. This increase was 11.7%. The steady cash accruals have been indicative of our company's inherent strengths. The company's net debt to equity as on 31st December 2016 was 0.24 as against 0.58 for the same period last year. The long-term equity as on 31st December 2016 is 0.03 as against 0.14 for the same period last year. We are also pleased to inform that long-term debt is Rs 23 crores for the buyer's credit and the working capital debt is Rs 177 crores. The interest coverage for the nine months FY 17 is 10 times as against 7.6 as compared to the last year. The return on capital employed for December 16 is 41% while return on equity for December 16 is 30%. That is from my side. Now I would like to open the floor for question-and-answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We'll take the first question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: My question is regarding the increase in the cost of raw materials sold. So if we see on a year-on-year quarterly basis, it has gone up from 50% of the total sales to 60% of the total sales. So can you please help me with the reason as to why that increase such a huge increase in the cost of materials?

K.K. Lalpuria: See, the cost of raw material consumed, quarter-on-quarter basis, in fact has reduced from 50.85% to 49.3% as we have to deduct the closing stocks also. I would be happy to announce that we have sustained the increase in the raw material costs. We have managed our business efficiently.

Dhruv Agarwal: Okay. That is because in the same quarter-on-quarter, if you see the sales, i.e. top line has reduced from Rs 576 Crores to Rs 502 Crores. So I think that has hit the EBITDA along with this increase in the cost of materials.

K.K. Lalpuria: No, we don't think so because you have to net the raw material cost and movement in stocks. The increase and decrease has to be taken into account because it's a rollover business, there will be some fabric which you keep it ready or inventory which we maintain. We replenish the stocks from time to time we have tractions and we utilize those fabrics to deliver to the customer. So you have to always take the increase and decrease of stocks into account.

Dhruv Agarwal: Okay. So is there also any increase in the raw material procurement price if any, for example, cotton which we use?

K.K. Lalpuria: As regards to cotton stocks and prices, we hedge once we get an order and we stock at least around three to four months of raw material. And that's how we got saved in spite of the increase in raw material cost of cotton. But yes, it's a matter of concern we are all watching, but we feel that we are managing our business on the raw material side in a efficient way and with the help of our customers' projection, I think we will be able to maintain control on raw material costs going forward.

Dhruv Agarwal: Okay. Sir, one add on question on the other expenditures. So as compared to last year's quarter, the other expenditure has gone from Rs 90 crores to Rs 108 crores this year, and also in the previous quarter, you did Rs 108 Crores. So will this be a continuation and the other expenditure will be around in the three figures?

K.K. Lalpuria: We either source grey fabric or we give cotton or yarn on job work to the spinners to spin yarn or make required fabric for us. In this period, the job work charges had gone up as we have outsourced some of the fabric by providing cotton or yarn to either spinner or the weaver. Also some specialized fabric weaving, which we have done for our new fashion bedding businesses, has gone up a little bit, but we would curtail the same in the time to come.

Dhruv Agarwal: Okay. And sir what is your guidance for the last quarter if I may ask that?

K.K. Lalpuria: It is on similar lines with this quarter.

Dhruv Agarwal: Okay. And the new capacity should come in the first quarter of next year?

K.K. Lalpuria: In the next year we are planning to boost our sales because as we plough the seeds for the three new categories, we feel there would be a good traction of orders in the time to come as the raw material and other things will get streamlined. The new capacity will come up next year.

Moderator: Thank you. We'll take the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Sir, just can you provide us the volume number for the quarter? The yearly guidance of 59 million to 60 million will continue to stay?

K.K. Lalpuria: We had a marginal increase in volume for 9M FY 17. We have achieved a volume of around 43.5 million meters as compared to 42 million meters y-o-y for 9 months. Accordingly we will hopefully able to achieve a marginal increase in this year as compared to last year.

Chintan Sheth: In Q4?

K.K. Lalpuria: Yes.

Chintan Sheth: Okay, sir. And you explained about the margins parts, sir. I had one question on the Phase-II of the CAPEX. You will be almost close to the Phase-I completion. Any ballpark numbers on when the Phase-II will commence and what kind of capacity we are planning over there?

K.K. Lalpuria: As we have informed earlier, we are already under expansion of our capacity from 68 million to 90 million meters in the Phase-I. Phase-I is progressing as per schedule and we would be able to complete the same by the end of this quarter. Under Phase II, as we mentioned we have identified the land which has yet to be notified in MIDC area and we have applied for Mega Project Status to Government of Maharashtra and we are waiting to be finalized. Under Phase-II, we have commenced some portion of Capex plan on the cut-and-sew and the automation of Spinning division. For the weaving part of the Phase-II, as I mentioned we have identified land for MIDC allotment and have applied for Mega Project status. On receipt of these approvals, we shall commence weaving Capex plan also. This, we would start in next Financial year FY18.

Chintan Sheth: Okay. Any capacity we have already disclosed or how much capacity we will be adding?

K.K. Lalpuria: As I mentioned capacity of processing will increase from 68 million meters p.a. to 90 million meters p.a. by end of Q4 FY 17.

Moderator: Thank you. We'll take the next question from the line of Kshitij Kaji from Edelweiss. Please go ahead.

Kshitij Kaji: Sir, my question is on the top line growth. So I think this is the third quarter that we have not grown so well. And you spoke about certain challenges that are facing currently in the industry. So can you please elaborate on what these challenges are? And going forward when do you see these challenges going away and we going back to more than a 15% growth or more than that because you had said that this is going to be a consolidation phase for you? So just wanted to understand when this phase will get over for Indo Count?

K.K. Lalpuria: We have launched these three new categories a couple of years back and we are sowing the seeds for these three new businesses now. This year we have consolidated and we have built on various activities in order to serve the business well going forward in all three categories of bed sheets i.e. fashion bedding, institutional and utility bedding. As we informed earlier due to the extended summer sale, we lost some sale and those were the challenges which we face and there were some uncertainties in the USA market. So going forward, we think it will come back to normalcy, and as we see some good numbers coming in with various retailers, we feel we would be on a track for positive growth in times to come. I am happy to inform that our fashion bedding has picked up well. We have been able to place at least three brands with new clients as well as existing clients and it is getting good response from them, which is a positive sign for us. So, we feel this will give us some growth. Also we have added some new clientele on the sheets side. So overall, we are back on track and we see some positive growth going forward.

Kshitij Kaji: Okay, sir. and this fashion bedding, institutional and all, you said it's around 10% of your revenues. So has it increased in this quarter or in this year, or is it in that range?

K.K. Lalpuria: No, it is in that same range because, when you start a new business, it takes some time to move forward. Having said that, we have been able to break through with a few customers where we have already placed some of this fashion bedding. And in our businesses, in order to build that customer base and the volume base, it takes a little bit of time to happen. So we feel confident that in time to come, we'll be able to do much better in these new categories. There is a marginal increase, but it will see a quantum growth in, say, the next two to three years.

Kshitij Kaji: Okay, sir. And my last question is on the margins. So this quarter we have seen a little fall in the margins, but the last two quarters, you have been doing well. So what is that primarily down to? Is it because of the cotton costs or is it something else? And maybe once your new capacities kick in, do you see margins going back up to 22%, 23% levels?

K.K. Lalpuria: We expect to achieve these margins going forward because we have gone into more value-added products and we have incurred some additional expenses for these new businesses, which we have put in. So those will be streamlined in the future so as to achieve the desired margins going forward.

Moderator: Thank you. We'll take the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Sir, as previous caller said that the margins have dropped this quarter and you said that the Q4 will be in similar lines with Q3. Sir, are we expecting to close the Q4 with the same margins, the dropped ones?

K.K. Lalpuria: It is almost in similar lines. We hope that margin would be in these range and in spite of certain cost going up, we have still been able to maintain it and that we would maintain it in the future.

Dimple Kotak: Okay. And sir, what is the outlook on cotton prices because they're already up at Rs 43,500 per candy and market is expecting to touch around Rs 48,000 per candy. So what is your outlook and how much inventory we have currently holding?

K.K. Lalpuria: We hedge our cotton and the raw material once we have any order in pipeline, we feel that adequate supply is there. There are some temporary phases of volatility in cotton prices, but overall, it seems to be stable even though as of now they look higher. There would be some additional cost on this front, but through innovation and other means, we would try to see that we maintain the raw material cost going forward. But overall I think the supply is meeting the demand. It's a temporary phase due to demonetization and due to some export enquiries from China and Pakistan. We feel that there is enough cotton production in India for mill use and it would stabilize in time to come.

Dimple Kotak: Okay. And sir, additional capacities will give how much of incremental revenues?

K.K. Lalpuria: See, we intend to utilize this additional capacity in the next two to three years and we expect and additional revenue of around Rs 600 crores to Rs 700 crores at peak capacity utilization with this incremental CAPEX..

Dimple Kotak: Okay, sir. Currently, sir, what has been situation after Trump's win. Sir, is it positive for the industry as a whole and you or not, sir?

K.K. Lalpuria: It's too early to speculate about Trump, particularly in the textile sector. See, first of all we are supplying a need-based product and it's a low-value product. Then in our product range, the value chain is quite large and it's very capital intensive and labor oriented. So we all have seen that in the last decade, the Asian Countries have competitively outpaced the developed nations as far as textile is concerned. And it is bound to stay because raw material is available in abundant quantity here and we have means to convert these raw materials into finished product. So we feel that in textile sector, there are no indications that there will be anything which we would get affected due to Trump’s policies. And I think its low valued product, India is having good relationship with USA and we feel that going forward it will be maintained.

Moderator: Thank you. We'll take the next question from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: One, just wanted to clarify, you indicated in the previous period that you are looking to close at 58 million to 60 million meter which was your initial guidance at the beginning of the year.

K.K. Lalpuria: Yes, we did plan and had a business plan for that, but as we mentioned that in the US, there was a extension of summer, so the retailers could not bring in winter goods and the summer goods which were lying at retailers, there were no buyers for the same because everybody had a wait and watch on to buying winter material. So the projections which we had provided were reduced and there we took a hit on the macro level which affected the overall revenue in those two quarters.

Sachin Kasera: So now for the full year FY17, we should look at more like 56 million meters to 57million meters as the volume that you would look to achieve?

K.K. Lalpuria: Yes, it should be in similar lines.

Sachin Kasera: Okay. And secondly, sir, for FY18, initially you had indicated that the existing capacity of 68 million would most likely be fully utilized in FY18. So now that this year we had a little bit of setback, do we need to scale down our FY18 aspirations also? Or you think you'll be able to make up for the loss of FY17 and still deliver 67 million to 68 million meters?

K.K. Lalpuria: See, we think that it's a temporary phase. We are all looking positively towards the next year FY 18. We have sown seeds in the three new businesses. We have added up new clients and we have a good customer-centric approach. We feel that things should streamline and the sales should pick up. So we feel positively towards consuming our current capacity to the maximum and also start to consume the additional capacities to some extent in the years to come. That, we shall be able to utilize in the next two to three years, but for 2017-18, we are very positive on going back on track.

Ashish Kacholia: This is Ashish Kacholia here. I just wanted to ask you whether we are seeing more pressure on the various bids for the various programs from newer capacities from players like Trident and all who have just come into the market? Are you seeing any impact on that kind of taking away our growth aspiration?

K.K. Lalpuria: No, not at all because you see we are an established players. We are number two in India, we have got a good customer base and we are considered as one of the innovative players in this industry. And secondly, we are very competitive as we are a focused company and we differentiate with innovation. So we don't feel pressure on that part because Trident is a new entrant and it takes around four to five years in our industry to get stabilized with customer base. And of course, some other players are also there who are doing well. Overall India is doing well, the business is growing volume wise by almost 3%. So we see that in time to come, we will have a more volume growth and value growth. So we are confident about it that there is nothing, no pressure as far as other players' entry in this business.

Moderator: Thank you. We'll take the next question from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: Sir, can you please repeat what was our volume performance for the quarter? Because if the volume numbers were 43.5 million meters by the end of nine months, that means you have grown by 10%, is it, this quarter volume wise?

K.K. Lalpuria: No, we reported 29 million meters for H1 FY 17 We had grown well in this quarter as well in keeping in line with the growth numbers which we had given. If we would not have lost the one and a half month sale, we would have easily achieved 59 million to 60 million meters as what we had indicated earlier.

Pavan Kumar: Nine month, what is the volume number, sir?

K.K. Lalpuria: It is around 43.5 million meters

Pavan Kumar: But then if you have grown by 10% in volumes, what was the reason for the revenue being flat? Is it more of a spinning unit problem or what is it exactly?

K.K. Lalpuria: Yes, you are right. Exactly in our spinning, we have started consuming more of our own yarn for captive consumption and there has been both less value and volume on the spinning side. So that has also pulled down our revenues almost by 2%.

Pavan Kumar: Okay. Have our realizations come down by any chance?

K.K. Lalpuria: More or less it is flat as the product mix also keeps on changing. So it's a dynamic situation there, but it is flat.

Pavan Kumar: Okay. And my last question regarding the other expenses increase year-on-year. Is there any kind of quantum of expenses there which is one-off in nature?

K.K. Lalpuria: Yes, it is one-off in nature. As I reported earlier like, we entered this fashion bedding business, and since we are into specialized fabric which we outsource, and secondly to some extent, some of the expenses which are made towards promotion and product development as well as other expenses which we have put in order to substantiate our businesses in these three new categories, so there has been some additional expenses one-off, which we would curtail in the future..

Pavan Kumar: Can you quantify the amount or just give us an idea of what is the one-off in other expenses, what can it be in the region of? Maybe 8 crores, 9 crores, what is the number?

K.K. Lalpuria: Yes, around that same number of around Rs 9 crores to Rs 10 crores which we have spent. We have larger showroom, the brands which we have built in, the people whom we have taken, added up, so all these expenses, which are like of capital in nature, which will pay off in the future.

Pavan Kumar: Will these expenses repeat, sir? This Rs 8 or Rs 9 crores?

K.K. Lalpuria: No. I said that it is capital in nature, say once you have invested something in the people and there would be some expenses, which will be recurring, but then the revenue also would go up proportionately.

Moderator: Thank you. We'll take the next question from Ankit Kohli, Individual Investor. Please go ahead.

Ankit Kohli: Before I move on to the business or financial question, I have a broader Investor Relation question, especially with regard to minority investors here. Do you believe that Indo Count should start providing profit warnings or revenue warnings, if you feel that the numbers may differ from what was discussed on previous calls, especially in case of profit actually declining this year and it was mentioned that the revenue loss in Q2 would come back in Q3, Q4, because of the lumpy sales. So instead of waiting till the results, does the management and the Board believe that they should start probably issuing profit warnings or revenue decline warnings as the case may be or raw material price increase warnings etc? Your views on that would be hugely appreciated.

K.K. Lalpuria: Certainly it's a good question and a good learning and as an organization, we definitely, are learning this. And we would come out with proper warning in the future as per SEBI guidelines as we grow our businesses and become a sizable corporate and we definitely would love to do that, but in our businesses, at certain times, some macro level, they get changed on quite dynamically.

Ankit Kohli: No, absolutely, so it's not to say that you are causing raw material increases or anything, in fact to assuage investors, instead of waiting till the result day, raw material rising, price rising etc are common knowledge, but for the company to come back and acknowledge and get the investor a heads-up would be a certainly good practice. So is that something that we can expect going forward next quarter onwards? It will be very good to have some kind of commitment from the management and the Board on that.

K.K. Lalpuria: Sure, but you would appreciate, like say for nine months, we have always been saying that one should always consider our business on an annual basis because we don't see quarter-to-quarter happenings much more in our businesses. And you would appreciate one more thing that on the nine months, like if you compare '15-16 to '16-17, we had an EBITDA of 20.94 last year and this year we have clocked in 20.91. So there is not much of deviation if you look at. Only thing, the revenue so far, because we all knew that we had taken a conscious effort in building the three new categories of businesses and had initiated so many other activities like the domestic brand launch, building the portfolios, hiring people around and marketing the product with new innovations and all that and plus the capacity expansion, building the backend for new businesses. So the management has been quite conscious in all these various initiatives which we had taken. At the same time, we always expect that the revenue should grow along with the margins, but you would appreciate that the raw material cost has gone up quite substantially; we have even absorbed that in our working. So of course, it is always positive….

Ankit Kohli: Understood, sir. This is not in question at all. I think it is just that a slightly more communicative approach would be…

K.K. Lalpuria: We shall look at it as per the SEBI guidelines.

Ankit Kohli: Alright, wonderful. Now coming onto just specific business related questions, one, I think a previous participant mentioned regarding the competitive intensity. If you could kind of give, more details over there in terms of the competitive intensity, not just from the Indian peers, but also from Chinese players, or for that matter, from local peers in the US and your ability to maintain pricing, and are you getting more shelf space with the retailers which you have as your clients? How is all that panning out and how are you kind of seeing that going forward?

K.K. Lalpuria: See first of all, competitively India is doing comparatively well on a macro level. India has been able to grow its business in Home Textiles segment and we are part of the Indian growth. Number one and Number two peers also have reported good numbers to some extent but they are in different categories like, say, towels, rugs etc. There is always some ups and downs, which always adds to one 's revenue or margin at point of time. We are a focused company where we have only one product to report. So that also explains about our peers. As India is growing, we are able to increase our market share both in the USA and other countries i.e. the non-USA markets. The USA markets are stable. They are positive. We are looking for more growth there. We are also growing into other markets, which are non-US markets, largely UK, Europe, Japan, Australia, South Africa, Middle East. And while we say that many anomalies still exist in the Indian textile sector. For example Canada still imposes 17% import duty,on Indian goods whereas Bangladesh, ships without duty. Pakistan and Bangladesh have zero duty against 9.6% duty for Indian Home Textiles in Europe. So while the UK still braces up for Brexit, there are new mathematics going on there on buying. So we all have to adapt to the same but yes, India has built up a formidable position in the textile sector and especially in the home textile sector. And that's the reason India, in the last five years, has been able to build almost 49% share particularly in bedding in the USA market alone. We see a positive growth in all the non-US market also going forward. As we see the oil economy improving and the other commodity economies improving, we will see better consumption in this market and accordingly the per capita consumption will move up, which will help us in turn to grow better. Lastly, you see on the fashion bedding, institutional and utility bedding side, India is at a very nascent stage. India has around 7% to 8% market share whereas China still holds around 85% of market share in USA market. India first went for developing the sheet business, which were low hanging fruit, and therefore it was able to quickly build on their market share, but now India and all the Indian Companies have been focusing on the fashion and the utility bedding where we see that in time to come the Chinese may lose some of the market share and even if there is a 10% market shift, India will stand to gain a lot. And we all in turn, Indian companies, will be doing fairly well. So we see that the market is positive for Indian goods, and since it's a need-based product, it's a young industry, especially bed linen and we'll be able to do much better.

Moderator: Thank you. We'll take the next question from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Just a couple of things. Number one, can you just tell me what was the debt level? I did not hear properly.

Dilip Ghorawat: The long-term debt was Rs.23 crores, which was buyer's credit, and the working capital was around Rs 177 crores.

HR Gala: Rs 177 crores?

K.K. Lalpuria: Yes please

HR Gala: Okay. Apart from that, we don't have any debt?

K.K. Lalpuria: Nothing. And there is also cash equivalent on the books as well.

HR Gala: How much is the cash?

Dilip Ghorawat: It is around Rs10 crores.

HR Gala: Around Rs 10 crores, okay. Now, sir, sometime back when we were discussing, we were very hopeful on this utility, fashion and institutional bedding and we were looking at about 17% of our turnover to come from that category, which you say is around 10% now. So when do you think we should be able to reach that level? Would it be possible in FY18?

K.K. Lalpuria: Yes likely because you see in our businesses we have to sustain the same for which we have initiated into these segments wherein we have pitched to the retailers. So we have sown the seed and slowly we are gaining traction. So I think we will be marginally better in FY 17 than last year. Out of six brands we have launched, we have already been able to place three brands with good retailers. So there we see a positive growth. And in FY 2018, we are hopeful and we believe that we'll have some positive growth in all these three new categories.

HR Gala: Okay. And sir, you said that we have started the domestic business from October 1. Did it add any significant amount to our revenue?

K.K. Lalpuria: Not much really because as we have earlier informed, we are building this as an aspirational brand in the Indian market, we are not looking at point of sale much to that extent. And we see that it has been accepted well wherein we have been able to launch it pan-India and we are hoping that it will get stabilized at the earliest when distributors will come back for more goods because once they place order and they sell it, and then we have to wait for market reaction, the consumers. We would see positive numbers hopefully in the coming years in the domestic area as well.

HR Gala: Apart for foreign market, domestic market also, we would have spent some money on marketing etc?

K.K. Lalpuria: Not to that extent, not much.

HR Gala: Not to that extent. So the Rs. 9 crores to Rs. 10 crores which you said sometime back will take of care of this?

K.K. Lalpuria: Yes, that's the working capital. See, in domestic market, you always have to invest into the working capital.

HR Gala: You told about hiring of the people and other things.

K.K. Lalpuria: That we have already done. Otherwise it would not have been possible for us to launch the same . We have successfully launched the product and we are getting positive feedback from all our distributors and customers and we hope that it will definitely improve going forward because it was our first launch. We have to wait and see how we have fared well.

Moderator: Thank you. We'll take the next question from the line of Nitin Agarwal from JM Financial. Please go ahead.

Ashutosh Somani: Hi, this is Ashutosh Somani from JM Financial. So, Lalpuria sir, my question to you is, are we looking to renegotiate prices for the end products, especially now that the cotton prices are up? So when is the earliest do you think the prices can be renegotiated? And when was the last time we renegotiated prices, product prices with our buyers?

K.K. Lalpuria: Basically our prices are fixed every six months, and whenever there is a deviation, which is large enough to go back to the retailers then the prices are renegotiated. This is like a revolving situation wherein the retailers also know because all the peers also would go in for a price rise, and along with them, we also would approach them. So as and when we see we are unable to meet our raw material cost, we would definitely go and negotiate, but at this situation , we are watching and waiting.

Ashutosh Somani: Okay. So sir, do we think of this decision in terms of the margins that we seek to maintain? So let's say, we are unintegrated. Maybe an integrated player based out of India may have a higher EBITDA margin, does it limit our ability to go back to the buyer as a consolidated group based out of India to renegotiate their prices?

K.K. Lalpuria: No. I don't think so, because you see there is enough capacity in India both for yarn and fabric, which is widely available and even some of the peers have started outsourcing because making in-house with such a flexibility is not feasible as there are so many variables involved and the product keeps on changing. So it's very hard to manufacture in-house. So many times it's very competitive to outsource. Compared to integration we don't see any negativity on outsourcing, but yes, to certain extent, you save some of the expenses wherein we also are attempting to modernize our spinning to save some cost on that integration part. We are increasing our weaving capacity in Phase-II so that the specialized fabric, which we would outsource, will be made in house. So some steps are being taken, but as far as the commodity is concerned, we still feel that it's always better to outsource.

Ashutosh Somani: Sure. So sir, with 15% to 20% higher cotton prices, margins on a consolidated basis at that level of 20%, when is the six months getting over in terms of renegotiating the product prices in the new order pipeline anytime soon, March - April?

K.K. Lalpuria: See, as I mentioned it's a revolving situation. It's not like, say, every end of this quarter, we renegotiate because the programs start at different time and different customers have different years and there are so many situations. So you cannot say that at this moment we would start renegotiating. We have hedged our raw material, and if you can see, that reflects in our overall raw material cost.. So we have been able to absorb the same and manage our raw material cost. Now going forward, we are waiting and watching how it unfolds and we are keeping the customers informed. They also know of this situation. So it's a global situation. Cotton has become a global commodity. So at the right time, we will approach them if need arises. It will get stabilized because the supply is there, and if you look at the cotton summary, in India, the mill use hasn't increased, the closing stock is similar to what last year. So I think the prices shall be maintained hopefully in the same fashion of last year because if you look at the yarn prices also, they haven't gone up because the consumption has fallen down. So at some point of time, the prices would stabilize in time to come.

Moderator: Thank you. We'll take the next question from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Sir, regarding volume growth, current year now, we are revising downward to 56 million to 57 million meters for this year?

K.K. Lalpuria: As I mentioned earlier, we were projecting a volume growth to around 59 million meters to 60 million meter. We would end up somewhere at around 57 million meters. So whatever volume which we had lost for that one and a half month, it's not getting a rollover of demand. So, those are the figures which we would achieve. So there is no downward trend as compared to last year.

Sunil Kothari: And sir, we are very hopeful, seems to be, for next year. So hopefully we may be doing around 64 million meters to 65 million meters next year. We want to utilize our existing capacity at optimum level and want to utilize something from new also. So this is from what, some confirmed feedback or order? Can you throw some light on how you see better year ahead?

K.K. Lalpuria: When year starts normally we plan a higher growth as compared to previous year. And we intend to, because we have put in this additional capacity and the same is always not an expansion in absolute number. It is towards some additional flexibility also because it adds on our competence to deliver new product and new innovative products as well. So some of the machineries which we have expanded provides us value addition and new means of delivering some additional products to the marketplace. We are quite confident that in the next year, we shall be able to optimize the current utilization as well as utilizing some of the new capacities because at the end of the day, we need to deliver some new products as well.

Sunil Kothari: Okay. And sir, this other expenditure, I mean, you explained really well why it is higher or compared to revenue, quarter two revenue, was Rs 576 crore. On that we spent Rs 108 crores of other expenditure. Current quarter also its similar expenditure on revenue of Rs 500 crores. So what we trying to understand is, there is some expenses which are one-time expenses. So should we expect that by March end it will normalize?

K.K. Lalpuria: Yes, to some extent, yes, because you see when you start some new products, there is always some expenses which you try to minimize and maximize in order to deliver service to our customers and they are in capital in nature. So they will get streamlined and they would provide more revenue growth in the coming year. So this is what we expect.

Moderator: Thank you. We'll take the next question from the line of Viraj Mehta from Equirus Portfolio Management. Please go ahead.

Viraj Mehta: Sir, I know you answered a participant on competitive intensity that you're seeing within India, but two questions I have. One, government recently notified another 3.7% to 3.8% incentive on made-up export. A, when does it start applying and does it mean that you will be able to increase your margins or generally you have to pass on such increase in the incentives to the end client? That's the first question. Second, sir, India as a country is now almost 55% to 60% of the overall bed linen market in US. So I mean, do you think as a country, we have reached a level which is saturation? And because of the good profits that all the producers in India made in last three years to four years, everybody is expanding capacity at the same time. If you look at yourself and two other renowned competitors of yours, everybody is expanding capacity by almost 40% to 50%. Now, what would that mean for the pricing as a country as a whole over the next couple of years because almost all of you will be commissioning your capacities at the same time?

K.K. Lalpuria: I would answer your first question. There is a notification issued by the Government of India in the official Gazette that Duty Drawback will include Refund of State Levies (ROSL). That is what has been extended to apparel but still Made-Up Sector have not been notified by the Drawback Committee on the percentages, which are going to be decided very soon may be because of the Election Commission. ROSL have not been decided yet, but we expect it to be notified after the elections in five states in completed. The expectation of ROSL is between 3.5% to 3.9%, which we do not know at this moment of time, but this would be similar in lines with the apparel. And the same would definitely add to our benefits. But you see, always these are provided in order to become more competitive and global on a level playing field with different other countries. So it will streamline our competitiveness to some extent and it will also add to our margin to some extent. So that is the answer to your first question. The second question is regarding capacity expansion. Yes, you are right to some extent that we all are expanding capacity, but that is in line with the expectation of the market to grow. It's not in isolation like by one company or two companies. So we all companies do expect that there is a market there out to be tapped . And this has to be a joint effort from the Indian companies to take over market share of China and Pakistan, which are declining at a faster pace because of their own economical, social and political reasons. So we feel that there is definitely an opportunity there. And some of the peers are working on their own captive consumption growth, some are working in other areas where they are into the premium segment or the branded segment. So it is all the business models of each of these companies has got a different altogether agenda. So we feel that there is enough growth out there. This is a young industry, which has started growing post 2010 alone, and India is well positioned, they have 49% to 50% of the market share, which I would correctas you had mentioned around 55% to 60%. It is not the correct figure. It is around 49% to 50%. And we feel that, as we have performed well, there is increased trust and confidence in an Indian supplier than in a Chinese supplier today and India stands to also gain because brand India is much more valuable than brand China. And India has always differentiated its product in the marketplace to provide the retailer a more value-addition unlike China, which provides a commodity product all the time on the basis of the price competitiveness. So we feel that the expansions are justified, there is enough room in the market out there. In case if India signs up an FTA with Europe, we'll be on level playing field with the Bangladesh and Pakistan and that would lead to a big growth which is a larger market than even USA. So we feel that there is enough room for growth going forward for all of us and we shall do well. And this capacity expansion is a normal growth for all of us.

Moderator: Thank you. We'll take the next question from the line of Jinal Fofalia from ALFAccurate Advisors. Please go ahead.

Jinal Fofalia: Sir, what is our nine-month FY17 CAPEX? And if you could guide for FY18 as well.

Dilip Ghorawat: The CAPEX for FY17 i.e the amount spent including the Capital work in progress is around Rs 60 crores, and for FY18, we intend to spend around Rs 75 crores excluding augmentation of weaving capacity.

K.K.Lalpuria: Rs 160 crores that's for…

Dilip Ghorawat : This does not include weaving. In case we get all the required approvals as what Mr. Lalpuria has said earlier then this Capex for FY 18 could further go up.

Moderator: Thank you. We'll take the next question from the line of Ankit Gor from Systematix Shares & Stock. Please go ahead.

Ankit Gor: Sir, just to repeat one thing, you had said that additional revenue would come from this expansion will be around Rs 600 crores to Rs 700 crores,

K.K. Lalpuria: Yes, with the completion of processing expansion from 68 million to 90 million meters, there will be an additional capacity of 22 million meters and from the same at full utilization; we are expecting an incremental revenues of around Rs 600 crores to Rs 700 crores.

Ankit Gor: So sir, in this case, asset turn is around 8% to 9% or more than that probably, 8%. So fair numbers right, sir? Just doing some math, sir.

K.K. Lalpuria: The current capacity also would go up from 57 to 63 - 64, know? So that additional capacity gets added up by 22 million meters. So roughly around 10 million, we expect 10 million to 12 million every year to sell.

Ankit Gor: Okay. And just the CAPEX for the 68 million to 90 million is around 70 crores to 75 crores, right, sir?

K.K. Lalpuria: The Phase – I is Rs 175 crores which includes effluent treatment plant with zero liquid discharge, Automation of the cut-and-sew and additional capacities of the processing capacity.

Ankit Gor: Okay. And sir, within how many years probably, within two year, two to three years, can you expect this capacity to be utilized at around 80%? This new capacity of 22 million meters.

K.K. Lalpuria: Yes, around two and a half to three years.

Ankit Gor: And 80% can easily be reached, right sir?

K.K. Lalpuria: Yes we feel going forward.

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

Binoy Jariwala: Sorry, I couldn't get a couple of numbers that you have shared. So if you could confirm the nine-month FY17 volume for home textiles was about 43.5 million meters?

K.K. Lalpuria: Yes please.

Binoy Jariwala: Okay. And likewise, nine-month FY16 number was about 41?

K.K. Lalpuria: Yes please.

Binoy Jariwala: Okay. So that essentially means that volume has grown handsomely in double digits.

K.K. Lalpuria: That was 41.5, so it has increased by around 2 million with y-o-y comparison.

Binoy Jariwala: Yes, so that's about 11% growth in volume in Q3. Your overall, the top line growth was flat, and plus you have 2% to 3% benefit from the USD-INR depreciation. Let us not consider the exchange rate fluctuation, but nonetheless, top line was flat and you have a 11% to 12% volume growth in Q3. What is the reason of such a deviation in top line versus the volume growth?

K.K. Lalpuria: No, but you should see the nine-month to nine-month. In our businesses, you net out your inventory and your sales volume always. So if you compare the nine months to nine month, you would get a fairer picture.

Dilip Ghorawat: Mr Binoy, the volume growth is only 5%. It was 41.5 and now 43.5. So the net increase is only 2 million, which is around 5%. 11% is not there actually. There is a around 5% growth in volume.

Binoy Jariwala: Okay. And the value-added products, namely fashion and utility bedding, did you say it contributes about 10% of overall sales or sales volume?

K.K. Lalpuria: It contributes around 10% to Sales value.

Moderator: Thank you. We'll take the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Yes, sir. Thanks for taking my questions again, sir. On the spinning and bed sheeting split, can you provide the spinning volume, sales contribution in this quarter?

K.K. Lalpuria: At this moment, I don't have the spinning, but definitely offline, I will be able to provide you that split.

Chintan Sheth: Okay, no issues, sir. I will take that offline. Sir, second one on the CAPEX, you said Rs 75 crores for FY18 excluding the Phase-II, right? Weaving part. Excluding the weaving.

Dilip Ghorawat: Yes, excluding the weaving of the Phase- II.

Chintan Sheth: Okay. And that will be taken over, if the approval comes, we will spend in FY18. Else if in FY '19, what will be the CAPEX of the Rs 300 crores we will…

Dilip Ghorawat: Rs 300 crores minus Rs 75 Crores is Rs 225 crores which we will spend in a period of two to two and a half years on receipt of all approvals.

Chintan Sheth: Okay. Rs 225 crores in two to two and half years. Okay. And sir, on the realization, you are saying that realization per meter on the bedding side hasn't deviated much during the quarter.

K.K. Lalpuria: It's almost flat because in our businesses there are lot of product mix changes we also invent and the retailers also have their different strategies for coordinating with different other home textile products. So it is very dynamic to calculate the per meter realization because there is a fashion element, there is a trend element, then there is a retail trade, how it unfolds, lot of factors are considered. And now with this new millennial and instinct buying, it's a completely new dimension.

Chintan Sheth: Correct, okay. And sir, are we adding any debt on the future CAPEX of the Rs 225 crores?

Dilip Ghorawat: Yes, there will be certain debt which will be under A-TUF and we feel that Government of Maharashtra scheme will also change from FY 18, so it could be covered there also.

Chintan Sheth: Okay. So we will be taking A- TUF or state benefits

K.K. Lalpuria: Yes. We have to take because we have to avail the capital subsidy and it is at a lower interest rate. So that is beneficial to the company.

Chintan Sheth: Okay. So any quantum, like Rs 225 crores, Rs 200 crores, split 80:20 something like that?

K.K. Lalpuria: We had given earlier indication that the total capex which includes Phase-I and Phase-II, is Rs 475 crores. Our term debt, we would expect around Rs 200 crores to Rs 225 crores and rest would be financed through internal accruals. So we would keep the same numbers.

Chintan Sheth: Okay, because we don't have any Term Loan right now. So only Rs 225 crores of Phase-II for weaving side. So it will be lower than that, right?

Dilip Ghorawat: We are talking totality for both the Phases. As of now it shall not be there, but in future, we may go for reimbursement to avail TUFS and State Government benefits. As Mr.Lalpuria had indicated , the term loan for both Phase-I and Phase-II together , will be around Rs 225 crores.

Moderator: Thank you. We'll take the next question from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: Sir, I also just wanted to check up on the cotton spinning revenue separately if you have.

K.K. Lalpuria: Mr Pavan we will provide you offline as we haven't got the volume numbers ready, but just to add, we have utilized more of our yarn captively. And secondly, overall the value and volume in the spinning has gone down a little bit by almost 8% to 9% in the spinning side. So that has pulled our revenues by almost 2% consolidated.

Pavan Kumar: And sir, regarding the Q4 expectation, you are saying margin will be in line with Q3 or what is that exactly?

K.K. Lalpuria: Yes, it is, we have indicated that it will be around +20%. So it is in line with Q3 FY 18 results

Pavan Kumar: And revenues, can we expect any kind of bump up?

K.K. Lalpuria: See, we are expecting that the demand should grow; it will be in similar lines because immediately we don't see that there would be a quantum jump in this quarter alone.

Pavan Kumar: Okay, sir, but there will be some growth type of?

K.K. Lalpuria: Yes, of course. That we always hope for.

Moderator: Thank you. We'll take the next question from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: Sir, just wanted to understand two thing. One, as you said, the demand this quarter got affected because of the prolonged season. And so is that a deferment of demand, which can come up in subsequent quarter or that is a demand forgone for that category? And secondly, as you are talking about high value-added product like the institutional thing catching up in the next two years, so has the contribution there in terms of the margin being higher there, so which will pull up the margin? And last, in this quarter, have we seen some bit of product mix change, which has come, which has impacted the margin to some extent?

K.K. Lalpuria: I'll answer your third question first because if you see, the nine months margin, they are intact. They haven't gone down. So you see, we always try to report on an annual basis and you should also compare on an annual basis.

Vijay Sarda: Annual basis because, Yes, quarter-on-quarter is not yet….

K.K. Lalpuria: Yes, and the cotton also you see when the season starts, only this season there was a demonetization effect, which actually otherwise the quarter was stable at Rs 38,000 per candy even when the cotton crop was not there. So this has gone up due to some other reason, external reasons, not because of the demand and supply gap. So the supply is already there existing, but the mill use hasn't increased. So the closing stock is quite adequate, which is compared to the mill use of almost two and a half months or three months stock. So if that is there, then cotton prices would stabilize. So on the cotton side also, we don't see that it would affect margin to that extent, and in case if it does, then definitely we go to the customer and they are also aware cotton being a global commodity and when all the peers would also demand the same, then it's sort of a universal factor, which will act in favor of everybody. So that will get absorbed in whatever the margins and the value are. And as far as the demand is concerned, as we mentioned earlier, , the US sales were down because of the extended summer sales. Those projections which have been provided by them, they were not intact with the actual ones. So the sales went down. Now there is never a rollover of demand if there is a seasonal change, like from summer to winter because some of the products are different. But we see that in time to come because things were stabilized, there were uncertainties in the US over the election part as well. This should get streamlined in the year to come and the demand is intact. So if you see overall from the number, India has grown its business in the US, and that will continue because India is now an established partner to the US retailers as a supplier and they have proved themselves, and that's the reason India got 50% market share.

Moderator: Thank you. We'll take the next question from the line of Sumant Kumar from Emkay Global. Please go ahead.

Sumant Kumar: Sir, this is regarding domestic business, so how the domestic business is shaping up and what is your target revenue contribution, t going in the next couple of years?

K.K. Lalpuria: See, we have just launched in October. We are just getting feedback from our distributors and different consumers and once we get that, we'll be able to provide you much better numbers in the time to come, but as we said, we are trying to build an aspirational brand in the domestic market and it has been received very well. And we see that in future, this would act in our favor, adding on to revenues.

Moderator: Thank you. We'll take the next question from Pravin Sharma, Individual Investor. Please go ahead.

Parvin Sharma: First one is with Trump deciding to come out of TPP, what impact do you see? Is it an advantageous situation for us or how do you see it panning out?

K.K. Lalpuria: TPP was always discussed and we had clarified that we as a company are not affected by TPP, but anyhow, India stands to gain in textiles if TPP doesn't happen because always the trade pacts are one sided. So I think coming out of TPP for India is a positive sign.

Parvin Sharma: Okay. And sir, in the domestic sales side, the Boutique Living brand, what is the strategy? Are we planning to retail it through the large retail formats because I didn't see the product in most of the large brand retails. So what is our strategy in that direction?

K.K. Lalpuria: No, see, we are not going into retail at any point of time. And as we mentioned earlier, it's like we are thinking of building an aspirational brand in the domestic market because there is a space out there for good products and we have launched this just in October. So it's too early to say what the final strategy would be. We are waiting for the feedback from the different distributors and consumers and we will formalize our strategy going forward after that. And it's a B2B thing. It's not a B2C thing.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

K.K. Lalpuria: I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or Strategic Growth Advisors, our Investor Relations advisors. Thank you once again for joining us on the conference call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Indo Count Industries, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your lines.