Indo Count Industries Limited Q2 H1 FY 2017

Earnings Conference Call"

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

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Indo Count Industries Limited Q2 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 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 telephone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. K. K. Lalpuria -- Executive Director of Indo Count Industries Limited. Thank you and over to you, Mr. Lalpuria.

K. K. Lalpuria: Thank you very much. Good afternoon and a very warm welcome to everyone. Along with me, I have Mr. Dilip Ghorawat -- our new Chief Financial Officer and SGA our Investor Relations Advisors.

I am happy to share with you that our Company has been conferred with the prestigious Silver Trophy by TEXPROCIL. We have won Silver Trophy for the Second Highest Exports of Cotton Made-ups (Bed Linen, Bed Sheets, Quilts) in Category III for the year 2015 - 2016 from TEXPROCIL. This is the second consecutive year that Indo Count has been awarded with Silver Trophy by TEXPROCIL for the outstanding export performance.

Now, I will brief you on the Capex programme of the Company. Phase I capacity expansion of Rs. 175 crores - work on the expansion project of 68 million meters to 90 million meters per annum at Kagal plant, Kolhapur, Maharashtra is progressing satisfactorily. The project is likely to commence commercial production Q4 FY 2017 as per the schedule. Project is being funded by mix of internal accruals and term loan.

Now, Phase II which has been already approved by the board is on the drawing broad. We are still identifying the land in the state of Maharashtra and have short listed the same which is under progress.

H1 FY 2017 has shown a growth of 3.3% compared to H1 FY 2016. The focus of the management is to increase the margins by way of value added products and operational efficiencies. Our focus on building operational efficiency and optimal utilization of resources has helped us in strengthening as one of the largest supplier of home textile player in the U.S. and thus, achieving satisfactory numbers. We are passionate and solely focused on bringing complete comfort, better product, and experience to all our clients and consumers. Keeping this in mind, we have taken several initiatives like opening a huge showroom and a studio in New York for better customer experience and show casing all our products and brands. We are hiring talent and designers so, that we can offer better products and thereby building Indo Count as a brand both globally and domestically. We have launched three new license brands and earlier we have launched three life style brands. These entire portfolios of brands are meant to serve the fashion utility and institutional bedding businesses.

We are happy to inform that we have received a very good response from our existing customers and some of the new customers for the same.

Recently we recently undertook sub-division of the equity share of the company that is one share of face value of Rs. 10 into five shares of face value of Rs. 2 per share.

This is from my side, now I would like to hand over to our CFO Mr. Dilip Ghorawat.

Dilip Ghorawat: Thank you, Mr. Lalpuria Ji and good afternoon everyone. A warm welcome to all present on the earnings conference call for H1 FY 2017 results of the company. We have uploaded the Investor Presentation on BSE, NSE and on our website, and I hope you all have gone through the same. The financial results for the H1 FY 2017 and the previous H1 FY 2016 are based on Ind AS.

During the first-half of this fiscal 2017, our revenues stood at Rs. 1,069 crores higher by 3% compared to Rs. 1,034 crores while EBITDA improved to Rs. 227 crores translating into EBITDA margin of 21%; the EBITDA margin improved by 130 bps.

Profit after tax stood at Rs 123 crores, higher by 19% as compared to Rs. 103 crores achieved in H1 FY 2016 . The profit after-tax improved by 150 bps. The cash profit is up by 28.42% to Rs. 170 crores and the EPS has improved to Rs 31.16.

The debt position is very comfortable. Our long-term debt to equity as of 30th September, 2016 has reduced to 0.03 times as against 0.16 times of previous half-year. The interest coverage has also improved to 9.87 times.

Based on these financial numbers, we are pleased to inform that ICRA and CARE has upgraded the ratings of the company to ICRA AA (-) minus with stable outlook and CARE AA (-) minus for long-term facilities, term loan and fund based from ICRA A and CARE A signifying high degree of safety regarding timely servicing of financial obligations. Such facilities carry very low credit risk. Further the short-term bank facilities have been upgraded to the highest category of A1 (+) plus by CARE and ICRA which signifies very strong degree of safety regarding timely payment of financial obligations. Such facilities carry lowest credit risk. This upgradation in the long-term facilities and short-term facilities rating reflect the company’s consistent cash accruals generated in the business and its strengthen leading position in the niche home textile segment which has led to a healthy debt coverage metrics and liquidity position of the company.

With this, I would like to leave the floor open for the Question and Answer Session.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the Question and Answer Session. We take the first question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: My question is regarding the volume numbers for yearly quarter-on-quarter and half-year if you could provide me that?

K. K. Lalpuria: See, the volumes are almost flat, we did 29 million last year and this year we did close to 29.60 million.

Dhruv Agarwal: So, that is on a half-yearly basis?

K. K. Lalpuria: Yes, our business is to be looked upon a yearly basis that is why we always tend to discuss yearly results.

Dhruv Agarwal: Okay. And sir, if you could give me the split for the Capex Phase I of Rs. 175 crores as to what is the proportion of debt and what is the proportion of internal accruals?

K. K. Lalpuria: Phase I which is Rs. 175 crores we have intended to finance it through internal accruals and term debt. We have received sanction of term loan of Rs. 49 crores against which we have not drawn any amount so far. All our existing Capex under this phase has been done through internal accruals.

Dhruv Agarwal: Okay. So, as of now what is the amount of Capex that is already done out of this Rs. 175 crores?

K. K. Lalpuria: Last time we reported Rs. 110 crores another Rs. 25 crores has been spent as on 30.09.2016 which we would capitalize.

Dhruv Agarwal: Okay. So, as of now you have not taken any term debt so, all of it going through internal accruals only?

K. K. Lalpuria: Yes, please.

Dhruv Agarwal: Okay. And for the Phase II sir, you said that you are looking for land to build a new facility, right?

K. K. Lalpuria: Yes, it is a Greenfield project.

Dhruv Agarwal: Okay. And also, will you be doing some expansion in the present facility also?

K. K. Lalpuria: Yes, expansion is happening in the current Phase I i.e. from 68 million meters to 90 million meters and some expansion is going on towards warehouses and other means to store material and feed the dyeing and finishing facility. Apart from that in one of the Cut-n-Sew operations, we are expanding so that we can add up means to deliver Quilts, Comforter, and all the fashion bedding part of the business.

Dhruv Agarwal: Okay. So, this will a part of the Phase II expansion which you are planning right now?

K. K. Lalpuria: Yes. Phase I and Phase II are inter-connected to some extent but Phase II will be a Greenfield project mainly for weaving and Cut-n-Sew operations.

Dhruv Agarwal: Okay. And any guidance you could give for the year as to how do you see the volume numbers and sales number going for this year?

K. K. Lalpuria: See, the volume numbers would remain more or less in line with expectation they are positive marginally and we should improve upon the utilization of the volumes. But our entire focus is to generate more margin in the business because going forward we are focusing on the value addition.

Dhruv Agarwal: Right. Okay, and sir, just last small question, of the 68 million meters' capacity you have right now what should be the utilization for this full year?

K. K. Lalpuria: See, we have a capacity of 68 million meters and normally in textile even if we consume 63 – 64 million meters p.a we are almost at 100% looking at the product mix. This year we intend to do up to 59 million meters to 60 million meters.

Moderator: Thank you. We take the next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My first question is on the impact of de-monetization on our business in terms of sourcing of raw material or on a de-monetization side of the domestic market so, how do you see the impact on our business because of de-monetization?

K. K. Lalpuria: The de-monetization does not have any effect on us the reason being except for cotton which is an agro based product what we hear about in the newspaper apart from that we source from recognized suppliers means wherein the entire payment is on RTGS and cheque payments. So, we do not see any effect of de- monetization into sourcing our raw material.

Manish Ostwal: Okay. Second question, what is your outlook on the cotton prices for next six months to nine months' perspective?

K. K. Lalpuria: See, the cotton prices are stable and we have enough cotton in the country.Today only we checked up the cotton prices that has come down to around Rs 38,800 per candy. In last week, it went up to Rs 41,000 per candy because there were no cotton arrivals in the market place. So, we hope it would remain stable and available as well.

Moderator: Thank you. We take the next question from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: On the last year same quarter we have booked some around Rs. 20 crores of MTM gain in the revenue is there any in this quarter as well?

K. K. Lalpuria: No, see we are following Ind AS and there is a MTM gain of to the extent of around Rs. 9 crores in this quarter.

Praveen Sahay: Okay. And the main reason for the correction in the first-half gross margin as compared to last year?

K. K. Lalpuria: See, this is due to the change in the product mix and to some extent on the spinning business there was an increase in raw material cost but we could not get better realization in the yarn segment so, this 0.5% - 1% difference always is there on a yearly basis on the gross margin.

Praveen Sahay: Okay. And how have been the sales in this quarter, sir?

K. K. Lalpuria: Come again.

Praveen Sahay: Third quarter sales ….

K. K. Lalpuria: As I mentioned we are entering into more value addition, so, we do not see much impact on the gross margin in our home textile businesses. So, I think we should be okay.

Pravin Sahai: And also on the like U.S. business in the third quarter is there any pick-up we are seeing due to say Black Friday or so?

K. K. Lalpuria: Of course, like what we hear about our promotion for Black Friday and Christmas during this year they all seems to be positive, we still have to get the final numbers on the Black Friday because it happened just last week. So, we will come back to you with proper numbers as and when we get them. But overall, it seems to be positive in this quarter. There has been a rollover of demand only because of the sluggishness of the demand due to the summer extension and also because of the election happening during that period. The demand has not decreased as it was just a rollover of demand. Slowly the demand is picking up and I think we should be on the positive side in this quarter as well.

Pravin Sahai: Great. Lastly, how much is total debt sir, currently?

K. K. Lalpuria: Rs. 20 crores are the long-term debt and Rs. 160 crores are the short-term debt, we have a cash equivalent of Rs. 14 crores in the books.

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

Pawan Kumar: Sir, first of all, post this election results, are we seeing any kind of pick-up from the U.S. consumer side? And number two, this year as you have already mentioned, seems to be a bit muted on the growth front on the volume side, but next year what is the kind of growth we can expect or may be what are the growth prospects going forward for sales we are looking into the next year?

K. K. Lalpuria: Yes, first of all, it is too early to comment on the U.S. elections regarding Mr. Donald Trump's administrative side, but I think it is positive as far as India is concerned. Being a businessman I think he would take appropriate steps to build on the competitiveness both within USA and outside. Whatever we hear about those he would take policies which may favor India and so, we see growth happening there and we can also observe that the interest rate hike is on cards in the U.S. so, there is increase in consumption and we feel that it should be overall positive for India going forward.

Pawan Kumar: Okay. On next year's growth sir, what will be your comment?

K. K. Lalpuria: See, next year growth is good because in this year we had taken a lot of initiatives into establishing new businesses, the domestic launch and brand building of our new brands, new showroom and the Capex of expanding the capacity so, I think we have a good outlook for next year because as we would build in new clients and new product mix around them, we see positive outlook and growth in the next year.

Pawan Kumar: But, can we expect a growth rate of say 15% to 20% to volumes going forward may be over the medium-term because I understand this year it might not be possible but may be in the next year in the coming two years, is that the kind of rate

K. K. Lalpuria: 15% to 20% on a larger base may not be feasible, even though we plan our budget accordingly for growth of 20% but I think on the lines of we being a value added business provider today in the beddings sphere, we expect it to be around say 10% to 15%.

Pawan Kumar: Fine. And sir, one book keeping question from my end. Since, the Q2 FY 2016 numbers had restated because of this accounting standard adjustment.

K. K. Lalpuria: Ind AS

Pawan Kumar: Any kind of adjustment that is expected or if you can give us an idea of FY 2016 what is the realistic adjusted figure that we should actually look at on the PAT basis?

Dilip Ghorawat: If you see the numbers, what we have updated on the stock exchange, the impact of Ind AS is minimum.

Pawan Kumar: So, FY 2016 PAT will be at Rs. 264 crores, is it sir?

Dilip Ghorawat: More or less on those lines because we have taken all the impact of Ind AS so, it will be more or less on the same line.

Moderator: Thank you so much. We take the next question from the line of Vipul Sanghvi from Religare Capital Markets. Please go ahead.

Vipul Sanghvi: Sir, two questions basically, one is that I am just looking at the numbers and the line on other expenditure, I am seeing both for the half-year and for the quarter this line has come down by about 18% to 20%, I just wanted sir, which are the elements which is getting the number down and is there a trend we should assume that this other expenditure line there will be saving going ahead also?

K. K. Lalpuria: Yes, you see, we are trying to achieve our operational efficiencies and those numbers like in the other expenditure show that. So, we expect in the future also to sharpen our pencils to improve our efficiency and overall operations.

Vipul Sanghvi: Fair point, sir. And since my second question was regarding our expansion schedule so, are we on track to complete these 90 million meters by end of FY 2017 some update on that, sir?

K. K. Lalpuria: Yes, we would hopefully complete the expansion to 90 mn meters by end of March 2017 and we will start looking at this sales in the coming year. We will start utilizing the incremental capacity in the coming years.

Vipul Sanghvi: And this would then be entailing the total CAPEX of Rs. 475 crores, am I right?

K. K. Lalpuria: Yes, Phase I is Rs. 175 crores and Phase II is Rs. 300 crores.

Vipul Sanghvi: Right. And sir, what is our CAPEX lined up FY 2018 onwards, I mean is there anything on the drawing board?

K. K. Lalpuria: No, Rs. 300 crores capex under Phase II is still on the drawing board because we are in the process of identifying land and it is a Greenfield project. So, we are still negotiating with the Government of Maharashtra because they have recognized the same as a mega project and we are still in discussion with them on the various benefits to be provided to us. So, we will come back to you as an when we get a clear idea on this mega project from Govt of Maharashtra.

Vipul Sanghvi: Okay. And this entails expansion of what capacity for Rs. 300 crores?

K. K. Lalpuria: See, this Rs. 300 crores basically is towards building our weaving capacity because our weaving capacity is today 9 million meters in house and since we would expand processing capacity to 90 million meters, it would come down to 10% of our entire dyeing finishing capacity. So, what we intend is to do is to put on another 18 million meters to 20 million meters of weaving capacity because we require specialized fabric for Fashion Bedding and Utility Bedding. So, we are adding some special looms and that will accommodate us with our requirement on the fashion side of the businesses. Our total weaving capacity would scale up to 27 million meters and some part of the CAPEX would go towards automization of spinning and the another part would go towards automization of Cut-n-Sew and adding various specialized machinery for delivering special fabrics, again for the new businesses which we are venturing into.

Moderator: Thank you. We take the next question from the line of H. R. Gala from Pranav Advisors. Please go ahead.

H. R. Gala: Sir, just wanted to know if you can give me the break-up of total other income, operating other income and other income which adds up to Rs. 39.04 crores in H1?

Dilip Ghorawat: This basically constitutes the export benefits what we are getting on our exports like duty drawback, MEIS, etc..

H. R. Gala: Okay. So, can you just me broad numbers like how 19 became 39? I am talking about H1.

K. K. Lalpuria: There is some addition of exchange hedging gain also Mr. Gala. There is a hedging gain also when we booked for the forex, we get an interest coverage so that also is shown in other income.

H. R. Gala: Okay. Do you have the break-up if you can share with us?

K. K. Lalpuria: We can provide you offline if you need be the break-up.

H. R. Gala: Okay, no problem, I will get in touch with you.

K. K. Lalpuria: Yes.

H. R. Gala: Sir, I will just draw your attention to slide number 17 of the presentation.

K. K. Lalpuria: Yes, tell us.

H. R. Gala: Yes, on the left hand side under Phase I these red bar show that 68 million meters is going to be 90 million meters capacity. Now the right-hand side, under Phase II what does the Sheet Sets in million represent from 17 to 23?

K. K. Lalpuria: See, Sheet Sets comprises of a Flat Sheet, Fitted Sheet, and Two Pillow Covers. So, we always refer it to the number of Sheet Sets which we can make because we invest 100% on our dyeing finishing and Cut-n-Sew operation so, the capacity to the final customer is correlated to Sheet Set numbers what is our capacity because they are concerned with this number and that speaks about our investment on the Cut-n-Sew side also, because this involves a lot of human hands so, we have thought of giving this to give you an idea of the number of Sheet Sets which we can deliver finally to our customers.

H. R. Gala: Okay. So, that is if we have got a 90 million meters processing capacity,it means that we can provide 23 million Sheet Sets?

K. K. Lalpuria: Yes, please.

H. R. Gala: That understanding is correct?

K. K. Lalpuria: Correct. Because the Sheet Sets would be in different countries, it is having different consumption pattern so, therefore it varies and we have taken those numbers because a lot of investment is needed to deliver the Sheet Sets also from the Cut-n-Sew side.

H. R. Gala: Okay, I appreciate that. Because I was a bit confuse that since you have shown it under Phase II what does it represent?

K. K. Lalpuria: Yes. So, after the Capex of Phase II our Sheet Sets capacity deliverance would be around 23 million meters.

H. R. Gala: Okay, I understand, this is very clear now sir.

K. K. Lalpuria: Okay.

H. R. Gala: Sir, another thing is that if we look at this impact of Indian Accounting Standards, in Q2 of FY 2016 last year when we reported a PAT of Rs. 65.93 crores in September 2015 , that was under Indian GAAP I believe.

Dilip Ghorawat: Yes.

H. R. Gala: Now, Rs. 65.93 crores have now become Rs. 51.64 crores so, that is the substantial reduction, what could be the major element which would have contributed to now this new AS number?

Dilip Ghorawat: See, this is a mark-to-market loss on forward cover hedging which is about Rs. 20 crores.

H. R. Gala: Rs. 20 crores mark-to-market loss.

Dilip Ghorawat: Yes, it has been restated accordingly as per Ind AS

H. R. Gala: Okay, that has now been restated.

Dilip Ghorawat: Yes.

H. R. Gala: Okay, loss, so, that is why the Rs. 20 crores have got reduced.

Dilip Ghorawat: There are some different deferred tax adjustments and everything so,and hence net impact is about Rs. 14 crores.

K. K. Lalpuria: In fact we are also now getting used to this IndAS and these are too confusing to answer so, what we are trying to do is to understand it from your context and we will reply to you offline on the real effect.

Moderator: Thank you. We take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.

Giriraj Daga: Sir, my first question is related to volume, like last quarter we said we can do about 60 million we said we can 62 million meters and now we are saying about 59 million meters - 60 million meters so, we are seeing some bit pressure kind on the volume growth coming in.

K. K. Lalpuria: No, what I had informed earlier is, in the U.S. the summer got extended for one and half months and that is why the winter goods were not available on the store and the shelf so they were not promoted. We lost that one and half month sale; here we mean the retailer lost it and the projections were toned down and secondly, because of the sluggishness of demand due to the elections in USA, added up to this situation so, this rollover of demand happen in the future but whatever has been lost like one and half months towards this winter sale that we cannot recover in this year so, those projections have been toned down and that is why we are mentioning around 59 to 60 million meters.

Giriraj Daga: Okay. My second question is like earlier we had probably discussing that our future expansion should be exhausted like we should be able to reach the full utilization in two years from 68 million meters to 90 million meters. So, now if we are taking about 10% kind of growth then it is again like we are extending by one more year there also.

K. K. Lalpuria: No, we did say that we will do this in two and half years till 2020 and if you look at our growth trajectory we have ventured into the Fashion Bedding, Utility and Institutional Bedding which are new businesses to us and we have mentioned that we will grow this business to around 30% in the next two years to three years time. So, as we progress in that we are taking a conservative approach of reporting 10% to 12% but we see a good acceptance to our product and therefore, we will come back and report to you exact numbers in time to come but today to tell you around 15% would be wrong on my part because it is a new business for us and the customer is accepting those product, we would see now with the new administration changes also how Mr. Trump performs, so all these factors would build on the businesses going forward. Further we have also informed there are headwinds on the non-U.S. business which are also improving as we speak. So, those also will add on to numbers and we have launched the domestic brand also wherein we have not reported any number so far because we just started distributing in October so, those numbers also will be added. So, once we get a pulse of all these three activities, I think we will be able to report to you the likely growth. We are quite optimistic as we do plan like a 20% growth every year in our budget and we intend to grow by around 10% to 15%..

Giriraj Daga: Okay. Just one relative question to volume only, you are saying that last year it was 54 million meters p.a. and we are talking 59 to 60 let us say even 59million meters p.a. so, second, we are seeing about 20% volume growth so, have we seen the kind of traction so far in the third quarter like for to achieving 20% volume growth in the second-half?

K. K. Lalpuria: See, to some extent we would see a good volume because as I mentioned to you there is a rollover of demand but you see when we are entering into new value added business, we are not looking at only the volume growth. Our conscious effort is to grow our margin so, our entire incremental energy is deployed in enhancing the margin, we would not like to become a desperate seller to utilize the capacity. And secondly the capacities are built on to bring about the flexibility in the retail segment because whenever we come out with a new order or a new roll out or a new customer, there is a huge quantity to deliver so, we meet that flexibility in house to deliver to the customer this service as well. Further once the FTA gets signed with the Europe or some other countries which India is discussing there would be a likely good spurt in our products so we should be ready for that opportunity as well as a company. So, all these factors should be considered while deciding upon the volume growth.

Giriraj Daga: Sure, last question sir. On USA you said, we have opened one showroom to showcase and to get more closer to the customer what is the fixed cost, the cost is very high, any further like any further plan to increase the number of like show rooms like that?

K. K. Lalpuria: No, this showroom is basically to showcase our products. See, earlier we did not have in house brand. Now we have launched three new life style brands and three licensed brands. In order to showcase these brands we have gone for a bigger show room with increase in marginal expenses which will offset to some extent in growth what we anticipate in the future. Hence in these category the brands are important and the display in showroom is important because we need to show a lot of product on the fashion side. Further the expenses are like routine expenses there is nothing more additional expenses we need to incur. Even for the licensed brand we shall be paying royalty as a variable expense on the turnover effected.

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

Sachin Kasera: This is Sachin Kasera here. Sir, you mentioned these three segments that you have entered one and half years to two years back, you want to take it to 30% of sales. Can you tell us what has been the progress so far where we were last year and how we have progressed in the last 12 months on that segment and what percentage of sales is coming from those?

K. K. Lalpuria: See, last year when we started this we did not have any brand, so, we have launched new brands. Further we have opened a new showroom in New York, USA, as I just explained earlier. We expect in this year like we have started with some good promotion in couple of specialty and departmental stores and these brands will take time to establish in the market because it requires at least two years to three years of promotion and then only customers start accepting it. And within these six brands if we get elevated in one brand there would be some good growth in numbers for us both volume wise and value wise. So, coming back to your questions, we expect this year there would be an increase of almost like what we reported earlier this year 10% of last year as these three new categories of business will be around 17% - 18% of our revenues of HT division..

Sachin Kasera: And the margins that you are getting in these three categories are similar to the earlier business or are they lower?

K. K. Lalpuria: No, they are bit a higher as you can see from the profitability we are reporting, we have just started so, we expect the incremental margin by around 100 bps to 150 bps in the future.

Sachin Kasera: Sure. Sir, the second question was if you could tell us what has been the growth in the U.S. and non-U.S. business separately that could tell us how has the non-U.S. business performed and if any major breakthrough we have made in any large account or any territory outside of U.S. this year?

K. K. Lalpuria: As we all know the U.S. numbers are always promising and we expect growth in the U.S. market and we have been able to break through in a couple of retailers in a very good way and we expect a large potential in those two customers.In the non-U.S. businesses also we have started supplies with a couple of European retailer businesses and we hope to scale that up in the near future. So, I think the outlook is very positive and for a company like us we are having audience to most of these retailers as we have delivered them in the past successfully and we have served them well. I feel these factors will help us in scaling up our product and our margins in the future. And as we enter into more high value addition product, I think there is an opportunity for us to grow our margin on consistent basis going forward

Sachin Kasera: Sir, currently what is the mix between U.S. and non-U.S. and what was it for FY 2016 or if you could tell for H1 FY 2016 either way.

K. K. Lalpuria: See around 65% -70% in US around 35% - 30% in non US as what we normally see is the business and sometimes it goes 2% - 3% here and there.

Sachin Kasera: Sir, this Rs. 300 crores Capex when do you plan to internally commission this project?

K. K. Lalpuria: See, as I mentioned we have applied to the Govt of Maharashtra for a mega project status, which has been accepted and we are negotiating with them for the incentives. We have identified a couple of places in Maharashtra wherein we have short listed some of these land and we will be soon finalizing the requirement of the land. We shall revert back to you as and when we finalize the same. So, it is in progress presently.

Sachin Kasera: And sir, also we were also looking that we could take the processing capacity from 90 to 110 in the Phase II as of now that we have put on hold on, sir.

K. K. Lalpuria: No, we have not mentioned about this hike of processing capacity. Let us complete hike in capacity from 68 million meters to 90 million meters. We shall always look for getting business in the next two and half years so that this incremental capacity is utilized fully. I think India stands a very good chance to grow in Home Textiles because recently I attended Conference of ITMF in Jaipur where a Chinese delegation of around 100 people along with the Chinese Minister also visited wherein they gave a presentation that their home consumption in home textile is growing by 17% as around 100 million Chinese population is shifting from rural areas to urban areas so, they require additional homes and home textiles. So, I think there is a good scope for India to grab this market share in the time to come.Once we have this FTA and GST and all other things in place and the rationalization of synthetic duties, man-made duties, there is a big scope for India to grow this business to a new level and we shall be a part of the same.

Moderator: Thank you. We take the next question from the line of Dhavan Shah from Indsec Securities. Please go ahead.

Dhavan Shah: So, would it possible to provide the revenue break-up between these two segments that is spinning and home textile for this Q2 FY 2017 versus Q2 FY 2016?

Dilip Ghorawat: 90% is home textile and around 10% is spinning.

Dhavan Shah: Okay. So, you say that the volume growth for the first-half was almost stagnant and if I look at the overall value growth that is around (-2.2%) is there any dip in the realization of the home textile segment?

K. K. Lalpuria: So, the realization is marginally positive and we would see that these effects coming in the time to come as I explained to you earlier when we expand our portfolio of Fashion, Utility and Institutional Bedding in our entire product mix, then you know this margin would also grow.

Dhavan Shah: So, what was the realization growth for this first-half in home textile?

K. K. Lalpuria: See, we do not go as to realization either per meter or per kg because it the product mix keeps on changing as per the retail requirement so, you can always look at the numbers and you can because I mentioned to you about the million meters that it is more or less the same but there is a revenue growth of around 3.3% and hence you can always see that there is a positive growth on the value side as well.

Dhavan Shah: So, I mean in FY 2016 if I look at the realization it was around 10 percentages or may be 11 percentage Y-o-Y growth. So, for FY 2017 it could be in mid-single-digit may be around 4 percentage to 5 percentage is that understanding correct?

K. K. Lalpuria: Yes, may be, I think, somewhat you are right.

Dhavan Shah: Okay. And going forward like we are planning to add more value-added products so, it could go to double-digit may be in FY 2018 - FY 2019?

K. K. Lalpuria: We all expect that but sometimes the raw material plays spoiling part or sometime the market response, sometime the dollar is unstable so, you have to balance all this three, basically you need to be able to pass on depending upon the demand and supply. So, it is very difficult to project but once your product are accepted by the retailers and you have done well, you have performed well, you can demand to traject into the better segment of the market and that is what we are trying to do. And also we can go to better cliental mix so, that you know we can scale up our product mix and get better realization for our product with the same set-up.

Dhavan Shah: And would it possible to provide the export incentives that maybe you might be adding into net sales so, that possible to provide that numbers?

Dilip Ghorawat: We will share with you these numbers offline even someone else has also asked for these details so we will provide it later on.

Dhavan Shah: Okay. And in these net sales I mean do we include this MTM gain or loss?

Dilip Ghorawat: No.

Dhavan Shah: You do not add ?

Dilip Ghorawat: No.

Dhavan Shah: Okay. And this, the fall in the gross margin for this quarter it is primarily because of the spinning business or may be the increase in the cotton prices has impacted the raw material cost?

K. K. Lalpuria: See, the raw material cost as we all know is because sometimes the product mix gets changed and sometimes because the spinning is not doing well as the spinning division has a very low EBITDA and the raw material cost which got increased in our spinning business wherein we were not being able to pass on the increase in raw material prices to the customer.

Dilip Ghorawat: I would like to add that yarn prices were stable even through the cotton prices were shooting up.

K. K. Lalpuria: The prices shot up in raw cotton but we were not able to get better realization for the yarn. So they did not go hand-in-hand with the increase in the raw cotton prices.

Moderator: Thank you. We take the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

Sagar Karkhanis: Sir, I wanted to understand, with these good margins, given the competitive scenario do you think that going forward these margins will be sustainable ?

K. K. Lalpuria: Yes, that is what we said that our entire focus and effort is to maintain and sustain the margin going forward which we will be able to do so.

Sagar Karkhanis: And secondly sir, after this issue of Target and sourcing of this Egyptian cotton and all from India has that affected the brand credibility of Indian sourcing for Bed Sheets and have you seen impact on our pricing power or anything like that?

K. K. Lalpuria: No, not at all we should not think this way because it is the issue between these two companies and whatever information is available that is in public domain so, there is nothing to fear about our industry as far as the branding is concerned it is routine matter and I think it will go on business as usual.

Sagar Karkhanis: So, with our institutional clients we have not seen any impact of this issue, right?

K. K. Lalpuria: Not to my knowledge and not to our company's knowledge so far.

Moderator: Thank you. We take the next question from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: My question is regarding as per OTEXA till August there is a growth of 2% and we are showing growth of 3% in H1 so, is it indication for the home textile player, we are not grabbing market share of China or we are facing problem in demand side, so, what is the key reason for that?

K. K. Lalpuria: When you look at say U.S. numbers on customs like say for OTEXA, it gives you a broader picture on a macro level, it does not provide you which company is increasing by what number, it gives us a broad picture of what the growth is and secondly, you see as we mention that China we all know for good reasons that their share is decreasing and we are capturing their market share if you look at our numbers on OTEXA as well that we have reached almost now 50% in the Sheet Set side. Now slowly we are venturing in these other three categories where China is dominating to 85% of the market share so, we feel that those numbers should also be assessed and we would see that there is a good opportunity growth from India in those numbers. So, coming back , this would give you an outlook that India is on a positive track.

Sumant Kumar: Okay. But it shows a de-growth in Bed Linen side when you see the OTEXA data.

K. K. Lalpuria: No, you have to see the overall business on yearly basis because you cannot see month-by-month or quarter-by-quarter in that.

Sumant Kumar: Okay. When we see your quarter number, we have not seen this kind of growth over six quarters - seven quarters eight quarters but this quarter we have seen a flat quarter and when you talk about the volume guidance you are giving volume guidance of 59 million meters and in FY 2014 it was 44 million meters, right. So, when you deduct the 44 million meters minus 29 million meters the previous year the remaining is 15 million meters and when you deduct your guidance of 59 million meters you minus 30 million meters around, the growth is likely for H2 is around double 100% growth.

K. K. Lalpuria: Actually, frankly I did not catch up with your numbers because you know so, I will give you those numbers offline I have all the numbers with me, what we have done so far and what we will be doing so far. So, we will share that with you.

Sumant Kumar: Okay. The only thing is whatever growth guidance you are giving the volume number 59 million meters when you deduct the 29.6 it is coming around 29 million meters.

K. K. Lalpuria: No, we said last year FY 2016 we achieved volume of 54 million meters and this year we are likely to achieve around 59 - 60 million meters so, there is a around 6 million meters of growth by volume terms. So, this is what we are seeing, I do not know what numbers you are referring . So, if there is anything you would like to know, I can share that with you on offline.

Sumant Kumar: Okay. The second question is when you talk about the efficiency improvement and decline in other expenses, when your capacity utilization is not at the peak and we would like to understand how the other expense as a percentage of sales decreased?

K. K. Lalpuria: So, there are so many other overhead namely there is a power, there is a the labour cost, then there is product mix also what you deliver, the marketing cost.There are so many other factors which plays in addition to above like the packaging material, there are so many things which you can improve upon when you deliver, so those are the other expenses which we always try to keep a track upon and reduce. And when we scale up the operation and even if you use 10% extra capacity you are bound to save many of the things.

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

Pawan Kumar: Sir, I wanted to ask you about the value-added mix, what is it currently and by the end year what is it expected to be?

K. K. Lalpuria: Value added business like what we mention on the fashion side and the other two businesses which we ventured into and we are expecting that to grow from 10% in last year to around 17% - 18% this year.

Pawan Kumar: Okay. And are on line to meet that particular expectation as of now H1?

K. K. Lalpuria: Come again.

Pawan Kumar: Sir, value added products, will we able to record a significant growth in the H1?

K. K. Lalpuria: Yes, as I mentioned in H 1, we have promoted the new brands and we have been able to place in some of the specialty and departmental stores so, it has started. Now in our business, you first venture into the store you get into the door opening then they feel confident about your supply and then slowly they upgrade you to the next level, so it takes a little bit of time to elevate to the second position so, that has happened already. We have established the means to deliver this product and now we are showcasing it and the retailers are accepting it and slowly you would see a good amount of growth in this value-added product.

Pawan Kumar: Sir, can we expect any small bump up in margins by the year end because we are at around 20.8% whereas our peak was at 22.08% so, can we go up to 23% back?

K. K. Lalpuria: Yes, I think so, we should be able to maintain the margins going forward what we had reported earlier.

Pawan Kumar: Okay. And lastly sir, Q3, Q4 any kind of adjustments again expected because of accounting standards in FY 2016 numbers.

Dilip Ghorawat: In FY 2016 there could be some MTM gain or loss which we are reworking with the auditors wherein the Institute have been issuing some new guidelines and hence the impact of Ind AS in FY 2016 will be completed by the year end of FY 2017.

Pawan Kumar: So, actually we also have to figure out.

Dilip Ghorawat: I do agree that is what we have done really with the numbers as of now but we are just waiting for the final guidelines and we do not want to keep on changing that is why we have not disclosed it.

Moderator: Thank you. We take the next question from the line of Dhavan Shah from Indsec Securities. Please go ahead.

Dhavan Shah: Just one thing, I mean you have mentioned that while giving the guidance for the volume growth in home textile, you have considered some like FTA agreement all those thing, suppose India does not sign any FTA in the second-half then is there any room to cut I mean will you cut your guidance for this home textile segment in terms of volume?

K. K. Lalpuria: FTA is one of the area where we see opportunity but otherwise the European Customers are already buying from us because of socio economic issues are stopping their sourcing out of neighbouring countries like Pakistan, Bangladesh and also to some extent to China because the cost has really gone up and the business is getting shifted to countries where they are comfortable with the raw material source and where the complete value chain exists. So, we stand in better position to expand our businesses in textile sector particularly and now we hear U.S. would be doing away with the TPP as Donald Trump mentioned about. So, I think there are many other factors which we should consider and India stands to gain in that because India is a largest producer of cotton, we have an established spinning segment, we have already performed since last 11 years once the quotas went away and we are established in the good books of all the retailers around the world. So, I think we as a country stand a good chance into getting a bigger market share in the years to come and FTA is one of factor.

Dhavan Shah: Yes, but if you exclude the FTA condition then what could be the volume number in FY 2017?

K. K. Lalpuria: You mean to say for Indo Count?

Dhavan Shah: Yes, for Indo Count, you have given a guidance of around 59 million meters to 60 million meters that is inclusive of India sign FTA but if you exclude that assumption then what could be the volume numbers?

K. K. Lalpuria: The volume number I already gave is around 59 million to 60 million we shall be achieving on the volume side and the value we cannot define it so far.

Dilip Ghorawat: One more thing I would like to add that achieving 59 million meters to 60 million meters of volume is not dependent on FTA.

Dhavan Shah: Okay. So, are you sure I mean that 100 percentage jump.

Dilip Ghorawat: Going forward there will be greater opportunity i.e. opening the doors to Europe.

K. K. Lalpuria: Somebody asked me about post that 2017 that what would be the areas where you see bigger growth in the coming years in 2018, 2019 or in 2020, that is what I meant that FTA is one of them which India is already discussing with Europe and once that opens up we will be at level playing field with other textile producing countries so, which is like substantial, which is 9.6% duty so, I think that is I mentioned about the future years.

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

Chintan Seth: Sir, just on the Slide #17, you explained about the meterages of that number. So, basically I just wanted to understand is there any variance we have seen on the Sheet Sets pricing at which we are selling to the client or retailer over the last say two years - three years or it is a very stable on a dollar term it is a very stable kind of realization or marginal improvement we have seen and what kind of realization per Sheet Set are we expecting post our shift from regular to fashion and brands segment so, how much increase we are expecting on realization on the Sheet Sets number?

K. K. Lalpuria: See, basically what we have shown is the Sheet Sets capacity cannot only be between the Sheet Sets capacity and the realization per Sheet Sets because every country got its own consumption of Sheet Set in meterage and they are different. But to provide you the scalability of our company we had given you this number so, as you know that we are capable of producing 2 million Sheet Sets when we say that we spend money on the Cut-n-Sew operation, we should give you that scale as well. So, that the money is well spend so, that is the idea of projecting this number. But to answer your question, we do see marginally there is an improvement in the Sheet Set prices and the product prices because India is going towards innovation and it is not just supplying commodity that is how India is differentiating from the other country. And since India adopted this technology and build on this business post 2005 it is a new industry for us where we absorbed good technology to produce good product and delivery to the market place. And as we see the consumer behavior changing and people needing more functional benefits in the product;this stands a good chance for India to scale up the realization as well. So, I think we would continue with innovation in these product which will lead to better realization. India has been considered a good sourcing destination because India has differentiated both with innovations and product quality so, to answer your question, there is a marginal increase of the product price.

Chintan Seth: Okay. So, that is mostly in the dollar or euro terms, the product pricing and the orders we get is basically on that front, per unit on a dollar terms and per unit on a euro terms.

K. K. Lalpuria: There are other factors also, say sometimes the cotton becomes stronger, sometime the manmade become stronger, sometimes they demand Cotton Linen, sometimes they demand Cotton Silk, now the moment they demand Cotton Linen you have to reduce the thread counts which we deliver. So, there are so many factors the product price keeps on evolving so.

Chintan Seth: Yes, on an overall basis basically mostly on a per unit dollar, per unit euro basis the order we generally get.

K. K. Lalpuria: No, you cannot because see, like in Germany they ask you to supply single Bed Sheets and then you know in U.S. they ask you to supply double Bed Sheet so, you cannot compare a dollar per unit of realization because there are so many qualities so, there are so many permutation and combination to deliver a Sheet Set. Here, the only reason why we inform you about the scalability of the operations and to show you the magnitude of expenditure which we are doing on the Cut-n-Sew operation side also, when we say that we have customized the Cut-n-Sew operations wherein we have invested into the Cut-n-Sew operations by almost like Rs. 50 crores so, you should get like a clear picture of how much money which we are putting on in this area so, that the scalability you can judge with the numbers.

Chintan Seth: And sir, one last clarification, you mentioned that first-half volume is 29.6 million meters versus 29 million meters last year first-half.

Dilip Ghorawat: Yes.

Moderator: Thank you. We take the next question from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Most of my questions have been answered. Just one question sir, what is the effective tax rate, if I look at the overall debt the interest component seems to be a bit higher.

Dilip Ghorawat: The tax rate is full tax rate.

Darshit Shah: I am talking about the interest cost, sorry.

Dilip Ghorawat: Okay, The interest rate is presently about 10% and since our rating has been upgraded we feel that going forward this will reduce.

Darshit Shah: Okay. In the first-half it still look interest cost was close to around Rs. 21 crores, the total debt roughly will be how much for the first-half?

Dilip Ghorawat: It will be about Rs. 180 crores.

Darshit Shah: Okay. So, the does the interest cost include some other portion?

K. K. Lalpuria: Yes, I will explain you, see there are bank charges, the discounting charges for the purchases which we do, all those charges are inbuilt onto the interest cost. So, whatever interest on long-term, short-term then the banking then the discounting charges, LC charges, LC opening charges all are built in this interest expense.

Moderator: Thank you. Well that was the last question. I now hand the conference over to Mr. K. K. Lalpuria for his closing comments. Over to you, sir!

K. K. Lalpuria: We continue to be very positive on long-term and as our expansion is completed we see better visibility in revenues resulting in the quantum growth in the next two years - three years. This is our second round of growth as you can see wherein we have ventured into new products and so, the product mix, and the cliental mix also be lied on to our revenues. In addition to our U.S. sales we also hope that there would be growth in the non-U.S. market as well because we are taking the right step in order to scale up our visibility in the non-U.S. areas as well.

With this, I would like to thank everyone for joining on the call. I hope we have been able to address all your queries, for any further information, kindly get in touch with us. Thank you once again.

Dilip Ghorawat: Thank you.

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