



“Indo Count Industries Limited Q1 FY 2017 Earnings
Conference Call”

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COUNT INDUSTRIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Indo Count Industries Limited Q1 FY 2017 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 remainder, 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 “*” and then “0” on your touchtone telephone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Mohit Jain -- Managing Director of Indo Count Industries Limited. Thank you and over to you, sir.

Mohit Jain: Sure, thank you. Good afternoon and a very warm welcome to everyone. Along with me, I have Mr. K. K. Lalpuria – Executive Director and SGA our Investor Relations Advisors. The Board of Directors at its meeting have approved the subdivision of the equity shares of the Company that is one share of face value of Rs. 10 into five shares of face value of Rs. 2 per share and consequential alteration in the Memorandum and Articles of Association of the Company. This will happen post shareholders’ approval through postal ballot. The rationale behind this corporate action is to improve the liquidity of the Company’s share and also make it a more affordable to the small investors.

Coming to expansion programs, the Phase I of the CAPEX is of Rs. 175 crores and it is progressing as per schedule and budget. The processing capacity expansion from 68 million meters to 90 million meters will be completed by end of the current financial year.

Phase II with estimated project cost of Rs. 300 crores towards upgrading existing Spinning facilities, investment in additional Weaving capacity for specialized looms and value added equipments for delivery of Fashion and Utility Bedding is expected to be completed within 18 months to 24 months.

As mentioned earlier, the total CAPEX of Rs. 425 crores excluding the Water Effluent Treatment Plant of Rs. 50 crores, will result increase in revenue of approximately Rs. 900 crores on full ramp-up of 100% utilization.

Now, coming to the new brands that we have; Indo Count as a brand has been successful over the year on focusing on Bed Linen solutions, innovation and product development and marketing and also by paying attention to changing mindset of consumers. So keeping in mind its global ambition and reach, your company has launched its own brands and licensed branded products. Owned three proprietary Life Style brands launched in the U.S. market are Boutique Living, Revival and Pure. As far as licensed brands are concerned so, to continue the company’s growth trajectory and explore the newer opportunities in the value added segment in the global market Indo Count Global which is U.S. subsidiary has sought a licensing partnership with Walter Greenbank PLC from the UK for three brands namely Sanderson,

Harlequin and Scion. All three brands have a particularly strong presence in UK and Australia and Indo Count recognizes the gap in the North American market for this type of aesthetic.

Let me give you a quick description of the above three brands. Harlequin as a brand offers color and sophistication. Scion brings on Young at Heart attitude and Sanderson is an updated traditional look. This September at New York Home Textile Market Week, we will be launching all the above three licensed brands.

Indian brand, larger and growing emerging markets are the next frontier for the company and we feel there is no other emerging market, growing market as India. As we thought of we make in India and sell in India, keeping in view this ambition we have unveiled a high quality affordable Bed Linen under the brand name Boutique Living for our Indian consumers. It comprises of four ranges with various sub ranges that are crafted with innovation and technology to cater to every customer's individual needs and taste.

Moving towards the industry, as we have recently entered newer categories like Fashion, Utility and Institutional Bedding having market size of U.S. \$10 billion at retail in the United States, our expectation is to do well going ahead. In order to do well in these value added categories our recent launches of owned brand, licensed brands in the U.S. market will help us cater to growth in these high segment products to mid segment products.

This is from my side now. And I would like to hand over to Mr. Lalpuria.

K. K. Lalpuria:

Thank you Mohit. A warm welcome to everyone present on the call. We have uploaded the presentation of Q1 FY 17 on the stock exchanges BSE/NSE and Company's website and I hope you have gone through the same.

The Revenue growth for Q1 FY 17 under review grew by around 8% to Rs. 493 crores as against Rs 458 Crs of previous y-o- y quarter. The growth in the revenue was on account of new customer additions, enhance customer wallet share, promotion of proprietary products and brands. On this trend, we have planned to expand our capacity further to 90 million meters which would come into operation by end of this year.

EBITDA for Q1 FY 2017 stood at Rs. 110 crores against Rs. 101 crores in Q1 FY 2016 a growth of around 9%. EBITDA margin for Q1 FY 2017 stood at 22.4% largely because of better product mix. Total comprehensive income after tax for Q1 FY 2017 is Rs. 60 crores as against Rs. 52 crores in Q1 FY 2016 a 16% growth on Y-o-Y basis.

PAT margin for Q1 FY 2017 stood at 12.2% as against 11.3% in Q1 FY 2016. The increased bottom-line translated into improved EPS of Rs. 15.3 in Q1 FY 2017 as against Rs. 13.2 in Q1 FY 2016.

Cash profit for the quarter is Rs. 80 crores. The Company's net debt as on June 2016 is around Rs. 230 crores of short-term plus long-term less cash equivalents. This net debt results into 0.34x net debt to equity.

That is it from my side. Now, I would like to open the floor for the Question-and-Answer.

- Moderator:** Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Dhruv Agarwal from Cresita Investment. Please go ahead.
- Dhruv Agarwal:** Your opening remark solves most of my questions. I just have a quick question on the EBITDA margins. We see that we had almost a 550 bps jump in EBITDA margins from 14.5% to 20% for FY 2016 consolidated numbers. So, will we see more growth in the EBITDA margin side are we going to focus more on sustainability from here onwards?
- K. K. Lalpuria:** See, as we have been mentioning we are sustaining the margins. As you can see our growth in EBITDA level is increasing because contribution of our Spinning business is reducing as compared to the total business of Home Textiles. Secondly reason is growth in capacity utilization on absolute value in Home Textile and plus growth in the overall margin of Home Textile business. We intend to maintain these levels going forward.
- Dhruv Agarwal:** Okay. And what is the U.S. market as a proportion of the total sales sir?
- K. K. Lalpuria:** Around 65%-70%.
- Dhruv Agarwal:** And the next market should be Europe.
- K. K. Lalpuria:** UK is one of our key markets. Further our other markets are Australia, Europe, Canada, Latin America, South Africa etc so it is pretty well scattered and we export almost to 54 countries.
- Moderator:** Thank you. We take the next question from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir, there has been recent news about the suspension of a client for one of your competitors; would it fair to expect us to benefit as we are the best available option?
- K. K. Lalpuria:** Actually frankly speaking we do not like to comment on the said issue at the moment and it is not logical even to speculate this way as of now.
- Avi Mehta:** Sir, I am sorry, you do not see that way as in, I did not understand that are you saying that the customer may not see in this way is what you are saying or...
- K. K. Lalpuria:** No, we are not thinking this way at the moment because it is too early to speculate.
- Avi Mehta:** Okay, sir. And sir, as you know in the licensed brands contemplating any kind of push back over there on the back of these incidents or nothing on that sort, right sir?
- K. K. Lalpuria:** Can you be a little bit more specific and clear because I am not able to pick-up your words.
- Avi Mehta:** Your licensed brand which you are just looking to launch have they kind of asked for another audit or anything of that sort on the back of these incidents or any kind of feedback from any other of your customers?

- K. K. Lalpuria:** No, this licensing business of branding is so far even not launched into the market which we will be launching in September 2016. So there is no question of even like somebody asking to scrutinize or anything, it is not relevant to that.
- Avi Mehta:** Okay. And the existing clients nothing of from there also, right sir?
- K. K. Lalpuria:** Not yet.
- Moderator:** Thank you. We take the next question from the line of Pravin Sahahi from Edelweiss. Please go ahead.
- Pravin Sahahi:** My question is related to this quarter I can see that this gross margin is down to 70 bps so, would you please explain some reasons in this?
- K. K. Lalpuria:** Yes, the gross margin is basically down because of sometimes the product mix and you know absolute on a year-on-year basis even the raw material cost sometimes gets increased in some of the product which we utilize so that is the reason the gross margin is a little bit down.
- Mohit Jain:** And just to add here, if you compare last full year our raw material to revenue was 51.14% on standalone basis which right now is 51.72%. So, when you look at full year versus this quarter it is more or less in line, it is only when you look at it quarter-on-quarter that you find the difference so, I would say that you should look at it more from a yearly perspective rather than a quarterly perspective as far as this is concerned.
- Pravin Sahahi:** And secondly on the growth path, like this time we are seeing a little bit down in the growth in the top-line so, would you please explain a little bit more on the inventory side because I can understand it is a quite seasonal and also the inventory level explains more rather keeping the quarter growth so, can you some more...
- K. K. Lalpuria:** Traditionally you know the first quarter is always slow and as we have been informing, we ventured last year into a new category of business which is back to school and back to campus and this provided us a quantum growth, so our entire effort was this year to protect and maintain that business which we did over and above that we had a marginal growth of 8% which is in line with our expectation. So, in subsequent quarters you will see that this should pick-up.
- Pravin Sahahi:** So any take on the inventory level currently?
- Mohit Jain:** As far as inventory is concerned, there is little bit high inventory which is a buildup in inventory for the next quarter's sales.
- Moderator:** Thank you. We take the next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.

- Pawan Kumar:** Sir, I just wanted to ask two questions, one specifically on Q1 results. In the other expenses side, we see a dip of around and they have come down from 21% to around 17.6% whereas the gross margins have dropped. So, can you explain if the other expenses part of it is sustainable at this level or should we expect something higher going forward next year?
- K. K. Lalpuria:** You see our endeavor always is to improve efficiencies at our operational level and what you see the gain in this area is because of better efficiencies at the operational level that is what we are trying to establish and utilize and as we use the capacity and as we go for better product mix the efficiencies are drawn out of the whole equation so, hence other expenses are down..
- Pawan Kumar:** So that is sustainable, right Mr. Lalpuria?
- K. K. Lalpuria:** Yes, this is sustainable we are making all those efforts and if something sometimes some expenses are beyond our control like say freights etc . Further we take appropriate measures to reduce costs from time to time. I think these are sustainable numbers.
- Pawan Kumar:** And about by my first question, about the gross margins, is it like would it be right to assume because the mix of the product has improved that is why the raw material prices have also seen a jump or how should we interpret that?
- K. K. Lalpuria:** See, you are right to some extent that certain times when you try to sell higher value product the raw material cost changes but as Mohit has explained it is in line with the raw material cost and you should be on a Y-o-Y basis basically and that will give you a fair picture of the gross margin at a later date.
- Pawan Kumar:** Okay. And finally, sir, I mean it is too early to may be comment on this but full year EBITDA margins what can be the rightful expectation as of now?
- K.K.Lalpuria:** Yes as I mentioned earlier we will try to maintain and it is always our wish to improve the margins in our business and that is the reason we are going into branding and domestic sales and all these areas we are trying to venture into the premium segment in order to improve our margins.
- Pawan Kumar:** Sir, cotton prices, since they have increased that is why in the second-half should we see any kind of pressure?
- K.K.Lalpuria:** No, we should average is out and you know the raw material cost we should all look at on year basis basically the cotton prices shorten because this is a fag end of the season and once in October November the new crop steps in the prices tends to go down, so it averages out and as we have informed earlier have been carrying cotton stocks till October, November, so we are fairly well placed as far as raw material is concerned. But even then it is marginally going up we will see to it how we can absorb those cost in other areas.

Moderator: Thank you. We take the next question from the line of Rajesh Kothari from ALF Accurate Advisors. Please go ahead.

Rajesh Kothari: My question is with reference to when a client selects vendor typically these global clients whether it is U.S. or European customer's what kind of audit process they undergo and how frequently these audits are taking place in terms of checking the product quality whether it is in matching their standards or not? That is question one. And second question is, if you can tell us top five customers contributes how much percent to your revenue and if you can name those top five customers?

K. K. Lalpuria: See to answer your first question, Rajesh, when we enter into a customer there are lot of compliances we need to meet which are set up as per global standards and they have their own agency to audit the plant as well as what are raw material used etc and all those things are concerned. So, we go through a rigorous procedure and once that report is provided we are approved by the customer that they can buy from this plant and this is done not only once it is done concurrently and on a consistent basis and there are surprise checks as well. So, to answer your question, it is consistently done by the buyers and the retailers all the time and we have to meet all those standards to be complying with. Second question to answer is, our top ten customers is 50% of the business as far as their names are concerned this is proprietary information which we would not like to divulge.

Rajesh Kothari: And top five will be how much percent of your revenue?

K. K. Lalpuria: Sorry.

Rajesh Kothari: Top five will be how much percent of your revenue?

K. K. Lalpuria: That we have not checked yet, but I can inform you at a later date.

Rajesh Kothari: Understood. So, basically just to understand your answer, you are saying that there is a concurrent kind of audit and at the same time there can be surprise checks. So, basically is it safe to assume that every three months to six months basically there are routine checkups on the product quality and audits take place from the each of the customer?

K. K. Lalpuria: No, you see we are dividing it into two, first is the plant audit itself like whether you are following global standards to run your plant, that is number one then for every lot which you deliver because we are into replenishment businesses, there inspectors who come to our plant to check the goods. So, it is happening in a routine matter and they go through the plant, they see the plant all the day and during that check they try to see how compliant we are and there is a discussion on board then their seniors also come every six monthly to study how we have performed on the shipment, how we have performed on the deliveries, how we have performed on the quality, so it is concurrent audit and they follow all these global standards all the time.

So, we have to be on our toes as far as all these inspections are concerned and surprise checks as well.

Rajesh Kothari: Sure. I completely understand, at the plant level. So, my question is sir that with reference to plant I understand, I am saying with reference to the product qualities you know...

K. K. Lalpuria: Of course, product quality also when you are delivering a certain product it goes through the requirement of the standards which they have been set up like how much color fastness, how much dyeing property, how much color fading property, if it is wrinkle free, how it will withstand, all those properties are being check, what in textile industry is normally being done. Further the size of the stitching, the thread used, everything, it is washing fastness the content of the product, the blend, whatever like it is all spelled out. While ordering you have a specs chart and that has to be perused that is what the inspection department checks. So it goes through a rigorous testing and checking and it is consistently done for all the shipments which goes and we have to provide product standards to our customers that this is what we can meet the same.

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

Sachin Kasera: Can you just comment a little bit on what was the volume growth for the quarter and what is the full year volume growth that we can look at?

K. K. Lalpuria: See the volume growth in last quarter we did 12.54 million and this quarter Q1 FY 17 we have achieved 13.46 million, it is around 6% growth.

Sachin Kasera: For this year what is the volume growth that we can look at?

K. K. Lalpuria: You see, as we mentioned, overall revenue growth is expected around 12% to 15% so that is where we look upon the volume and value. The volume may be around 10% or 12% but we intend to increase our margin in the value growth basically that is what the whole focus is by the Company.

Sachin Kasera: This quarter our gross margins have actually come down by 300 basis points so, how do we recover back the gross margins? So, do you see that improving in the next three quarters as far as the gross margin is concerned which should help the EBITDA margins improve further?

K. K. Lalpuria: We have to still see the impact of the raw material cost and all other factors and also it depends as I answered earlier on the product mix also. See, selling like different qualities in the market place and which one gets promoted by the retailer which is how they promote it so, all these factors depend upon the product mix getting changed from time to time. So, this also effect on the gross margin plus the absolute value of the raw material cost also gets changed so, those are the factors so, we should not be concerned about a couple of points here and there on the

gross margin but we should look at on an annual basis what the raw material overall cost is and what are the gross margins.

Sachin Kasera: So, just on this margin thing further sir, you mentioned in the previous query that main reason for lower gross margin is because of the raw material cost going up so, this is mainly you are referring to the yarn cost that have gone up in this quarter because that is our major raw material that we buy from outside, right?

Mohit Jain: No, the change in the gross margin is not due to particularly any particular raw material going up, our raw material cost has remained stable. It is due to the changes in the product mix that takes place which has changed it and when you look at it for the full year as I mentioned again earlier, last full year was 51.14% as against 51.72% so, that would give you a better perspective.

Sachin Kasera: Okay. And secondly, on the volume growth till sometime back you were looking at may be doing around 64 million - 65 million for the current around two quarters - three quarters back that was the sense you were getting. Now we are we have started to see slackening in the U.S. market that is what making us a little more conservative on the guidance now?

K. K. Lalpuria: I think we have been consistently saying that we will be doing around 62 million, I do not think we remember like we mentioning around 64 million - 65 million because that would be more wishful thinking looking at also that we are wrapping our premium segment offer so, we are going into more value added products, which consumes better product and has got a higher margin in which we have just started also and which we are focusing as well so, I think we are in line with what we have mentioned earlier about around 62 million of volume..

Sachin Kasera: Surely. Sir, the CAPEX that will take us the capacity to 90 million meters should commission in the next 12 months to 18 months. Now that we are because of high base we are looking at growing at 10% per year does it mean it will take us at least four years to five years to full utilize the expanded capacity of 90 million meters?

K. K. Lalpuria: No, you see in certain categories when we promote like Fashion Bedding, Utility Bedding, and Institutional Bedding it does take some effort and time to establish this business with the buyers and we think that the trends would be positive on this level in the future. So, whatever we are having growth as of now, are basically we are trying to establish the market for the new product, we would see a better positive trend in the future quarters and future years.

Sachin Kasera: So, once we are able to establish in the new product categories as well as some of the new brands that we have launched in licensed may be in FY 2018 and FY 2019 the volume growth could be hopefully better then what we will knew in FY 2017.

K. K. Lalpuria: Yes. And also as you see, we have opened new avenue of promoting licensed brands, life style brand, we are promoting in the domestic market like Boutique Living new brand and plus we

are exploring other areas apart from the U.S. the non-U.S. market as well. So these other opportunity will help us to grow our numbers in the coming future. Further FTA with Europe is under discussion and if the same is signed, we will have a very big scope of exporting to Europe as well. So, these numbers are stabilizing our consistent growth and there is a potential for future growth.

- Sachin Kasera:** And sir, just one question, when are we launching the Indian brand, official launch?
- K. K. Lalpuria:** Around September 2016.
- Sachin Kasera:** September, okay.
- Moderator:** Thank you. We take the next question from the line of Umesh Gupta from Reliance Wealth. Please go ahead.
- Umesh Gupta:** Just wanted to know on this Target customer, so since I guess they have announced that they have completely stopped the supplies from Welspun so, since they are also your customer?
- K. K. Lalpuria:** Yes, they are also one of our customers.
- Umesh Gupta:** So supply from our side is there any effect on that?
- K. K. Lalpuria:** No, we do not supply them Egyptian cotton made Home Textiles.
- Umesh Gupta:** Okay. No, but they have stopped all supplies from Welspun it is not about Egyptian only. So, what I was trying to confirm that since, they are also our client so, there has been no effect or there has been no word on our supplies of whether Egyptian or any other kind.
- K. K. Lalpuria:** No, not yet.
- Mohit Jain:** I mean for us it is business as usual whether it is them or for any other customer.
- Moderator:** Thank you. We take the next question from the line of Ashutosh Somani from JM Financial. Please go ahead.
- Ashutosh Somani:** The first question sir, was on the overall market size in the U.S. in terms of volumes we are going through a period which is going through a 6% sort of a decline Y-T-D in terms of absolute million square meters being sold in the U.S. so, this has not happened for the last four years - five years. So, what are your thoughts on that and if you could specify the Cotton quantity that we would have bought over the last three months Cotton meaning Yarn or Grey Fiber the raw material procurement that may have happened over the last two months - three months if you can specify the quantity? And my second question, sir, is related to just in terms of better understanding of this term fabric providence, the origin of fabric how is it ascertain Is it ascertain simply by certification from the place that we have bought is it on manually or is it

entirely software driven? Is there a possibility of technical oversight there sometimes even while the audits are being generally conducted? Thanks.

Mohit Jain: So, in relation to your first question as far as the OTEXA data is concerned that I think that you are referring to, we have not seen any slowdown from any of our customers. India is yet very well looked up of course data's come plus and minus and we have got to also realize that U.S. is not the only market that we do business in so, there is a lot of potential in other countries I mean other than the United States of course U.S. being a large market and highly consumption driven economy. As far as our raw material procurement is concerned, I mean as we mentioned that we have covered up to November for all deliveries to our customers, so, if you look at our revenue let us say last year you could do a rough number matching from a gross margin as to what that value could be, we cannot provide you any specific numbers on that. And as far as fabric prominence is concerned basically prominence means where does the particular product originate that is our understanding and let us say tomorrow if you are buying American Cotton so, that means the Cotton has grown in America and is coming from the United States so, if you are buying any other product that comes from the U.S. Yarn forward basically so, I mean it just says the country of origin.

Ashutosh Somani: I understand that Mohitji, just how it is uncertain in terms of certification? Is there a certifying body that tells you that this Cotton is from particular place?

Mohit Jain: So, from the vendor that we would buy, the vendor would certify and tell us that this is U.S. Cotton and these are the details then we have the certificate of origin, the bill of lading that we have purchased.

Ashutosh Somani: And other than the certificate, because I understand a little about the technical aspects of detecting this so, is there a software which can tell you in terms of whether this Cotton despite the certificate being issued from a particular region could be from actually not being from Egypt and being from Pakistan, is there a way technical know-how related to this aspect?

Mohit Jain: We are not aware of something like this.

Moderator: Thank you. We take the next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: I would like to understand this other expense portion though you have highlighted it is because of better efficiency. Could you just highlight which cost would have actually gone down on broader levels which are sustainable?

K. K. Lalpuria: So the overall conversion cost goes down by through better efficiencies and hence all expenses are under control and they go down marginally that is what happens we cannot certify which cost are the major ones.

- Prerna Jhunjunwala:** There is no major one cost which would have gone down?
- K. K. Lalpuria:** All costs goes down you know.
- Prerna Jhunjunwala:** Second question would be when you are launching your new brands in the form of licensed brands and owned brands still this other expenses would sustain at these low levels?
- K. K. Lalpuria:** Yes, because those are all variables basis and we are still selling at on B2B basis.
- Prerna Jhunjunwala:** Okay. Your brands also will be selling on B 2 B basis?
- K. K. Lalpuria:** Yes, we have been selling product brand so far, so now whatever product which we can promote through these brands that is what would happened.
- Prerna Jhunjunwala:** Okay. And what kind of traction we can expect in this branded profile of yours in the next two years to three years' timeframe?
- K. K. Lalpuria:** See, at this level it is too premature to say but we are quite hopeful because we had launched lifestyle brand and we have been able to place with a couple of retailers. So, we expect this to grow and as we have informed earlier that these three new product categories that Fashion Bedding, Utility Bedding and Institutional Bedding which is currently at around 10% of our sale we would wish to grow that to 30% so, this is how we intend for our growth in this area.
- Prerna Jhunjunwala:** Okay. So this 20% improvement in revenue mix from these products this would be from the additional capacity that is coming up and would improve the utilization there or how do we look forward for capacity utilization on the additional 30 million meters going forward?
- K. K. Lalpuria:** It is within that capacity utilization because we are expanding our product mix apart from the Sheet set which we have been selling so far so, this capacity expansion will include this Fashion and other categories as well.
- Mohit Jain:** Just to answer your question, we expect that by March 2019 we should be able to utilize most of our new capacity which is our internal target.
- Moderator:** Thank you. We take the next question from the line of Darshit Shah from Nirvana Capital. Please go ahead.
- Darshit Shah:** Sir, few of the questions are already answered. One small question is like many other companies will we be able to give consolidated results going ahead?
- Mohit Jain:** So, yes, we would like to do that, in fact, we have thought of doing at this quarter also but there was technical issue that we have to inform Stock Exchange before 30th of June, 2016, if you do not do that you cannot publish consolidated for the full financial year. So, hopefully next year we will look at doing that.

- Darshit Shah:** Sure. And sir, on the Target issue which has come up with respect to the Egyptian Cotton sir, what we understand is probably Welspun would be an integrated player and would be sourcing themselves and I understand even we might be providing to some other players across industry the Egyptian Cotton Sheets and all. So, sir, are we kind of more prone to such things happening because we would not be directly procuring Cotton ourselves, what is your take on this, sir?
- K. K. Lalpuria:** See, as we have been mentioning we would not like to comment on this issue firstly. But some of this as I mentioned earlier is on a routine basis the products are being checked and they are consistently checked when they are ordered, when the online final and all those inspections do happen from time to time so, it is a routine matter.
- Darshit Shah:** So we have our technical team which kind of inspects them regularly.
- K. K. Lalpuria:** Of course. We periodically review as well all these systems so, I think we need to do that, being in business.
- Darshit Shah:** Sure. And sir, last question, in the domestic business, are we kind of planning to open some retail stores ourselves or how had going to go about the domestic business?
- K. K. Lalpuria:** No, we are not opening any retail stores, we are promoting this as an aspirational brand in the domestic market that is what we intend to do and we intend to sell them through large Bombay Stores, multi brand outlet and all these.
- Moderator:** Thank you. We take the next question from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.
- Ashutosh Garud:** Just wanted to check since the issue regarding the sourcing has come up in the industry I mean one of your competitors so, if you can throw some light are there any further inspections expected from your clients on an industry level not just you but any of the other clients as well.
- Mohit Jain:** Nothing that as we know of at this point of time.
- Ashutosh Garud:** Okay. There is a no such communication from your clients as of now?
- Mohit Jain:** Yes, correct.
- Ashutosh Garud:** But what is the sense on the industry level because Welspun was on one of the biggest exporters on the home textile front from India so, what is the sense you are getting on the industry level?
- Mohit Jain:** This is something which has happened so recent so there is nothing to add at this point of time.

- Ashutosh Garud:** Okay. And sir, on the gross margin levels, since the Cotton prices have gone, you mentioned that you have stock of Cotton but we would be procuring yarn directly also, right?
- Mohit Jain:** I mean in any form of raw material whether it is Cotton or Cotton Yarn all shipments to our customers are covered up till November shipping.
- Moderator:** Thank you. We take the next question from the line of Sumit Varthak from Sage One Advisors. Please go ahead.
- Sumit Varthak:** What percentages of your sales are from Supima or Egyptian cotton?
- Mohit Jain:** So, we do not look at it per se from any specific Cotton or any branded Cotton. It will be less than 12% to 13% of our revenue.
- Sumit Varthak:** Okay. So what does branded Cotton include?
- Mohit Jain:** Branded would mean Organic, Supima, better Cotton initiative, Egyptian etc.
- Sumit Varthak:** Okay. And I have heard specifically Himatsingka having to spray on the Supima Cotton to make sure that there is no leakage that they would ever have on non-Supima Cotton. Is there any such practical method available for you or do you just rely on the certification from the vendor?
- Mohit Jain:** We are not aware on this so, difficult to comment.
- Sumit Varthak:** Basically how do you rely completely on a vendor, what if there is some integrity issue with the vendor and they are not able to supply?
- Mohit Jain:** No, we are buying an agricultural product which comes out of let us say if you buying Supima it comes out of the California area out of the United States there is a particular level of quality standard to it which is the micro length of the Cotton, the strength of Cotton, they are all specifications, so they are selling against that.
- Sumit Varthak:** Okay. But is there anything specifically that you do internally other than the certification to as the second level of certification yourself?
- Mohit Jain:** There is nothing else that we can check.
- Moderator:** Thank you. We take the next question from the line of Devanshu Sampat from YES Securities. Please go ahead.
- Devanshu Sampat:** Can you give us sense of the wallet share that you have for your top 10 customers, how much of the requirements are essentially sourced by you, currently how are they different let us say three years to five years ago?

Mohit Jain: So, you know let me try and answer your question and hopefully it will answer, we will clarify. So, top 10 customers constitute to 50% of our business. Our model the way it is that we have all our facilities in-house that means we Spin, we weave, we Dye finish, we cut but we also procure a lot of Cotton Yarn, it is not customer specific per se from the market in India. We have probably around six vendor partners that we would buy from. These are strategic partners to us and we would buy and then we would get that material woven on commission basis and then it comes back into our facilities for the remaining part of the process. But it is not specific to any customer. As our business has grown over the years the amount of yarn we purchase from the market has only increased over the period as we have not invested in our Spinning business in the last five years.

Devanshu Sampat: So what I am asking is suppose you have one client target out of \$100 of the requirement how much of it is being sourced from you and how is it this different from say what it was three years to five years in this specific segment that you are present in?

Mohit Jain: Okay. So in our business first of all it takes three years to four years to get into any customer. When you get into a customer the customer will put your product in 100 doors then 300 doors then 500 doors then take it forward. So, the first two years the business is slow, they need to test you out and you understand their systems and they understand your way of working. And then the third year onwards you start gaining a lot of traction so, every customer would be at different level of maturity in the system, that is why every year we will keep on adding a few new customers so that the funnel is there for the future.

Moderator: Thank you. We take the next question from the line of Abhilasha Satale from First Global Securities. Please go ahead.

Abhilasha Satale: Sir, you mentioned that you have raw material stock of Cotton and yarn till October-November and sir, in the new season Cotton price or yarn price although it will come down from current level it is likely to be higher than around 8% to 10% as compared to last year. So, I mean, are you able to pass this increase to the customers and have negotiations already started or how I mean when that these negotiations will start?

Mohit Jain: Sure. So, at this point of time we will not even knocking any customer's door to say that what is going to be anticipated or we need a higher price. Most of our product category that we are doing is the mid-to high-end where Cotton prices have moved up around 10% in India and not dramatically like what you have which is the Shankar 4 which we consume much less for our Home Textile business. We are waiting for October to come; we have a strong feeling that prices are going to correct. We are already seeing prices correct internationally in the last 10 days and especially this week onwards we have also seen prices correct in India. In October-November when we have a fair picture of where things stand depending on what is the pricing on raw material currency, our dye's and chemical there are four parameters' or five parameters that we look at then we will have to go back to our customers that point of time, but we would not do that in the last week of October at the earliest.

Abhilasha Satale: Okay. So even if there is any increase in the Cotton prices, you are assured that will get passed on?

Mohit Jain: We have done it in the past, we have given them price decreases also in the past the same way and we have taken price increases also in the past.

Abhilasha Satale: Okay, fine. And secondly sir, on your retail venture if you could throw some light how you will see the business growing over next say two years or three years which will be the major brands which will contribute towards that and what kind of margin you will be able to meet in that business?

Mohit Jain: So right now our focus is very simple that we are just in the process of establishing the brand and giving a very high quality experience to the Indian consumers that they have never got before. So, idea is to get the product out in the stores for people to start consuming the brand, first 18 months it is going to be slow and then we will ramp it up dramatically that is the objective and we are keeping our fingers crossed.

Abhilasha Satale: Okay. And what about international like U.S. business like is it is mainly likely to be B2B business so, what is your take on that business when those shipments will start and how will you ramp it up?

Mohit Jain: So for example, out of the three brands that we have launched in March which was our own brands, one of the brands will be available in one of the largest retailers in the U.S. from September onwards so, we have already shipped goods out early August, so, we have already started seeing that slowly-slowly hopefully people will like what you are doing and it will expand. The other new three brands we are only going to be showing in September. So the earliest as long as the retailer commits to it we would be shipping that somewhere in December or January. So this is a process, we are not doing this for any specific year or quarter, this is all from a two years to three years' perspective and not done from a short-term perspective.

K. K. Lalpuria: And it is all B2B not B2C.

Moderator: Thank you. We take the next question from the line of Aman Chaplot from Ventura Securities. Please go ahead.

Aman Chaplot: Actually recently we saw an interview of Mr. Mohit Jain, few days before wherein he guided for a revenue guidance of 15% to 20% in FY 2017. So, any specific reason we have lowered our guidance to 12% to 15%?

K. K. Lalpuria: Actually you know that interview, we do not know how that number has been spelled out because he spelled out on the domestic front that we would like in the next five years to build in a market share of around 15% to 20%...

- Mohit Jain:** Of the domestic market.
- K. K. Lalpuria:** Yes, they mixed it up with our overall business but we clarified also but they had already taken out this numbers but if you look at the overall past we have been saying that the growth would be in the range of 12% to 15% right from the day one.
- Aman Chaplot:** Yes, sir. And something on the retail part in India, so we are targeting revenues of Rs. 500 crores by next five years but if I look at the premium segment Bed Sheets market in India I think it would be in the range of Rs. 1,500 crores to Rs. 2,000 crores or more than that?
- K. K. Lalpuria:** So, you see again, that is our internal target and this carries on not only for bedding but you know what we thought that once the brand is establish we will extend it to other areas in Home Textile other products as well like Curtains, Towels, Carpets, Rugs, the entire Home Textile range. So this is our ambitious plan to promote these products in the domestic market and that was an internal target which we spelled out so, this is how it is.
- Aman Chaplog:** All right. And last question on Cotton availability. So we recently saw Cotton Association saying that the Cotton production in India will be lower by 10% to 15% and specifically in Maharashtra it will be lower by 15% and Gujarat also facing problems of fly issues so, they are targeting a lower production. So, in this scenario do we see challenges regarding the availability of Cotton?
- Mohit Jain:** We have good ending stock in India and when you look at whatever is the consumption figures that has been happening over the years even with the new crop estimates, even at the end of 2016-2017 crop will be yet left with the fair ending stock number, so there is no concern, the main thing is with the pricing side which will be determined somewhere around end September-October that is when everybody will get a clear picture where the pricing is.
- K. K. Lalpuria:** And also the monsoon has been good and the sowing has improved in all the states and also we are guided by the Extra-Long Staple Cotton, more than the Medium Staple.
- Moderator:** Thank you. We take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Firstly, sir, what portion of our exposure is towards this Target brands, I mean I joined late so, if you have spelled it out I miss the earlier commentary.
- Mohit Jain:** In which brand?
- Saket Kapoor:** The Target brands, the retailer Target how much of percentage our sales goes to the Target brand in U.S. the one which has been in limelight due to the Welspun issue.
- Mohit Jain:** No, our total sales in the U.S. are 65% of our revenue.

- Saket Kapoor:** The contribution of our sales to the Target retailer brand, the brand name Target.
- Mohit Jain:** Our business Target is less than 5% of our revenue.
- Saket Kapoor:** Yes, there I might wrong, it is 5%.
- Mohit Jain:** Less than 5%.
- Saket Kapoor:** Less than 5%. And sir, the entire business revolves around this Egyptian Cotton part only. They are paying you for getting Egyptian Cotton only because you have been awarded also for best quality controls in Egyptian Cotton by some award which I saw in your Presentation.
- Mohit Jain:** No, that is a certifying agency, so they certify a lot of people globally not only us, so one of the certification that the company has.
- Saket Kapoor:** But the sales which we are consuming to them are only in Egyptian cotton only or they are securing other Cottons also for them?
- Mohit Jain:** No, we do multiple products sales and we do not sell any Egyptian to them specifically.
- Saket Kapoor:** And as a percentage of sales how much Egyptian cotton is being used?
- Mohit Jain:** As I said, all branded Cotton is 12% to 13% of our revenue.
- Saket Kapoor:** And sir, now how vulnerable has this sector become with this problem of Welspun opening up because the matter relates to a period of 2014 to 2016 and it got highlighted just 10 days ago. So what check and balances are now put in place or will be put in place by Company's like you are also in the same space, how are we going to assure our sales from facing these problems in future? I mean what checks and balances are we going to put in place or have we put that this problem would not surface in our company in any case, sir?
- K. K. Lalpuria:** See first of all it is not logical to think that it will get extended to other people as well. As we mentioned this is a routine process, whenever you supply any product in international market you have to follow the specs and you have to produce accordingly and those goes into all kinds of checks whether while producing or before producing or after producing. So this is a normal routine circumstance which every industry and every company in this industry has to follow. So there is nothing like it is vulnerable or all that. We are into a need based product, we have been supplying worldwide and just to inform you like India is the largest Cotton producer, Indian has been supplying Yarn, Fabric, Made Ups, Apparel, all in the textile segment to all different countries and there has not been any issue so far this is one of the issues which is quite unfortunate which we would not like to also talk about because the company has already offered that it will go through its process of checking the supply chain. So I think we should wait for some time, let them come out with the finding and this is not at all vulnerability to

answer your question, it is a routine process in which we supply this product to the international market.

Saket Kapoor:

That is what I was asking sir, if checks and balances are in place for everybody in the ecosphere then this situation should not have arisen and even after a long time of two years keeping the entire community in dark. I mean the point I am trying to make is that if checks and balances are in place then why should any issue of this magnitude will pop up also? That is what I am trying to confirm from you whether whatever quality which we commit to our suppliers we get certification from that after delivery is made to them yes, whatever have been committed have been met and then matter remains close things can pop up even on these grounds for firms like us for us also, that is what the clarification I was looking out for.

Mohit Jain:

See we comment on what, nobody has access of information as to what happened so, it is all like speculation what is going on so, beyond the point nobody can comment on it and we have no authority to do that.

Saket Kapoor:

No, sir, any certification we are receiving after delivering the quantity to the desired customer, we will take any certification as per the norms and as per the requirement we have submitted the order to them and they certified that the quality checks are okay, and things would not pop up two years after down the line that this was missing in it. This is what I was trying to get sense of sir.

K. K. Lalpuria:

We cannot, as Mohit said and I said earlier see these are all speculative thing, it is a routine method just try to understand that we have been doing this on all like each for every product whichever we supply whether any kind of Cotton or any kind of product specs have to be met. There is no wonder ability and every time like when we supply there are cases of rejections, there are cases of material being returned or you will get penalized for different qualities as well like say if the colors are faded, it is not like the stitching is not proper, packing is not proper, so there are so many areas where you know there are issues among us and the buyers many of the time and this we have always have to improve upon in it. So there is no vulnerability and this is one of the case and we should wait, we should not speculate and we should move forward.

Moderator:

Thank you. We take the next question from the line of Nishant Agarwal from B&K Securities. Please go ahead.

Nishant Agarwal:

My question is on the utilization side. Sir, we have said that our current sale is 13.46 million in Bed Linen, so do we expect the same 82% kind of utilization going ahead in the next three quarters?

K. K. Lalpuria:

No, you see as we mentioned that the first quarter is slow and definitely the other quarters are higher in volume consumption so, we should wait because our business is not on quarter-to-quarter basis. So, we should see that what the growth is on all four quarters. But we are in line with our expectation for the initial first quarter and we expect the growth to be as I mentioned earlier in the range of 12% to 15% in the future quarters.

- Nishant Agarwal:** Okay. So we can assume that going ahead our utilization will be 90% around because the new capacity will come by fourth quarter so, in next three quarters we can assume 90% kind of....
- K. K. Lalpuria:** We mentioned that it would be around 62 million so, that would be the number whether it percolates to 90% or 85% that we need to see.
- Nishant Agarwal:** Okay. And sir, on the other side, as we said Cotton we use is other quality Cotton not a Shankar 6.
- K. K. Lalpuria:** Shankar 4.
- Nishant Agarwal:** Shankar 6, no?
- Mohit Jain:** Yes, okay.
- Nishant Agarwal:** Okay. So which quality of Cotton we use, means it is a high quality Cotton or it is a High Staple Cotton?
- Mohit Jain:** These are all Long Staple Cottons.
- Nishant Agarwal:** Okay. So which Cotton can you...
- Mohit Jain:** It is called like DCH-32, TCH, these are some of the names.
- Nishant Agarwal:** Okay. Do you have some import of Cotton also?
- Mohit Jain:** Yes, we import regularly also.
- Nishant Agarwal:** What percentage of raw material?
- Mohit Jain:** I mean, I would not able to tell you off the cuff, it keeps changing year-on-year.
- Moderator:** Thank you. We take the next question from the line of Sumit Poddar from Birla Sun Life. Please go ahead.
- Sumit Poddar:** Sorry, for harping again on that question, I do understand that the issue that is there as far as this particular case is concerned is specific to the company and specific to the client as such. But from our side just to restore the confidence of clients what is it that we are doing to show that okay, we are compliant and possibly we have sent in this to take care of and we would never be or maybe we would be much better off in not having such a situation. Just to restore the confidence of the client on the company as well as on the whole country as well.
- K. K. Lalpuria:** We have stated time and again that whenever we supply any material, we supply as per the specification, as per the standard which is desired and it is time and again concurrently being checked and looking at the overall growth, overall success of your product, your sales, your revenue growth, your margin growth, it proves that you have been supplying good material to

the market place as per the customer requirement. So, in future also we intend to keep this flat flying in the similar thing so as to assure that we have complete robust systems in place which we review periodically both by us and the buyers and so, we assure all of you that whatever we are doing to the best of our knowledge and correctly.

Sumit Poddar: More so I was trying to understand from restoring the client's confidence, I mean we do understand that we are compliant and things like that but it is more about that the clients' confident would have shaken up.

K. K. Lalpuria: The client's confidence has shaken up which is one of the case and we do not want to comment upon between two companies what has gone wrong nobody knows the same in detail. It is still to be clarified by the companies involved.. So, it is too premature to speculate that this has gone wrong and it is vulnerable and it is suicidal in the whole industry not at all it is not logical thinking at all. And as I mentioned, this is routine thing. Now, if it flairs up in such an area so that you know everybody starts feeling that everybody might be in the same boat so, that is not true.

Sumit Poddar: So, I mean if I gather it correctly then possibly your clients have not come back to you in terms of any kind of assurance that they may need?

Mohit Jain: Correct. And we clarified that also earlier in the call.

Moderator: Thank you. Due to time constraints we take the last question from the line of Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar: Sir, I just wanted to understand one thing, what would be our order book going forward? I mean how many months' visibility do we have? And also secondly, if there is any additional demand that pop up during at least Q3 or Q4 earnings, are we in a position to meet it than what we are presently projecting?

K. K. Lalpuria: As we have been mentioning our order book position is almost like five months to six months and because the business in which we are so, which is comfortable and we hope to improve this in the future.

Mohit Jain: And to your second question, I mean if tomorrow any customer comes to us for certain capacities then of course we will have to work with them but we should able to satisfy their needs.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. K. K. Lalpuria – Executive Director for his 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 me or Strategic Growth Advisors our Investor Relations Advisors. Thank you once again for being on call.

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