"Indo Count Industries Limited Q2 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q2 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guaranteeing of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K R Lalpuria, Executive Director of Indo Count Industries Limited. Thank you and over to you Sir!

K R Lalpuria: Hello and good afternoon everyone. First and foremost, I hope you are all keeping safe and healthy. I hope everyone must have got a chance to look at the presentation and press release by now.

I have with me Mr. Muralidharan, our CFO and Strategic Growth Advisors, our Investor Relation Advisor.

First of all I would like to take this opportunity to thank each and every employee at Indo Count for their continued support in navigating through these challenging times. The resilience of our team members over the years has borne fruits for us today. I would also like to thank the management, our Chairman and Vice Chairman for their continued patience and support and their strong vision to lead this company.

In the recent words of Tim Cook, he mentioned, "This year our homes have become even more important in our daily lives." We are witnessing this play out in our markets. "Home" is becoming the center stage with increased consumer spending due to more time spent at home due to the work from home and social distancing culture. A lot of structural factors are expected to play out going forward. Let me explain them.

First of all the **China + 1 strategy**. We expect China + 1 theme to reap benefits where the brands are looking for a credible second source in order to reduce dependency on a single geography. This along with the government support under Atmanirbhar Bharat to uplift domestic manufacturers, we believe the Indian home textile industry is in a sweet spot and it is likely to benefit due to abundant availability of raw materials and skilled manpower along with steady capability and capacity available for growth.

Now on the **retail consolidation**, we expect a higher demand trajectory from big box retailers as compared to small retailers. With this consolidation companies with focused solutions and faster-go- to-market approach are gaining market share. We believe our strong relationship with large retailers and our credibility as a consistent and innovative supplier will greatly enhance our market share.

Then on the **value addition in the product categories**. We are witnessing demand towards value added product categories addressing health, hygiene and wellness. This theme will accelerate going forward to provide immense opportunities for value addition. The awareness and need for these categories are providing opportunities for further value addition. The omni channel sales are helping to drive these categories in reaching out to new customers thereby strengthening our customer relationship further.

In a step towards aligning our product categories with the aspiring needs of the customers, I am happy to announce that we have quickly adapted to the market dynamics on the back of our strong R&D and technological advancement. Towards this objective, we have made following initiatives:

a) Launching **"Wholistic - Whole Health Sleep Better"** brand which features innovations associated with cleaner living, keeping a hygienic home and fostering better sleep

b) We also launched **Sleep Rx™** during Fall market, New York focusing on sustainable performance

c) In October we launched a new domestic brand named **'Layers'** which is a value driven mass brand to cater to aspiring customers across India

d) We also launched **Boutique Living Luxury** which is a Direct to Consumer luxury bedding brand in India.

e) We have also partnered with Global major **'Archroma'** for manufacturing Home textiles in India for our PureEarth Organic cotton brand which will use plant based dyes

We believe that these are long term sustainable positives for the Home textiles Industry. With good customer base, capital adequacy, wider geographic distribution, extensive sectoral understanding of products and product development as well as a relatively under leveraged Balance Sheet, we are well prepared to quickly adapt to the changing customer ecosystem.

Let me now share with you our Operational and Financial Performance

I am happy to announce that we have achieved highest ever quarterly sales of 22.76 mn for Q2FY21. We have inched up from 13-17mn meter per quarter of sales volume in last couple of years to now being at over 20mn meter per quarter. Our order book looks healthy for the coming quarters and we are confident of a sustained growth. We are therefore pegging our FY21 guidance for sales volume at 72-75mn meters.

Total Income

Rs. 724 Crs in Q2FY21 vs Rs. 587 Crs in Q2FY20, a growth of 23% YoY

Rs. 1,060 Crs in H1FY21 vs Rs. 1,106 Crs in H1FY20

EBITDA

Rs. 127 Crs in Q2FY21 vs Rs. 82 Crs in Q2FY20, a growth of 54% YoY

Higher absorption of fixed costs on the back of increased volumes led to EBITDA Margin at 17.5% in Q2FY21 vs 14.0% in Q2FY20, an increase of 349 bps YoY

Rs. 166 Crs in H1FY21 vs Rs. 154 Crs for H1FY20, a growth of 8% YoY

EBITDA Margin at 15.6% in H1FY21 vs 13.9% for H1FY20, an increase of 173 bps YoY

PBT before Exceptional Items

Rs. 111 Crs in Q2FY21 vs Rs. 60 Crs in Q2FY20, a growth of 85% YoY

Rs. 134 Crs in H1FY21 vs Rs. 112 Crs in H1FY20, a growth of 20% YoY

Debt & Cash

Total Long-term Debt at Rs. 29 Crs as on 30th September 2020 vs Rs. 36 Crs as on 31st March 2020

Total Debt (including working capital debt) at Rs. 290 Crs as on 30th September 2020 vs Rs. 329 Crs as on 31st March 2020

The Cash and Cash Equivalents at the end of 30th September 2020 at Rs. 228 Crs

Net Debt to Equity of 0.06x

That's all from myside. I now leave the floor open for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Good afternoon. Thank you so much for your time. Sir my question was given that this China + 1 strategy playing out, first of all if you can give us little bit more detail in terms of what is happening in the key US market for us and if you take like may be three-year view can the 90 million meter capacity that we have can it be fully sold out because if we just annualize the 22 million sales that we did last quarter seems like we already there in terms of utilization?

K R Lalpuria: This China + 1 strategy is all about playing out with the retailers as the brands would like to do away with the dependence on a single geography; it started with the tariff conflict between the US, the largest market and China and they imposed certain tariffs at a pre-COVID level, now post COVID also the sentiments are against China and what we hear about from the leadership in the US as well their position against China is still on. So we feel that wherever China is dominating in whichever product category in the home textile area there are strong possibilities in the future that their market share would get reduced and as a company we informed earlier as well that strategically, three years before, we started with fashion bedding utility and institutional bedding where China was dominating at around 85% of market share and India was at around 7% market share; so we strongly believe that once India enters this space and make its name dominant in the market then definitely this market share would shift and secondly India is also at a very good position with the raw material abundancy and the skilled labour availability and India has performed well in the last three decades. So we feel that in the coming years this China + 1 strategy will definitely help India attain higher growth.

Madhav Marda: In terms of capacity like we are running at say 22 million meters run rate last quarter, can I just annualize it for the next four quarters and say that we will be fully booked for the next year or how should we think about the ramp up of the capacity?

K R Lalpuria: We have given a guidance of 72 to 75 million meters for FY21. So we do have some capacity available for FY22 and we are on drawing board and the Board will take appropriate decision regarding the capacity enhancement. .

Madhav Marda: There might be some expansion that might come maybe some announcement in the next six months as demand is growing well, we could sort of expand capacity?

K R Lalpuria: Definitely the Board will take appropriate call as I said and they will consider because we are on the drawing board and we are also recognizing this fact that our capacity is operating at more than 85% of our installed capacity, but as I mentioned for FY22, we still have capacity to sell because we have 90 million meters installed capacity and in that we can safely reach around 85 - 87 million meter, so we can go up to that level.

Madhav Marda: Okay and in case if you have to explain like will it be a Brownfield expansion or do, we need to do a full new site?

K R Lalpuria: It will be both Brownfield and maybe some Greenfield as well, but as I mentioned still, we are on the drawing board and the board will take appropriate decision.

Madhav Marda: But do we have scope for a Brownfield at our existing site already?

K R Lalpuria: Yes, we do have.

Madhav Marda: Sir, just one question from my side was on the EBITDA margin there are a few drivers like cotton prices or forex that impacts our margins how should you think about EBITDA margins for the next 6, 12 months what would be comfortable margin?

K R Lalpuria: Our margins for a quarter stood at 17.5% and this was on the back of operating leverage playing out due to increased volumes and higher efficiencies and our prudent cost management. Our sustainable margin guidance for the year is around 15% to 17% on the back of good demand traction, which will lead to operating efficiencies, so these are sustainable margins we feel on the back of higher sales and higher absorption of cost.

Madhav Marda: My last question was basically if you compare India versus China in terms of cost parameters for a bed linen are, we at the same level or are we a little bit more expensive how should we compare in terms of cost?

K R Lalpuria: In Sheet set space, India has performed very well on the cotton side and India is already at 50% market share of US imports, so definitely India is competitive against China. As far as synthetic is concerned, the MMF price difference is in favour of China, so there we need to rationalize the duties and once we do that, then Indian competitiveness in this synthetic related product also will play out; so slowly India is getting much better than China in other categories as well because the Chinese labour cost has gone up and as the raw material cost in China for cotton and cotton related product has gone up; so we believe that India is getting much more competitive vis-à-vis China..

Madhav Marda: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.%

Tarang Agrawal: Good afternoon and congratulations for a strong set of results. I have a couple of questions. One if I look at your volume guidance you are looking at almost 40 million meters in the next half year as compared to 30 million meters in H2 FY2020, so what is driving, what gives you the confidence that you will be able to get these volumes and second in terms of your order book visibility typically what is the visibility that you have, that is my first question and I will ask the following questions after this?

K R Lalpuria: First of all the home textile industry has witnessed a strong demand revival during the second quarter on account of high demand from big retailers and their inventory pipeline is running dry and also the demand is shifting to value addition in health and hygiene products as what we have mentioned in our investor deck as well. People are spending more time at home, home is at the center stage and home textile consumption has gone up as work from home culture has become the new norm, so we feel that home textile growth will be sustained in the future as well and this is driving the volumes and the value both for home textile companies. The upcoming festival season in Europe and USA is expected to see strong demand in the coming quarters and we are seeing this recovery in the US, which is our largest market; so the guidance which we have given is backed by good order book position and we are confident to deliver this guidance this year and we continue to be very optimistic about the future growth as home has become the center stage of our life and lifestyle so the home textile consumption has gone up.

Tarang Agrawal: Okay and generally what is the order book visibility that you have on September 30, 2020 you will have a visibility of the next six months, three months how does it work?

K R Lalpuria: Based on the order book position as I mentioned we have already given you a guidance of 70 to 75 million meters. We did not give that guidance in our last concall because there were a lot of uncertainties at that point of time due to the pandemic situation, but now the order book position is good so that is why we have given the guidance.

Tarang Agrawal: So the visibility is for the next six months is it generally?

K R Lalpuria: No, the visibility and the uptick in demand and the momentum is there as what we have also mentioned that there is a month-on-month traction and a positive momentum in the home textile industry from the big box retailer and there is also a consolidation happening where the business from the small retailers and the small mom & pop stores have shifted to the big box retailers. Now since we do business with the big box retailers our demand has also gone up, so we believe that this a sustainable demand in our home textile space.

Tarang Agrawal: Okay, so the second thing is I noticed your P&L rate in the last five years your job work charges have increased significantly, is there a strategic shift in terms of how you are processing and manufacturing?

K R Lalpuria: We outsource some portion of the process, and the job work charges have gone up because of increase in factors like the labour charges, the power cost, etc.;, so key charges it co-relates with have gone up over the period of four, five years and that is the reason the job work charges increasing.

Tarang Agrawal: If I see that line item alone that line item has gone up almost 2.5x while we have not seen a commensurate increase in your revenues, so I just wondering if there has been some strategic decision that has been taken?

K R Lalpuria: The volume has also gone up so the job work charges will definitely go up in absolute numbers.

Tarang Agrawal: True and my final question on my side after Rs.2100 Crores revenue in FY20 what is the split between 100% cotton and synthetic?

K R Lalpuria: Mostly cotton like we sell almost 80%+ cotton.

Tarang Agrawal: Thank you.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: Good afternoon and congratulations on a good set of earnings for the quarter. So couple of questions, in your opening remarks you spoke about this Sleep Better, Sleep Rx and relationship with Archroma for plant base, could you speak a little bit more about what is Sleep Better, Sleep Rx, is that a technology that you weave into your bed linen what is it?

K R Lalpuria: Sleep Rx is based out of a sustainable material fiber, which we use from time to time and those sustainable fibers are blended along with the cotton, so providing performance to the whole product in the market place, so these are our innovations, which are new and created by our team and they are branded and they are sold as such Sleep Rx because that is the trademark, which we have registered; so based out of the performance and sustainable material we have developed this brand.

The health and hygiene segment has gone up and is accepted more by the customers and this has become our focus area, we are co-relating our product to some of these health and hygiene segment and that is the reason we have developed these new products We have also launched Whole Health Sleep Better brand, this brand is concerning about keeping our home hygienic and fostering better sleep. In the market place you have to connect with the customers and you have to meet their demand; now the customers' likes and preferences keeps on evolving and say sometimes they want performance base, sometimes they want wellness base, sometimes they want comfort base, so when comfort base comes it means that they need better sleep, so we have to co-relate our product development and innovations towards that and provide them with that solution. Our company's core competence is innovation and we spend a lot of effort into developing new products and launching them in the market place in order to meet the aspiration of the consumers. On our partnership with Archroma, they have developed plant based dyes, which can be used into organic cotton; earlier, in organic cotton, there were chemical dyes being used, now it is plant based dyes, so this is a patented technology developed by Archroma, which is a global giant, so we have an exclusive arrangement with them globally for selling bed linen in that category and I am happy to say that it is very well acknowledged by our customers and there will be a couple of programs, which we have launched in the US in this category; so Archroma stands for this organic and pure collection from plant based dyes, so all these products as I mentioned is co-related to the aspiration of the customer and we need to find solution and provide them both the brand value and the functional values.

Ashwini Agarwal: This exclusivity that you have with Archroma is it for certain type of customers or certain big box retailers or what is this exclusivity?

K R Lalpuria: This exclusivity is for the bed linen and the towels, which we can sell to our retailers and customers at large, so in this product category they have provided exclusivity to us, so we are the only Company with whom they have made this technology available.

Ashwini Agarwal: In your opening remarks relating to Sleep Better and Sleep Rx if I heard you right there was some New York connection you mentioned what is that or did I hear something wrong?

K R Lalpuria: That is during the fall market like there are two markets one is the spring market and the fall market, so fall market relates to winter products for next year and also spring market for next year. In New York we launched this brand Sleep Rx in our showroom and that is also finding shelf space with a couple of retailers.

Ashwini Agarwal: Coming to your domestic business where you are starting out with a Luxury Direct to Consumer brand and Layers, how big is this business as of now this time and where do you think it gets to in the next three to five years?

K R Lalpuria: We are very optimistic about the Indian market because as our Prime Minister is mentioning about five trillion economy and looking at the young age in India, both these Gen Z and Millennials they are demanding better functional products both online and offline, so in order to meet their expectations, we had earlier launched Boutique Living, a couple of years back and we had created the necessary groundwork for it. Now since the market is slowly maturing and there are only few brands, which are available in India maybe only a couple of them we feel there is a large space out there and hence our company has taken steps in this direction by providing products for each segment of the class of people, so we launched Layers, which is a mass brand; this will be catering across India combining the style, technology and price. Also, we have Boutique Living, which is aspiring brand, which we launched for the mid to high segment and the Boutique Living Luxury is a direct to consumer brand, which we have launched and this will be further cemented in the coming few months to offer direct to consumers because direct to consumer is also active channel of sales likely to mature in the coming years, so we feel that we can offer a complete bedding solution to the Indian public and we are quite optimistic about it. We have created a very good team, we have very good product, this has found the acknowledgement in the market and we are offering value to the market and we are quite optimistic that this should do well in the next three to five years. We have sown the seeds and now we hope that this should do well in the coming years provided there are no uncertainties.

Moderator: Thank you. The next question is from the line of Jiten Doshi from ENAM AMC. Please go ahead.

Jiten Doshi: Congratulations Mr. Lalpuria for an excellent set of results. Just wanted to ask you that given the China one strategy and given the way we are positioning; do you see this growth opportunity for us as a multiyear growth opportunity?

K R Lalpuria: There is definitely a structural shift expected to play out over time and since home is coming the center stage with the changing lifestyle, health and hygiene becoming an integral part and all the other activities like leisure and entertainment and everything happening at home, the home textile consumption has gone up and this is the structural shift which has happened in our space. Secondly, the China + 1 strategy started two years back when there was a tariff conflict between the US and China with imposing higher tariff from Chinese goods and so the brands were compelled to move out of their dependence from China and look at other sustainable source. Now India is very well positioned in this space, because India has got abundant raw material and skilled workforce, so India is grabbing this opportunity as what we speak and in three to five years, you will see a structural shift to India supplying major portion of this particular categories where China is falling back, so we feel that this also should be a structural shift and as what we had earlier mentioned that our company also has ventured into the fashion bedding, utility bedding and the institutional bedding three years back. We are inching up their sales slowly and we have come to a level of 15% of our sales in these three new categories. We are building up the backend spaces and the front end, we are building the design houses and making ourselves as a compelling player for the brand to recognize and this is a target market of almost $ 10 billion which can be addressed and China is a dominant player today, so we believe that the Indian home textile industry stands to gain on this potential shift of this product categories and the China + 1 strategy.

Jiten Doshi: So you do believe it is a multiyear growth opportunity?

K R Lalpuria: We do believe this as a multiyear growth opportunity for the home textile; the home textile has been growing for India for almost three decades and India is well positioned now in the home textile space and recognized as a very good supplier.

Jiten Doshi: Wonderful, one more thing we have noticed Mr. Lalpuria that you have actually given a guidance of nearly 40 plus million meters in the second half and if one goes by your rated capacity of 22 to 23 million to be achieved in Q3 then first time in history in Q4 normally it is used to be seasonal, now we are seeing a fantastic demand growth in Q4, do you believe that seasonality is now behind us and what would your new normal be in terms of going forward for every quarterly in order to achieve the volume, what can you define your new normal?

K R Lalpuria: As I mentioned, there are positive structural shift in our business which is helping our growth. We have given an annual guidance of 70 to 75 million, there is month on month traction but there is seasonality as well but looking at the demand we feel that there will be sustained growth in the future years to come and we see the strong demand and momentum to continue in other quarters as well, so we are quite confident of delivering this kind of volume in the future and providing proper guidance to the market place.

Jiten Doshi: You are hovering normally in every quarter 14 million to 17 million can we say that the new normal can be 20 million meters per quarter?

K R Lalpuria: We are optimistic, but you see we are in make –to- order business, we are dependent upon the marketplace and we have to watch it carefully, but we feel very optimistic about it

Jiten Doshi: As we speak you are saying that you can sustain whatever you are doing as a run rate?

K R Lalpuria: Yes, please.

Jiten Doshi: Wishing you all the best. Thank you.

K R Lalpuria: One more thing we should recognize that when we mention about 90 million meters capacity as an organization, we have proved our run rate both with capacity and volume delivery

Jiten Doshi: Yes commendable.

K R Lalpuria: There are no means to doubt this sustenance, so the company is strongly positioned in the market place with capital adequacy, good customer base, good product base, our core competence being innovation, we have recognized of that fact, so we strongly feel that we should do well as a company going forward.

Jiten Doshi: You have always been telling us 80 million, 85 million, but if I take your last quarter, you have actually surpassed 90 million, so it is something commendable, I mean one wonders how did you achieve this capacity, it is extraordinary, what would be your explanation about how you achieved a run rate of 90 million?

K R Lalpuria: That is about the demand in our major markets and as I mentioned the home has become suddenly the place where you spend most of your time and all activities like work, leisure, entertainment all are happening at home. So we feel that this will further create demand for home textile products and the structural shift which we mentioned about the health and hygiene category also getting added has uptick the demand, so those are the drivers.

Jiten Doshi: Because of that seasonality actually your volumes have now shifted and that could be a regular routine business?

K R Lalpuria: We feel so, we are optimistic Mr. Doshi.

Jiten Doshi: Wonderful. Once again, congratulations for spectacular results and all the best for the future. Thank you.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: I had just two questions. One is, you mentioned about higher share in fashion and institutional bedding for Indo Count, so if you can just share some more thoughts on that and the scope for growth for us in that particular segment. The second was on availability of cotton and the pricing because the new season has just begun and also how do you see the export benefits, the MEIS that has been some capping by the government, so these are the questions?

K R Lalpuria: First of all as I mentioned there is a target market out there where China is dominating in almost $ 10 billion at retail, which we are targeting as a Indian company and we are well positioned in that because over a period of three years we have made efforts into establishing design houses across the globe like in New York, in Manchester, in Dubai to cater to various large markets; so we have made attempts to penetrate those markets and acquire market share, which we believe that will shift from China. So in fashion, utility and institutional category as I mentioned, India is still has3-5 years tenure to go for and we are working both in the forward and backward space in order to deliver to the customer the value proposition, so we are at today a level of 15% vs 13% earlier which is on the back of our efforts. So it is quite promising to see that India is getting recognized as a good supplier over the last three decades in home textiles, and now whatever efforts which we are putting on in this direction is paying off , so that answered your first question.

The second question is on the cotton side, the crop is good, the prices were subdued during the pre COVID level, but they have now inched up and today they are around at Rs.41,000 a candy, so during the season normally the demand picks up but due to COVID situation, the demand had gone down but again picked up now due to which the cotton prices have inched up, but we still feel that the Indian crop is good and that will be able to meet the demand except for the exports, which are happening now at a faster pace. We feel that we need to watch the situation carefully going forward as to how it pans out, but still we feel that we will be able to manage this year at levels, which will be below the last year level of Rs.44,000 so that explains to you on your cotton side.

Kaushal Shah: On the MEIS and RoSCTL benefits?

K R Lalpuria: That notification has already come that it has been extended to March 31, 2021 and the government will be coming out with RoDTEP and for particularly Chapter 63 in which we are shipping. The government has decided that till the RoDTEP is functional, they will not stop RoSCTL, so we are hopeful that this should continue till the RoDTEP which is a new mechanism is notified and so that is the position on the RoDTEP and RoSCTL. MEIS has been discontinued for our category.

Kaushal Shah: Sir if we include the drawback and the RoSCTL will the benefit be around 10% or it will be less or more?

K R Lalpuria: Below 10% because the realization rate for the scrip also is around 95% or 96%.

Kaushal Shah: Understood. Alright Sir that clarifies. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikram Sharma from Niveshaay. Please go ahead.

Vikram Sharma: Sir during the Q2 we have added some new clients in our portfolio or major share improvement was from our existing client only?

K R Lalpuria: Both.

Vikram Sharma: Any proportions?

K R Lalpuria: We keep on adding new customers as we are exporting to 54 countries so definitely we will be adding new customers and as I mentioned, the business has gone up for big box retailers whom we deal with. They are doing well because they are selling essentials as well and they were not closed during lockdown and their market share has also gone up as the smaller retailers found difficult to sustain, so that is the situation.

Vikram Sharma: Sir we are expecting same level demand after ending stimulus by US?

K R Lalpuria: As I mentioned this is a structural shift in our business where home has become an important part and China + 1 strategy is expected to play out and value added categories of health and hygiene are being preferred by customers and also increased demand on the back of consolidation happening at the retail side with large retailers whom we deal with. So all these factors is helping the demand to move in the right direction for us.

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

Apurva Shah: Thank you very much and congratulations for fantastic result and very encouraging volume guidance. Sir I just need one clarification because I understood your margin guidance in terms of percentage, which will be in the range of 15% to 17%, but on absolute terms if we do simple math, so I just want to check what we are missing, so I think for the current quarter the EBITDA per meter is around Rs.55.8, which is I think highest in the history and which has moved up significantly from Rs.30 per meter maybe a couple of years back, so in absolute terms what will be your guidance and on a contrary if you look at your realization per metre that has come down so that was hovering around Rs. 340 to 345 per meters, which is kind of Rs.318, so Sir I just want to understand this divergence?

K R Lalpuria: First of all we do not look at per meter realization because we ship across 54 countries, the fragmented product mix, which we have has so many thread counts, so many colors and so many designs, prints in different packaging, organic, non-organic, so there are so many products which we cater to. So we do not look at the per meter realization. Yes definitely we look at the overall margin, which we gain because with some customers like in Europe or some mass retailers the margin may be low and if we ship to specialty retailers or departmental stores or club warehouse we get a better margin so the segmentation also helps us to drive the margin. What we should look at probably is how we maintain the overall margin and that guidance, which we have already provided so we should look at on an overall basis because they are so many moving averages the raw materials, the forex, the product mix and our utilization of capacities, the labour cost, the power cost, so many things are moving, so we need to look at it in a holistic view. We cannot look at from a per meter realization because if we are only doing a few categories of products we can then consider this argument.

Apurva Shah: Understood and Sir when we say value added in that case as well we should not be focusing on per meter that is setting the guidance given of 15% to 17% because in value added we have launched new products and our focus is also value added, which you covered in your initial remark so will that increase our margin either in percentage or absolute terms?

K R Lalpuria: See definitely our endeavor is always to sell value added material to the customer and move from higher segment to the premium segment from the higher to the branded segment so the endeavor of the company is to realize a better value for its product so that is always there through either innovation or through better selling to good customers and meeting their demand or special packaging or sustainable fiber so there are various means through which we try to increase the value realization, so what I meant by saying that in health and hygiene this is a new category addition as of now just like you see buying sanitizer, mask and PPE gowns and all that, so these are all new categories which got added with the retail.

Similarly for health and hygiene, earlier the buyer was at an option whether to keep this on the shelf or not, but now is compelled to add that in his pallet and keep that on his shelf, so definitely the value addition in that particular product will give us a better value than a commodity and as I mentioned we have also chalked out the program to go after fashion bedding and utility and institutional bedding in a big way. So all these efforts to create value addition through product innovation, creativity, packaging and sustainability organic, nonorganic, so all this adds up to this value addition.

Moderator: Thank you. The next question from the line of Manish Bohra from Param Capital. Please go ahead.

Manish Bohra: Basically, most of my questions have been answered so I have two questions now. Sir basically we were not able to execute orders worth $11 million in Q4 FY2020 so I just wanted to know how much of that has been executed in Q1 and Q2 FY21 and also if you can tell us the realized forex gain or loss and MTM loss or gain on forward contracts during this quarter?

K R Lalpuria: First of all we had already mentioned that the deferment of the order will happen across all the four quarters because it is from different customers across all countries where we export so it is not only centered around the customers whom we deliver currently and as I mentioned mostly this is a new demand uptick which has come across in the last four consecutive months and this is especially from the big box retailers so that is my first answer to you and as far as the forex is concerned just I will request our CFO to give you the exact numbers

K Muralidharan: In this quarter we have gained about Rs.8 Crores and there were MTM losses of about Rs.8 Crores so roughly that has evened out

Manish Bohra: Okay, so realized gain is Rs.8 Crores and MTM loss Rs.8 Crores?

K R Lalpuria: Yes.

Manish Bohra: Sir can you quantify like how much have we executed in H1 FY21 orders like in terms of value?

K R Lalpuria: As I said we do not quantify because we are in a continuous business wherein, we keep on delivering the replenishment orders to our customers but yes definitely we have not lost any business and that is what the key to the whole thing is and this is a new demand uptick from the big box retailer.

Manish Bohra: Okay Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Nitin Shakdher from Green Capital Single Family Office. Please go ahead.

Nitin Shakdher: I have one question. I just like to know in terms of the UAE and GCC markets specifically Dubai, Riyadh, Bahrain what is the uptick on volumes I believe some new volume trends happened from big box retailers in terms of demand push in home. Can you give me a snapshot of the demand from the GCC Market?

K R Lalpuria: We are supplying to the Middle East market. We also we have an office there and we are attempting to see how we can grow there further to the Middle East and the MENA countries, specifically we will not be able to provide you the details, but definitely we are looking at this market once their economy also improves because the oil related economies are facing headwind, but our strong relationship and product presence is there among the best of the retailers out there and we hope that soon once conditions improve we will be able to definitely do much better because we have proven ourselves in the last few years in this market with the best retailers.

Nitin Shakdher: Okay, and in terms of this market vis-à-vis the US and Europe market do you think this market's traction might pickup for the company slowly?

K R Lalpuria: Yes we believe because we have got a complete bedding solution, so bedding buyer should not miss our brand since we offer a complete bedding solution that is in fashion, utility, institutional and we cater to 54 countries so we have a complete flexible product mix where we can cater to all segments of the market and all channels of the market, so definitely we believe that once the economy improves in this Middle East Market being an oil economy and since we are already supplying to this market with some of the retailers, we should be able to service them once the market improves.

Nitin Shakdher: Okay great, that is all from mine, and all the best.

Moderator: Thank you. The next question is from the line of Sajal Gupta from SP Securities. Please go ahead.

Sajal Gupta: Good afternoon to everyone in the team and to the board for giving such fantastic numbers. You have surprised the market by giving such high levels of production and sales and as one of the gentlemen to whom who just talked about the multiyear growth opportunity is also very, very heartening to hear. First of all, I just wanted to go on my question if we are able to sustain this EBITDA margins and if I do a simple math on this thing, what I see is that next year, the company should have somewhere around 300 Crores odd excess cash next year with the kind of EBITDA levels which you have achieved this year, you should have 300 Crores cash next year, and on that the guidance what you have given, you should report and EPS of Rs.14 in FY21 and Rs.17 to Rs.18 and may be Rs.22 to Rs.23 the year after and what I am foreseeing in the company that your ROCE should be somewhere around 35%, but if you do not utilize the cash, my purpose of asking this question is, whatever utilization of cash which you want to do, the ROCE will come down to 30%. So does it not make sense for the company that EPS moving from 14 to 18, to do a buyback or spend that money on expansion?

K R Lalpuria: Certainly. We have been saying that we are a growing company and we have entered into a new phase of growth. We have a strong balance sheet and we have never overleveraged our balance sheet at any given point of time. So from a management perspective, we would like to invest where there is a proper return on capital. This is what are values and principles and philosophy of the company and that is the reason we did not go into backward integration, into spinning and weaving where our realization is less. But yes, since we are a growing company, the Board has acknowledged the fact that the company has capital in hand which one should invest and since we have achieved a fundamental position in the market place, we are looking both for organic and inorganic growth, but we are also looking that we should deploy funds selectively and judiciously so that the return to the stakeholders is the best. So we will make all attempts to see that since we have entered a new phase of growth, the Board will take appropriate decision to deploy the funds properly and see that the growth expectations of the companies are met in the times to come. So I can assure you that we will be providing a proper return on capital in times to come, we are already providing that, and we will be deploying the funds judiciously.

Sajal Gupta: If we go by the standards in the current year also you will have enough cash in hand to do your expansion because as per the production which you are guiding you should be sold out by next year itself, so you need to be on new expansion levels?

K R Lalpuria: I already mentioned that we are on the drawing board and the Board will take appropriate decisions and we will perform of what is expected out of us. We have kept these funds for future requirements since as our volumes grow, we would require proper funds in hand in for growth and business. Also, in difficult times, these funds will act as a buffer to support the business operations. So this is what our overall strategy is.

Sajal Gupta: Has there been an idea of doing a high pay out per share in case you do not go for buyback or high payout ratio next year?

K R Lalpuria: That the Board will decide, as I mentioned we have got a very strong and good team on Board and we will take appropriate decisions which is best for the company.

Moderator: Thank you. We will take the next question from the line of Nirmal Shah from Seraphic Investment. Please go ahead.

Nirmal Shah: Good afternoon Sir and congratulations on good set of results. Sir I wanted your perspective on three things. First, if we look at the Chinese currency versus US dollar, in the last 12 months it has appreciated close to 10%, against USD while our currency has actually depreciated. So how the cash is made by the currency. The second question I had was about the recent sanctions by US with respect to the cotton production companies of China, a lot of labor force and lot of brands have been told to stop the supplies, how big is that angle in our business development and the third question in case if there is a change of guard in US elections, if at all it happens there is some softening of stance on China, will it result to some of the reversals of the gains what we have made, just your perspective on these three developments Sir?

K R Lalpuria: First of all, we have a very good forex policy in place, where we hedge our position almost 60% irrespective of any derivative. We hedge our position plain vanilla. So we hedge as per the policy and that takes care of our currency because it is an ongoing process. Whatever orders which we received, whatever contracts we do, we hedge it in order to safeguard both ways, like whether it is appreciating or depreciating. The Chinese currency has appreciated quite a bit which is today around 6.70 to a dollar, so this has become strong. This is in India's favor I think so, because their domestic manufacturers will face competition from India USD/ INR which is around 72 to 73, so we feel that the currency will play a limited role into our business as we hedge our position, number one.

The Xinjiang cotton and what we also heard is not only for textile, it is for other items as well, it is about bonded labor in that area and the US customs have declared deadline that is whatever shipped, they need to provide a declaration, so still it is being observed in trade circles, so we will be able to better report to you in time to come.

As far as the US election is concerned, we are in a need-based product and textile is not manufactured in the US. US is just producing cotton which they export and 85% of the textile is being exported out of China, India, Pakistan, Bangladesh and Vietnam to the world. We are in the need-based product and we are quite competitive in order to supply, being a consumer item. I think the dependence would be there on sourcing out of India and other Asian countries. So irrespective of the results, we feel that the business would move on because US is a large market and it is a consuming market. Their economy is doing well. The interest rates are low so lesser savings, so people still are consuming a lot of goods and, as I mentioned, the home has become an important area for both life and lifestyle. So definitely we fall under that category of home products and so we are optimistic irrespective of the results, we should be able to sustain our growth.

Nirmal Shah: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: Couple of clarifications, one is on the three segments that you spoke about, utility, institutional and fashion bedding, what would be the share of manmade within that?

K R Lalpuria: Primarily it is more of manmade fiber and that is the reason you see China is a dominant player because the Indian synthetic prices are still higher than the Chinese prices by almost 20% to 25%, so if our government rationalizes the duty and levy duty on the end product rather than the raw material, then there will be possibility of developing cheaper raw material, the downstream product and exporting worldwide. So we have made representations to the government and we are waiting for their response and we feel that in time to come, India will also become competitive in this area as well.

Karthikeyan: How labor intensive is this segment versus the traditional bedsheet segment?

K R Lalpuria: It is very labor intensive; textile as a whole is a very labor insensitive industry.

Karthikeyan: I understand, but what I am saying is versus sheeting segment, is it much more labor intensive, that is what I was asking Sir?

K R Lalpuria: To some extent, yes. It is more labor intensive, but it is also automated when you compare exactly to a sheet set. It also depends on the product which you are referring because if there are embroideries or if there are filling or if there is a making of a comforter or a quilt, so different products have different labor component. Primarily textile as whole is labor intensive and that is a reason also China becoming more expensive in labor. The shift is happening to Vietnam and Bangladesh as we see, because there is labor arbitrage and India also stands to gain, because India is not at the same level of labor cost as China.

Karthikeyan: Right, and the last question Sir on your India branded business, what kind of brands you are planning say over a two-year timeframe?

K R Lalpuria: See we already have a very good brand boutique living out there in the marketplace and pan India in almost 20 states with 500 points of sales. We have recently launched ”Layers” which is a value-added mass brand catering to the aspiring Indian community, and we hope that it will do well, and we have also launched a direct to consumer ”Boutique Living Luxury” brand. So we are trying to omni channel in these products and since India is a large market and a growing market with a young population and middle class growing, we feel that there is a lot of hope and confidence that we should do well because the number of brands out there have also reduced and there are only couple of them. So we feel that there is a large opportunity here and we are quite optimistic about our brand promotion in the domestic market and in the years to come also, we will keep on offering the Indian community with new brands, new products just like how we have been successful in the overseas market and retail so we will keep offering our innovative products in the domestic market as well.

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

Prerna Jhunjhunwala: Congratulations on a very good set of numbers and reaching optimum utilization on your capacities. It is a very positive sign as well as seeing the kind of capacity utilization you have had in the second quarter. I just wanted to understand the demand, which segment are showing this kind of strong improvement like mass, premium, or mid premium categories or printed or base categories, how is the demand shaping up and is the pie actually growing with respect to the consumption or is it largely seasoning that has happened with the shelves going empty assuming the pandemic time, so some clarity on the demand?

K R Lalpuria: We are seeing this recovery happening in the market due to home becoming the center stage and because we are spending more time at home, work from home culture, which has become a new norm, definitely the home textile consumption is bound to move up and this is evident as the retailers are doing pretty well across all segment of the products like whether it is the high end or the mid end or the low end, so every product is doing well because when you stay at home, you buy more. You must have experienced this in 2008-2009 as well during the subprime crisis when the people were at home, the home products did very well. So, the home textile particularly is doing very well across all segments of the marketplace and that is very apparent from the product which we sell because we are positioned mid to high segment. So, definitely the product demand is moving in the mid to high end as well.

The pie is also growing because this is a structural shift happening in the home textile space and the home textile consumption is growing, so the pie is growing plus home textile market as a whole earlier was also correlated to new homes, good employment rate, better economy and low interest rates, so the home consumption used to grow at 2% to 3%, now we feel it will be higher and lastly, the health and hygiene product has also got added as a compelling reason for customers to buy, because if you do not have that at home, you are going to definitely buy a new health and hygiene product and bring home like anti-bacterial, or anti-microbial so definitely that category is also added up to the other categories which were already selling. So we feel that the pie will move up and it is across all segments of the market product.

Prerna Jhunjhunwala: I was just trying to understand the new segment that we were talking about, the MMF range where India has lower market shares, have we seen any uptick there and does this contribute meaningfully to our orders or is that opportunity yet to occur to us and since you are running at full capacity utilization will it require additional investment or a new kind of investment into the MMF or can it be diverted to our current operations? This is my last question.

K R Lalpuria: We are seeing an uptick in the MMF category as well, particularly because this is dominantly used in the fashion bedding, utility and institutional bedding. So we are seeing an uptick there and that is why these products % share in our overall sales is increasing. Earlier, these 3 categories together contributed around 7%, we improved it to 10% and then 13% and now 15% of the total sales. We are also focusing on sheet set space along with the MMF space. However, we are seeing an uptick in the MMF segment going forward as once the duty is rationalized by the government and the raw materials become cheaper, then we believe we will have a better situation prevailing and we will be able to do much better competitively. So I think that fashion bedding, utility bedding and the institutional bedding segment is doing well and we are also putting across both the backend and the frontend and strengthening our supply chain in this segment and we are finding positive results, so we feel that in time to come, there will be certainly a structural shift from China for this product to India.

Prerna Jhunjhunwala: Okay, any number that you can share, how much would be coming from this category currently to our revenue?

K R Lalpuria: 15% as I said on an annualized basis, we are doing for these three categories.

Prerna Jhunjhunwala: Okay, thank you so much Sir and all the best for future.

Moderator: Ladies and gentlemen, due to time constraint, we will take that as our last question. I would now like to hand the conference over to Mr. K.R. Lalpuria for closing comments.

K R Lalpuria: We at Indo Count remain confident that the next level of growth to our customer relationship and product portfolio will be sustainable, brand accretive and margin positive. With this I would like to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors, our Investor Relation Advisor. We wish each and everyone a very happy festive season. Stay healthy and stay safe. Thank you.

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