"Indo Count Industries Limited FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to FY2017 earnings conference call of Indo Count Industries Limited. This conference may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K.R. Lalpuria, Executive Director of Indo Count Industries Limited. Thank you and over to you Sir!

Kailash R Lalpuria: Good afternoon and a very warm welcome to everyone. I have along with me Mr. Dilip Ghorawat, our CFO and SGA, our Investor Relations Advisor. It gives me pleasure to announce that the Board of Directors has recommended a final dividend of 20% in addition to the interim dividend of 20% paid in February 2017. So the total dividend for FY 2017 now stands at 40% per fully paid equity share of Rs 2/- each.

Our agenda going forward for the current year that is financial year 2018 will remain towards efficient utilization of all resources, increase global market share in bedding, promote domestic brand pan India and judicious use of capital allocation in our business.

We follow a two-prong strategy for our business, which is, increased product offerings and geographic expansion. We have increased our product offerings from sheet sets to fashion utility and institutional bedding thus making us a complete bed solution provider. We have moved up the value chain with our premium product offerings and have launched six brands; three own brands, Boutique Living, Revival and Pure and three licensed brands Sanderson, Harlequin and Scion.

Our brands have gained acceptance with our customers and we are optimistic on increasing our market presence through these brands. We currently have footprints in 54 countries and we are continuously exploring different geographies for expansion with an increase in focus in the non-US market.

As informed earlier we have strengthened our team and have designers in our international markets giving Indo Count an edge towards innovation and designs. We have designed our teams in both domestic and international in such a way that they can take the challenges going forward.

Our domestic business has begun operations in October 2016. We are happy to share with you that presently "Boutique Living" is sold across 57 cities and 234 stores pan India.

We have also commenced our online sale of aspirational brand product - Boutique Living and have launched a website www.boutiquelivingindia.com.

Coming to our capex, we have completed our capacity expansion from 68 million meters to 90 million meters. We shall endeavour to utilize this increase in next three years. Phase II capex is under progress. The modernization of spinning is on track, which is expected to get completed in this year. For our specialized weaving Greenfield Project, we have shortlisted land and are in discussions with the state government. Further, the government is in the process of declaring a new textile policy for the year 2017 - 2022. Once the policy is declared, we would start our progress on the Phase II capex.

I shall now give a brief on our performance for FY2017. We achieved a sale of 56 million meters versus 54 million meters of previous year, which is in line with our expectations. Financial performance as informed in the press release has been impacted due to the following reasons;

1) Employee expenses have increased on account of upfront investments made to support incremental growth both in products and geographies. The employee additions in various departments are both in India and abroad.

2) We all know about the volatility in raw material prices, which has impacted our Q4 FY 2017 with both margin and profitability.

3) One-time charge on account of devaluation of inventory at our international subsidiary has also affected our consolidated result.

If we exclude the one-offs, our EBITDA margin would have been higher by at least 225 bps in Q4 FY 2017 and thereby would have also added up our consolidated figures.

For FY 2018, we have set our target of 62 to 63 million meters volume with an EBITDA margin of around 20%. That is from my side, now I would like to handover to Mr. Dilip Ghorawat, our CFO for detailed financial highlights.

Dilip Ghorawat: Thanking you, Mr.Lalpuria. A warm welcome to everyone present on the call. We have uploaded the presentation on the exchanges, Company's website and has been circulated to all the investors.

Coming to consolidated financial performance for FY2017, the total revenue stood at Rs.2258 Crores at a growth of 7% as compared to last year. EBITDA stood at Rs.428 Crores against Rs.465 Crores in FY2016 with a margin of 19%. Profit after Tax stood at Rs.232 Crores as against Rs.251 Crores in FY2016 showing a drop of around 8% on Y-o-Y basis. The PAT margin stood at 10.3% as against 11.9% in FY 2016. We recorded an EPS of Rs.11.76 on a face value of Rs. 2 per share.

The cash profit stood at Rs.323 Crores as against Rs.312 Crores last year, registering a growth of 3.5% Y-o-Y basis. The Net Debt to Equity as on 31st March 2017 is 0.34 times as against 0.58 of 31st March 2016. The long-term debt including current maturity was Rs.29 Crores as against Rs.75 Crores, which mainly consisted of Buyer's Credit. The Working Capital borrowing from banks was Rs.282 Crores as against Rs.334 Crores. Our interest coverage ratio was 9.38x as compared to 7.89x of FY 2016.

The Return on Capital Employed stood at 34% and Return on Equity was 27% for FY 2017. The accounts for FY 2017 and FY 2016 have been prepared as per Ind-AS. That is it from my side. Now I would like to open the floor for question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and Gentlemen we will wait for a moment while the question queue assembles. We will take the first question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Thanks for taking my question. Sir can you provide us Q4 volume data?

Kailash R Lalpuria: We have already informed that we have achieved volume of 56 million for the full year.

Chintan Sheth: Okay and I missed the guidance for the FY2018 on volume side?

Kailash R Lalpuria: That is 62 million meters to 63 million meters, so growth of around 10% plus.

Chintan Sheth: We cut down from 64 million meters to 65 million meters, which we usually provided earlier in our interaction for the volume part for the FY2018 guidance?

Dilip Ghorawat: Sorry, come again your voice is very low?

Chintan Sheth: Sir last time when we interacted we were guided around 64 million meters to 65 million meters for FY2018. So we see some reduction in that volume guidance, which we are now stating at 62 million meters to 63 million meters, any particular reason for the same?

Kailash R Lalpuria: See we lost some volume in FY2017 and that is the reason we feel that the momentum would pick up this year because the summer sale got extended, so that is slowly picking up. This year we shall achieve around 62 million meters to 63 million meters. We are correcting that volume figure, which we have given earlier.

Chintan Sheth: Okay and Sir, why other expenses are so high this quarter? Is anything related to forex loss?

Dilip Ghorawat: The other expenses are mainly on account, as we have completed the processing capacity, there has been an increase in stores, spares, packing material and other expenses for which sometimes we get some work done outside, so these all had contributed to that increase in miscellaneous expenses.

Chintan Sheth: Okay, so the jump is quite substantial around 50% on a Y-o-Y basis?

Kailash R Lalpuria: No, you see basically the job contract commission for weaving, which we do is basically that has impacted because we have added up this fashion business where we are sourcing specialized fabric from outside, which we reported in the last quarter. The spike in the raw material basically have increased the job commissioning charges, which have been shown separately and does not get added up in our raw material cost.

Chintan Sheth: Okay, this includes some raw material procured outside to job?

Kailash R Lalpuria: Basically, you see when the raw material prices went up, we sourced both yarn and gave it for job working and we also sourced yarn by providing cotton as well. So that job commissioning charges has gone up substantially during the last year, which has impacted overall the other expenses.

Chintan Sheth: What can be the quantum Sir for Q4 and we have to build in this number going forward in FY2018?

Kailash R Lalpuria: No, it is one time because we see raw material cost tapering out, so we feel that we should come back to normal expenditure; this is the one time effect.

Chintan Sheth: Okay, so what will be the quantum for Q4?

Kailash R Lalpuria: We do not have the numbers presently and can give you offline for Q4.

Chintan Sheth: Sure and Sir, the capex number we have spent in FY2017?

Dilip Ghorawat: It is about Rs.80 Crores.

Chintan Sheth: Rs.80 Crores, so earlier we guided around Rs.130 Crores; so we spent less this quarter, which will spillover in FY2018 I would think?

Dilip Ghorawat: Yes, for FY2018, as Mr. Lalpuria said in his opening remarks we are doing capex towards modernization of our spinning mill which is ongoing, and is being carried forward this year.

Chintan Sheth: Okay, so what will be our expected spend in FY2018 on the capex side?

Dilip Ghorawat: It will be about Rs.75 Crores to Rs.80 Crores excluding weaving. Weaving is a Greenfield project, which is subject to availability of land, and other required approvals and we shall announce it as and when we finalize the same.

Chintan Sheth: Okay, what will be the likely spend on the weaving side, total capex may be?

Dilip Ghorawat: Around Rs.250 Crores.

Chintan Sheth: Rs.250 Crores. Okay Sir, I will get back in queue. Thank you.

Dilip Ghorawat: One more thing I would like to add on miscellaneous expenses that on account of capacity expansion we have incurred preoperative expenses and trial run expenses. As per Ind-AS we have charged these expenses to an appropriate respective account head whereas as per I-GAAP these expenses were to be capitalized. So there is an additional amount of expenses appearing in P&L on this account also.

Chintan Sheth: Which is capitalized in?

Dilip Ghorawat: These pre-operative expenses have not been capitalized and are charged respective account in profit and loss account in this year as per Ind-AS.

Chintan Sheth: Okay, it will be helpful if you can quantify the same?

Dilip Ghorawat: It is around Rs.4 Crores to Rs.6 Crores.

Chintan Sheth: Rs.4 Crores to Rs.6 Crores. Okay Sir, I will get join back in queue. Thank you.

Moderator: Thank you. We take the next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Thanks for taking my question. Sir I just wanted to understand the margin guidance in volume terms a little bit more. We have done if I may say a 2% kind on volume growth in this year and the expectation that we are kind of building is 10% plus for the next year. What are the underlying assumptions behind this because you know the industry seems to be going through very muted kind of growth if we look at OTEXA data and if you could kind of highlight than that would be very helpful Sir? And the second part would be any guidance from the realization we could seek even that this year also been a decline and currency is where it is, so any expectation that you could share would be helpful Sir?

Kailash R Lalpuria: First of all as we mentioned earlier the volume growth will be through our product expansion and geographic expansion, we should be able to target new customers and absorb them with our new offerings, which we are seeing a strong traction in US, UK and Europe as well. We are also targeting new markets in Australia, Japan and South Africa where we have just started selling to some of the new customers. So we feel that over a period of time as these customers are reasonably large we will have a potential to grow with them and there are commitments in our existing order also of volume growth as we have mentioned earlier that the summer, which got extended in the US had infact muted the growth and there is a visibility of momentum picking up.

On a macro level the US market is growing at around 4% and since we have ventured into new categories as well this will also add on because for a last one and a half years we have sown the seeds and we have presented the new categories of product to all our customers , and we feel that they are gaining more confidence about our supply chain because we are showing them our strong backward integration and timely delivery of those products. Since the capacity expansion is now completed, we hope that we should be able to grow on volume terms as we had mentioned about 62 to 63 million meters per annum.

As far as the realization is concerned, we feel that since we have ventured into the premium segment and we have grown our brands; launched our own brands, we feel that there would be a good momentum in those businesses, which has higher margins plus we have launched the domestic brand as well where we are seeing a good acceptance in India too at a decent margin. So we feel that going forward the realization should improve as we are venturing into this new product line, new geographies and targeting new customers.

Avi Mehta: So you are highlighting that there will be a mix related thing that will drive realization growth and volume growth would be on the back of new products and new geographies, right Sir?

Kailash R Lalpuria: Come again?

Avi Mehta: Sir you are highlighting that volume in new geographies and new products and realization is on the back of mix?

Kailash R Lalpuria: Yes of course.

Avi Mehta: Just a follow up Sir on that if I mean the EBITDA margin guidance is more or less at 20%, which is what we have done roughly this year despite some one-offs in the employee cost etc. Are you and your realization you highlighted that there is going to growth coming for high margin products. Are you being conservative on guidance on that front EBITDA margin?

Kailash R Lalpuria: No, we are taking into consideration various aspect of businesses, so we are maintaining our 20% margin like we also intent to grow our margins over and above this but we have to be working on some conservative numbers.

Avi Mehta: Sir, is there I mean, I am just trying to understand is that this conservatism or are you assuming that in the base business there might be some pass through because of currency and hence there might be some margin pressure besides buffer that you are building I am just trying to understand that?

Kailash R Lalpuria: No. We always work upon cost plus model. So we build our margins according to what we deliver, hence we are not into a price sensitive business model. We are into product driven model wherein through innovation we try to convince our customers of the value proposition, which we offer to them. So we feel that we are into good perceived value hence we should be able to maintain our margins.

Avi Mehta: Okay Sir. That is all from my side. I will back in the queue Sir for the other questions. Thank you.

Moderator: Thank you. We will take the next question from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Sir, just one or two questions on the financial; one is that there seems to be some reorganization or reclassification in the way the other operating income is being reported or is there is something else because the operating income has jumped a lot?

Dilip Ghorawat: There is no reclassification or reorganization. It has been prepared as per Ind-AS.

Rahul Bhangadia: Then the reason for the jump in the operating income?

Dilip Ghorawat: This is mainly on account of the foreign exchange fluctuations gains what Company has earned and also there will be some mark-to-market gains in the currency which has been accounted for as per Ind-AS.

Rahul Bhangadia: If you could give us the comparative numbers for Q4 this year and Q4 last year?

Dilip Ghorawat: Rahul, can I give you offline, as I don't have the numbers readily available with me .

Rahul Bhangadia: Okay, that is the first question but just to go back to the previous one would it be fair to say that a big chunk of the jump would come from the forex gains that you have booked on the forward?

Kailash R Lalpuria: See we consider this as a business income because other operational incomes are business incomes.

Rahul Bhangadia: Fair enough Sir, the only question is because it has jumped a bit that is why I am asking?

Kailash R Lalpuria: No, because it is a mark-to-market as the Dollar had appreciated during the year, we had hedged it, so we accrued the gains on forex. Because of our policy of hedging we cover at least 60% of our position and as Dollar has appreciated, we have accounted the gains in this as per Ind-AS.

Rahul Bhangadia: Okay and just one thing, your deferred tax entry in the quarter seems to be almost of the order of Rs.16 Crores. Most cases it is generally on account of depreciation difference, timing difference but is it the same in our case and if it gets but our depreciation is small, so if you could just give us a sense?

Dilip Ghorawat: Yes, deferred tax is mainly on account of the timing difference on balance sheet items including revaluation reserves.

Rahul Bhangadia: So in the income tax books the depreciation runs faster than Rs.30 Crores to Rs.32 Crores?

Dilip Ghorawat: Yes, around that amount due to capitalization.

Rahul Bhangadia: Great Sir. Thank you very much.

Moderator: Thank you. We take the next question from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.

Ankit Panchmatia: Good afternoon and thanks for taking my question. Sir regarding your comment on developing new markets, can I get a sense that how is we going forward with this? Are we appointing some kind of team or have we kind of putting some sort of designs into those markets and have seen what the feedback is. So how are we proceeding with these markets?

Kailash R Lalpuria: Basically, we are seeing a good momentum and pickup in Europe and we are thinking of establishing an office there so that we can reach out to customers. We have added up designing strength in UK, which we can cater to Scandinavia and the other European markets. We believe that Japan is looking towards India and is slowly opening up because the costs in China has gone up where they have invested heavily in textile and also they believed into investing into Vietnam which was due to TPP. The per capital consumption in cotton is also going up in other countries like Australia, New Zealand and we are also seeing a good traction for Indian products in markets like Malaysia and Indonesia as well.

So there are lot of markets, which are still to be tapped and we have not ventured into those markets because we went in to start with US where there were low hanging fruits in the sheet side business and other made up businesses. Now we are going into new product line as we mentioned into all those fashion, utility and institutional bedding where China dominates. Then there are other channel of businesses also, which we have entered because so far we are just targeting organised retail, but other regional stores, mattress stores, furniture stores and e-commerce and TV sales and all that, which is still to be tapped. So those are the other channels wherein we feel that if we venture into and provide value proposition, we will be able to tap them.

There are countries including the BRICS countries where the duty is still high like Latin America, which are highly populated countries and secondly Russia, South Africa and even China where Indian products are still not viable because of the import duties there. So India is still on the negotiating tables with those countries wherein we feel that if FTAs are signed with those countries including Europe where we are at a disadvantage as compared to both Pakistan and Bangladesh towards the duty of 9.6%, these markets would open up. So potential exists there and that is why we feel that if we grow our product mix and different geographies, we should be able to grow our business very well.

Ankit Panchmatia: So Sir just to get a sense that please correct me if I am wrong; the Japan and the Europe markets would be much more higher than what the US market is, is my understanding right?

Kailash R Lalpuria: Much more.

Ankit Panchmatia: Much higher or much bigger than what US market is?

Kailash R Lalpuria: No, Europe is much bigger. Japan is not that big.

Ankit Panchmatia: So Europe would be much bigger than US market?

Kailash R Lalpuria: Europe is fragmented because there are 28 countries with different designs and different requirements, so the lot size or the order sizes are pretty small, which does not provide us more efficiencies than the US order. So we are focusing on US initially and thereafter once we have fundamentally learned the business and we have established our product line, quality and service levels, we would like to venture into much more advanced markets.

Ankit Panchmatia: So, in this quarter, has some Europe or Japan revenues accounted? That is what the opening comment had right?

Kailash R Lalpuria: Yes.

Ankit Panchmatia: So what would be that quantum? It would be very small, I agree to that but just to get a feel that what would be that quantum approximately?

Kailash R Lalpuria: So we were doing pretty well in UK and almost 7% of our volume and in Europe around 6% of volume. So they are both these markets have increased by almost 1% to 2%.

Ankit Panchmatia: Okay, and the realizations are different for US and UK or they are more or less same?

Kailash R Lalpuria: They are more or less same because we are positioned into the mid to high segment as we had mentioned we work on cost plus basis and here also we are targeting the niche business and the higher segment retailer, not the low segment.

Ankit Panchmatia: Okay Sir. Thank you. That is all from my side.

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

Dimple Kotak: Thanks for taking my question. I would like to know that what kind of traction we are seeing from the fashion business both in US and non-US markets?

Kailash R Lalpuria: We had launched this product one and a half years back and we were setting up the backward integration also to deliver this kind of fashionable products. Now we have succeeded in putting across the back-end as well as we have developed a front-end team and we have also started marketing. We have got a good acceptance to our brands and the customers have received this very well. We feel that what we have done in this year, we had sown the seeds for our future growth and basically there are trial orders in these businesses, which have already started. But as you know it takes time in our business. In customization one grows up the ladder slowly, so it will take time but as we mentioned earlier, once we find the good footing and good perceived value in the business to supply this, we hope that we will get a quantum jump in next two to three years' time. Also just to inform you about the fashion brands, one of them i.e. Boutique Living is now in thousand stores in the US. So we have that brand placed beside Nautica, Elizabeth Arden and all, we feel proud about that. Slowly it will get traction because this is the high segment, premium segment and fashionable item which changes with season, so we will have to be on top of it. We are making full attempts to explore the market and place our offerings with the retailer, which is slowly happening and we are quite positive about it.

Dimple Kotak: Sir any major customer added during the year, which you would like to mention?

Kailash R Lalpuria: About what?

Dimple Kotak: Sir any new customer added during the year, which you would like to mention?

Kailash R Lalpuria: They are all scattered. As I said because this product of ours has a horizontal growth because we already have a good audience through many customers as we export to 54 countries and we are already selling through organized retail these products, which we are now offering. We feel that in times to come they would start accepting this product of ours and we feel that it will grow but no specific customers because we all know that Target, Bed Bath & Beyond, Wal-Mart, JC Penny and Macys etc wherein all these customers are one and the same.

Dimple Kotak: Yes, okay and Sir, my next question is since our capacities are in place what would be the kind of increase in depreciation, which we would see in the next year in FY2018?

Dilip Ghorawat: There will be an increase in depreciation from existing levels and we estimate it will be an increase of around 10% to 12% as compared to previous year.

Dimple Kotak: Okay. Sir can you just throw some light on GST impact; what are you expecting from the street and also on the textile policy, which you mentioned what are the key areas, which we are looking at, which will highly benefit the textile industry and Indo Count in specific?

Kailash R Lalpuria: First I will answer on the policy front. We are expecting that Government may bring a policy on cotton so that we get our raw material at competitive pricing levels as Maharashtra grows for industry. We are presently concerned about Maharashtra Textile Policy because the state grows lot of cotton but the same gets exported to the neighboring states as it is spun there. So in order to develop and to provide spinning a competitive edge, they are planning to create a policy where local industry shall get it at a fair price.

Secondly, as we all know that the power costs are quite exorbitant at around Rs.8 a unit and we are also not allowed to purchase power in the open access system. And that is also expensive because they levy surcharges, cross subsidy and duties and wheeling charges etc , it comes to the same level. So the power cost is higher and we expect them to lay down a policy, which helps us to save costs on power side. The minimum wages are higher as compared to Andhra, MP and other places of Maharashtra. Accordingly there should be labour reforms also so that local textile industry gets the advantage as well because these are the main components of costs within both spinning and weaving. We feel that if there is a positive policy on this front, it would support textile industry and we would again see Maharashtra state becoming the star performer in textile sector in the future years to come, as it was earlier. That's the answer to your policy front.

Now coming to GST, we observe that the trade has requested GST @ 5% uniform rate across full value chain of textile and since cotton is seen as an agro based product, we feel it is likely to be considered positively by the GST Council. Hon'ble Textile Minister, Madam Smriti Irani has also promised to look towards textile positively because there was a study made by Boston Consulting wherein today textile is the largest employment generator even higher than IT, as per investment to employment generation is concerned. The Government should look at this positively towards GST and see that it does not make textile businesses uncompetitive. We feel that there would be positive step in these directions and we are all awaiting for the rates to be declared. Once we have GST rates, we will know the impact and there after we will be able to make some final comments on it.

Dimple Kotak: Sir if you can just tell me that if INR appreciates further, what is the time lag you can pass it on to your customers?

Kailash R Lalpuria: The prices are revised every 6 to 8 months in our businesses and we are fairly covered up to around 60% for the FY 2018. As this being a macro phenomenon, we including all peers will be going to the customers so we are not alone. We feel that if it behaves in the similar fashion since we work on cost plus model, we will request our customers to revise the price.

Dimple Kotak: So is it that I mean do they revise it or you have to do lot of negotiations with them?

Kailash R Lalpuria: Nothing is easy. We all have to fight and take all these headwinds.

Dimple Kotak: That is all from my side. Thank you so much.

Moderator: Thank you. We take the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Good afternoon Sir. Congratulations on good set of numbers. Sir, can you please talk a little on your target for the domestic business? Any plans to set up your own stores or what would be the revenue target I mean stores over and above the stores that are affiliated with the Bombay Stores?

Kailash R Lalpuria: We are not into retail business so we are not thinking of adding any retail stores. In our domestic business, which is all B2B, we are trying to build an aspirational brand as informed earlier because there is a huge gap in supplying value added products in home textiles particularly in the Indian space and that is the reason, when it was launched in October 2016, we have been able to start distribution in at least 14 states and 234 stores and we intend to increase these numbers because we are going through lot of MBOs and distribution base pan India. We feel that there is a good potential going forward and we expect that in the first year we should be able to clock revenues of around Rs.20 Crores plus in this new business because as we mentioned earlier, we are not targeting anything about capacity utilization per se from the domestic business. We are building an aspirational brand so we are looking for a region of around 3 to 5 years in this field.

Aditya Bagul: That is quite helpful Sir and it is a good thing as well. Sir secondly on the incremental capex that we have been guided for about Rs.300 Crores under Phase II, would this largely be met through internal accruals and the deleveraging plans that we have said, would they remain going forward?

Kailash R Lalpuria: So far we have funded most of our capex through internal accruals. We have been sanctioned a term loan of Rs.100 Crores wherein we have availed Rs 4.40 Crores so that we can avail capital subsidies from the government. So our overall cost of financing has come down as we are availing this term loan but most of the capex would be incurred by mix of internal accruals and debts going forward. We had given guidance that out of the Rs.475 Crores, which would be our capex for both the Phases I and II, around Rs.275 Crores would be financed through internal accruals and balance Rs.200 Crores will be financed from debt.

Aditya Bagul: I just wanted to get an update on that Sir. Just one small question from my end that are you guiding for volume growth of about 10% in the total volumes to 62 million meters to 63 million meters. Can you explain the rationale behind this I mean I know this has been discussed before; what I am trying to understand is now that we have the capacity in place; is there a chance that this growth number could be higher than this number I mean?

Kailash R Lalpuria: We all expect these numbers to improve as per our internal business plan wherein we have planned for more growth but we have to be realistic because at the end of the day when we add products to our kitty we have to serve them well and have also to test and trial the market and have a sustenance going forward. So that is why we have to build on all accounts. It is not only the selling part but sustaining part in the long run. So we hope that the numbers, which we have given are likely to achieved going forward.

Aditya Bagul: Okay Sir that answered my question. Sir that is it from my side. Congratulations and good luck.

Moderator: Thank you. We take the next question from the line of Harshal Shah from Anvil Research. Please go ahead.

Harshal Shah: Sir can you explain the devaluation of inventory at your international subsidiary, so what kind of inventory was it?

Kailash R Lalpuria: When we sell to a particular customer sometimes there is a product strategy, which you get on with the customer and plus there is a change in the product strategy, which brings about to liquidate the old inventory. So that is why when this happened along with a customer of ours, we sold this inventory to some other customers and the additional cost which we incurred on to repackaging and changing over that cost is on us and also when we sold it to some other customers the realization was less. So we took that hit but in the process we gained a very good business of the customer. That is why we devalued this inventory at a one go and which hit our margins in the consolidated results.

Harshal Shah: And sir out of this, you have operating income of Rs 45 Crore. Can we say full Rs 45 Crores is forex?

Dilip Ghorawat: About 70% to 80% will be forex gain, balance will be interest on fixed deposits, insurance claims etc.

Harshal Shah: That is it from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir my question is on FY2019 volume now that we see only 10% volume growth in FY2018 and we would be ready with lot of marketing efforts in FY2018 again so should we see much more volume growth in FY2019. I am not asking about exact guidance but directionally, is my thinking correct?

Kailash R Lalpuria: Yes, of course because we aim for higher growth in our businesses as we have reasons to believe wherein we have expanded the product mix, we are expanding the geographies, we are venturing into new areas and target new customers so definitely we should think positive. We aim for a better growth in years to come as we have sown the seeds initially this year and we hope that we should achieve around 10% growth in FY 2018 and thereafter we may have a quantum jump once the customers perceive our value towards delivering the new product line so that is the reason also we have added up all the designers and the team last year and this year to strengthen our offerings, so we estimate that we shall grow in a good number in FY 2019.

Bhavesh Chauhan: Second question is on hedging. Sir, you said that you hedged approximately 60% of your receivables is it on the yearly basis so should we assume that FY2018 is hedged 60% of whatever sales you expect?

Kailash R Lalpuria: Yes.

Bhavesh Chauhan: Okay. And what would be the rate Sir if you could give that?

Kailash R Lalpuria: We do not have the details presently and hence we cannot disclose the same at the moment.

Bhavesh Chauhan: Thank you.

Moderator: We take the next question from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: Good afternoon Sir. I just wanted to understand this quarter we have seen a jump in the gross margin would it be mean that since we have done some job work and we have allocated to the other expenses that is the reason we have seen an increase in gross margins in this quarter?

Dilip Ghorawat: Yes, what you say is correct. There were fluctuations in the raw materials prices and there were some additions in store, spares, packing material and other things what we used to get it done outside for our specialized fashion and institutional bedding. The cost got bifurcated into different heads.

Ronak Morjaria: I am talking about the gross margins which is gone up on a Y-o-Y basis if we compare this quarter versus the same quarter last year so is it because some of the job work charges and all we charged on the other expense lines which used to be reported on the raw material front which is the reason why we are seeing the higher gross margin?

Kailash R Lalpuria: No, when the cotton prices went up, in order to save additional costs, we considered to do more job work spinning to job work rather than straight job work weaving and we disclosed job work expenses as contractual commission expenses in other expenses rather than adding up them to the raw material cost. So if you look at our numbers you are right in assuming that a part of raw material cost has shifted to other expenses.

Ronak Morjaria: Okay. I also just wanted to understand with the new ROSL benefit what kind of improvement we are going to see with that new benefit?

Kailash R Lalpuria: On ROSL basically the government is still deliberating based on the GST which they would declare because some part of ROSL is covered under GST, so we still are waiting for them to declare first the rates for textile and then you know there would be clarity on the various other schemes which they have declared. So we are also waiting for the new policy to be declared very soon.

Ronak Morjaria: But as of now till the GST is not yet implemented what kind of additional benefit we have seen?

Kailash R Lalpuria: See on a net-to -net we are getting around 2.2%.

Ronak Morjaria: 2.2% we have seen a benefit because of this.

Kailash R Lalpuria: Yes.

Ronak Morjaria: Thank you Sir.

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

HR Gala: Hello Sir, good afternoon and congratulations. Sir just understanding one thing, you said that all these one time charge etc., impacted our EBITDA margin by 225bps does it imply that it accounts for about Rs 50 Crores worth of dip in EBITDA ?

Kailash R Lalpuria: It will be around Rs 30 Crores.

HR Gala: Okay and how much was the impact of this inventory devaluation?

Kailash R Lalpuria: See to be precise, we had a devaluation of inventory of USD 2.35 million which is around Rs 15 Crores and the valuation as per the current foreign exchange rates had a hit of around Rs 5 Crores, so altogether there was a hit of around Rs 20 Crores in this one time devaluation.

HR Gala: So this Rs 20 Crores is also included in this 225 bps impact?

Kailash R Lalpuria: On the overall consolidated numbers, yes.

HR Gala: Okay so it will be Rs 30 Crores plus Rs 20 Crores so totally it will be around Rs 50 Crores impact like if there were no one time impact will it be right for us to assume that our console PBT instead of 353 Crores would have been close to 400 Crores?

Kailash R Lalpuria: Yes, exactly that is what we have also informed earlier that the raw material is a one-time because we see that the raw material rates are dipping back to normal prices so that is the one time hit on the additional expenses which we incurred. Secondly on this devaluation of inventory in our US subsidiary, this happened this year, which is also one time, as explained in detail earlier. If you sum up that along with the additional employee expenses and all other things so they amount to your guess work. Also as Mr Dilip Ghorawat explained that there is a change in the way pre-operative expenses and trial run expenses are being accounted. In Ind-AS, we have to charge it to P&L rather than capitalizing it so we had charged each respective account the expenses so there is a marginal increase in all these expenses towards the pre-operative expenses. In a capex of around Rs 80 Crores, this is around Rs 4 Crores to Rs 5 Crores on this account.So all this has added up, otherwise we were in line with our expected EBITDA level. If you look at our overall business model and overall margins expectation and what we had informed, we were clear because in March itself we have informed that we were pretty close to this number but the devaluation and above mentioned reasons impacted on the EBITDA level.

HR Gala: Last question from my side, by which financial year you think we will be close to 90 million meter?

Kailash R Lalpuria: See we said that in three years we shall consume this capacity. We had already given that direction.

HR Gala: Okay. Thank you very much and wish you all the best.

Moderator: Thank you. We take the next question from the line of Dipesh Kashyap from Equirius Securities. Please go ahead.

Dipesh Kashyap: Most of the questions have been answered, just one from my side. Sir, the premium category that you are talking about how much better the realization margins can be vis-à-vis the other categories if you can guide us please?

Kailash R Lalpuria: In premium category it varies because you see in different businesses like say fashion, utility and institutional, it also depends upon which market segment and which position of this product we cater to like say whether we are selling it to the specialty stores or departmental or are selling to a club warehouse so it depends on what kind of a product which you are positioning and which segment, so it varies. Just to answer your question, that there is a better margin proposition in these categories because we are adding value to it through fashion. See there are embroideries, there is different packaging, there is quilting, so all these value additions are being paid for, hence we can say that if we achieve this potential of promoting fashion bedding and other high product lines, we should be able to add on at least 100-150 basis points from the overall business.

Dipesh Kashyap: That is it from my side Sir. Thank you.

Moderator: Thank you. We will take the next question from the line of Binoy Jeriwala from Sunidhi Securities. Please go ahead.

Binoy Jeriwala: Thank you for the opportunity. Could you help me with the spinning revenue and standalone business?

Dilip Ghorawat: It is around 10% of our revenues on consolidated basis.

Binoy Jeriwala: What I am trying to understand is Sir, in Q4 on a standalone level, you did a revenue of about 468 Crores versus 494 Crores on volumes; however, you have indicated you have shared the whole year figure and therefore which translates to 12.5 million meters in Q4 of FY2017 versus

12 million meters roughly in Q4 of FY2016. I am trying to understand the reason for the decline in realization per meter and especially given that we are getting into value added segments, which is fashion and utility bedding where the realizations are much better than the realizations in bed sheeting business?

Kailash R Lalpuria: We have always been mentioning that the change in product mix and the change in the trends in a market place do affect realizations when you calculate it on per meter basis because there are so many variable qualities, which we sell. Secondly on the fashion bedding as I mentioned earlier we have sown the seeds now and initially we have to be competitive, we have to get into the doors and thereby we have to start because the retailer or the customers starts with us in the mid segment and thereafter we slowly grow up the ladder by venturing into the higher segment and premium segment so the margin definitely starts improving once you are in the door because then you can swim around with other product lines.

Binoy Jeriwala: No, I completely understand that Sir, so what I am trying to understand if you have got into fashion and utility bedding let us say this year the same products would have contributed in a much lesser manner in the Q4 or in the whole of FY2016 so despite the slightly better revenue mix in FY2017 that we have had, we had a much lower realization on a meter basis?

Kailash R Lalpuria: No, we had also informed that we do not calculate in our business per meter realization. You see it keeps on changing like say for example, today if you are selling a fashion bedding in 200 thread count and a fashion bedding in 300 thread count so the absolute realizations say where you position your product changes dramatically. See in the retail segment also there is good, better, best and premium and when you venture initially they accept you as mid level somewhere between the better and the best or the better one category so you go up the ladder by first getting into the door so the margins would not be that high initially and the realization would not be higher so what we have been saying that this calculation of per meter realization we do not believe that it is the correct way of looking at our businesses. What you should look at is the growth and the maintaining of the margin because that is how we position in a market place. Say for example, if we start selling to the lower segment our margin would drop or volume will go up and realization is very less but sometimes strategically you have to position yourselves in the market place and that is how what we have done and hence we are different to our peer model.

Binoy Jeriwala: Right. So Sir if we talk on a margin basis let us say, in Q4 for instance if I adjust for all the one-offs your margin from approximately 10% it goes up to maximum of about 13% to 13.5% versus a 21% margin in the Q4 of FY2016 so I am just trying to understand?

Kailash R Lalpuria: Can we discuss offline because we are not getting your question very clearly because you are referring to some numbers of 10% and 13% and we do not understand from where they are coming from.

Binoy Jeriwala: Okay I will take it offline.

Moderator: Thank you. We will take the next question from the line of Anish Jobalia from Jeetay Investments Private Limited. Please go ahead.

Anish Jobalia: Good evening Sir. Thank you for the opportunity. Sir can you explain why are the debtors on the balance sheet from FY2016 to FY2017 has increased by 28% approximately and the sales have actually grown at around 6% to 7%. So why the balance sheet has got impacted to this extent?

Kailash R Lalpuria: In consolidated results, the debtors have increased from Rs 243 Crores to Rs 311 Crores and the reason being that earlier we were receiving LC at sight from some of the customers and now we are receiving LC with usance of around 60 days depending upon positioning of the product, salability and all those factors considering into view, so it has increased.

Anish Jobalia: So basically the receivable turnover ratio would have come down so like going ahead also would this be the right way to look at or it will go back to the earlier?

K.R. Lalpuria: No, this will be the future trend and majority is all LC for 60 days you run.

Anish Jobalia: Secondly, is this Rs 200 Crores debt that you were to take for the expansions so up till now have you taken any of the debt or you are still to take it in the next one or two years?

K.R. Lalpuria: There are two components to it. One is Rs 100 Crores term loan, which we have received sanction and we have drawn Rs 4.40 Crores. Balance for the Greenfield weaving project, we shall be making an application for term loan for said project at an appropriate time as we have not received allotment of land and other approvals.

Anish Jobalia: Okay so basically I mean that Rs 200 Crores is yet to be taken?

K.R. Lalpuria: Yes.

Anish Jobalia: Sir third I mean if I can just ask one last question what is your raw material outlook for this coming year?

K.R. Lalpuria: Raw material like cotton being a global commodity there is always a global phenomenon attached to it and we believe that there is a sufficient supply of cotton in India because the sowing has increased by almost 20% plus we have a yield growth also because currently we are at 521 kg/hectare but I think we should go up to almost like 700 kg/hectare.

Secondly the sowing also has increased because there is a good realization to farmer this year as the cotton crop was sold at around Rs.6000 a quintal as compared to Rs 4800 for other cash crops. So there is a good sowing in this season and we hope that there would be a lot of supply of cotton, both in India as well as in US also so we have enough supply happening to meet the demand. The outlook is quite positive. The rates have started tapering down and India has got abundance cotton. We should not worry about the same.

Anish Jobalia: Thank you. Thanks for the opportunity.

Moderator: Thank you. We will take the next question from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh: Thank you for taking my question. Sir on your margins you said that it is cost plus so I just wanted to check when was the last time we renegotiated the prices and going forward when will it happen?

Kailash R Lalpuria: No, we cannot specify a single time. We are in the process of discussions with various customers at different time the order starts. So we cannot be very specific that it happens only in June or it happens only in January. It is across, but our business model is that we are working on cost plus and we are transparent about it to our customers and hence as I mentioned to you earlier, we as a company do not believe that we are a price driven. We are product driven basically. So we offer value proposition to the customer and thrust and sometimes demand pricing on our own terms and because you know some of the factors which effects are business on the macro level like the cotton, the forex and all that which are known to the customers around the world and they also take it positively because at the end of the day they also want good supplies and they have retail platforms where they need good vendors for consistent supply and lastly you see today the world is looking towards credible and reliability in supply chain. It is not just looking at price I think we have a proven track record and we have performed well so in the market place when you have a good perceived value as a supplier you get paid for.

Sagar Parekh: So basically on your forex as well as cotton both you renegotiate with the customers, is it?

Kailash R Lalpuria: Of course, because you see we are not alone. Even our peers would go in for a price negotiation for the key factors affecting all of us.

Sagar Parekh: Cotton I understand but forex, you would be competing with other guys from China, Pakistan, and Bangladesh where the forex volatility is not so much as India so that is the reason why I am asking that this question?

Kailash R Lalpuria: If you compare China and other countries they are in different qualities and different segment they are into the low and mid segment. We are positioned into the mid to high segment and our product offerings are very different because in these countries, supplies are more manmade products and our products are more cotton based. We are in advantageous position as regards to cotton as India is one of the largest cotton growing country in the world. The cotton consumption is growing per capita in India, that is why India is in a strong position. Accordingly, India has share of around 49% in our category alone in the US so that speaks about the acceptance of our product in the market place. Our Company works on model of Made to Order with Cost plus which mitigates the risk factors for any volatility.

Sagar Parekh: For the next three years do we hold the target of 2% incremental EBITDA margins, I mean from 20% to 22% in the next three years, once your capacity comes on stream and with full production?

Kailash R Lalpuria: Yes, we hope so because you see at the end of the day when we run any business, we always vie to offer better products at better margins that is why we are here.

Sagar Parekh: So in spite of forex volatility, raw material volatility you still hold by the figure of 22% EBITDA in the next three years?

Kailash R Lalpuria: Yes. Because the forex is at the end of the day it is we look at means to transact rather than as the core of our businesses, because we were also selling at Rs.60 and Rs.63.

Sagar Parekh: Lastly what would be the mix from fashion utility and institutional bedding in FY2017? It was 10% in FY2016, right? So what would be the mix in FY2017 from these three segments?

Kailash R Lalpuria: These three segments marginally grew around 1.5% so it is 11.5% for now.

Sagar Parekh: So that will go to 30% in the next three years? That is our target.

Kailash R Lalpuria: Around 25% to 30%. That is what we are aiming for.

Sagar Parekh: Going forward with Q1 and Q2 because the raw material prices having shot up recently so will there be some kind of margin impact going forward for Q1 and Q2 as well or with renegotiation should normalize from this quarter itself?

Kailash R Lalpuria: We expect the raw material to taper down and then of course we will be renegotiating and revising the prices and we are looking forward to at the next year because as we mentioned earlier in our business we look upon on an annual basis rather than on a quarterly basis because we always sell a year in advance and then the projections which are provided to us are adjusted on a monthly basis depending upon the sales in the retail and all other global headwinds so that is how the retail works.

Sagar Parekh: How much inventory of cotton do we carry?

Kailash R Lalpuria: We carry at least two to three months.

Sagar Parekh: Thank you. That is it from my side. Thank you.

Moderator: Thank you. We will take the next question from the line of Praveen Sharma an individual investor. Please go ahead.

Praveen Sharma: I had just one question on this volatility of raw material prices which dented our margin, I just wanted to understand because in the last call, it was said that we hedge cotton as soon as we receive order and we carry inventory of around three months, so why this volatility was affecting us and the second question is do not you feel the high prices of cotton will be new benchmark and new trend in the industry?

Kailash R Lalpuria: Of course, what you are stating is correct, but the prices of cotton always depend upon the demand and supply. Being a global commodity it works always on the demand and supply and if the supply is more as what we have seen in all commodities across Europe they tend to smoothen up, and which has happened in this quarter as well. Now slowly because there was no demand on yarn, the prices started falling and now with the exports like going through this phase we expect that the cotton prices would further fall once the new crop arrives. So we as an industry tend to average out in the process. We hedge our raw material because as we get our orders, as indicated earlier and hence our raw material cost has decreased but since we hedge four, five, six months in advance; there are some expenses which we pay additionally when we try out different means of sourcing of raw material. So that is why the hit is there additionally in this last quarter.

Praveen Sharma: Thank you.

Moderator: Thank you. We will take the next question from the line of Priyanka Shah from DC Advisors. Please go ahead.

Priyanka Shah: Sir, I just wanted to understand do you foresee any prices pressure due to increased supply in the industry going forward?

Kailash R Lalpuria: We do not think so because India is well positioned and the market is growing on a macro level at say around 4% plus the cotton consumption is growing across and as I mentioned there are still untapped markets and untapped channels also so there is enough room for India to grow and there are other categories which India has not tried out at all. We feel that particularly in the made ups in bedding area there is a good demand, which exists and the new capacities, which have come up, they would have their own gestation period to absorb.

Priyanka Shah: Sir, the competitors have been talking about new vanilla programmes on Target at low margins just to fill capacity and generate positive contribution any views to that?

Kailash R Lalpuria: No. We are also a vendor to Target and so whatever business, we are doing, we are continuing with that.

Priyanka Shah: At similar margins profile?

Kailash R Lalpuria: See we have a different strategy wherein we do our businesses. We learn from the competition and we try to be competitive everyday.

Priyanka Shah: Thank you.

Moderator: Thank you. We will take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Good evening Sir. Just had one question; last one year some of these retailers like Macys and all have been reporting quite weak results so it looks like the profitability is under pressure, so given that backdrop how do you think this will affect your negotiations?

Kailash R Lalpuria: The retail in the US is growing at a pace in which some of the retailers in particular categories do not do well because some of the categories have shifted to E-commerce like books, toys and all that. So their sales went down or may be some other categories, which have not fared well, but as far as our category is concerned, they are doing well. Hence the consumption is growing because it is directly linked to home sales, increase in home stay lifestyle changes and increase in the overall economy in the US, so which seems to be good. Of course there were some headwinds last year because there were elections and there were change of power and as we had mentioned that there were extended summer so that is why we lost sale,some of these are the reasons, but you know there is always a mix of retailers where some do well like say Cosco and others whereas some do not do well because they also position themselves accordingly and they have their own issues regarding how they administer their business.

Arjun Sengar: Like you said the home textile division was always doing very well for them but certain segments like books and all was getting eaten up.

Kailash R Lalpuria: They have shifted to E-commerce, which we all know.

Arjun Sengar: Is there a possibility that to cushion some of their margins they make home textiles take up some of that cost? Is there some possibility of that sort?

Kailash R Lalpuria: Because you see we are in a need base product. At the end of the day bed sheets and all other made ups categories are need based, and the Americans are fond of decorating their bedrooms on a much greater scale than all other countries around the world through cultural means. So we feel that there is a high consumption per capita in that country and we feel it will continue because a lot of people like are added in the millennial categories who are instinct buyers and who are well aware of what is happening around.

Arjun Sengar: I am saying I do not dispute the demand for your product. That is obviously there. I am saying that they may choose to cushion some of their headwinds in other segments on this particular segment?

Kailash R Lalpuria: We see the demand and if the demand is there, how you will correlate in economies that there will be a fall in price. There is always a pressure, but because you see we always innovate and 70% of the product which we sell have been shown to the customer for the first time and we always spent a lot of time on consumer research to find out the gaps and provide an end-to-end solution so we have to do this to help the customer gain in his market share and that is why our business model is a little bit different that we spend a lot of time on the front end rather than the backend. There are headwinds with some of the retailers on need based items they would not like to lose their market share by bringing in low end products or cheaper products or by negotiating with good vendors cheaper prices because as I mentioned price is not the only category which all are looking at today. They are looking at a reliable and credible supplier in fact going forward and there is a consolidation in the number of vendors whom they tie up with and since we are one among them and we have a proven track record we feel that we will be doing well on the price front as well.

Arjun Sengar: Thank you for the explanation and best of luck.

Moderator: Thank you. We will take the next question from the line of Ayushi Mohta from CD Equisearch. Please go ahead.

Ayushi Mohta: Good evening Sir. Just one question from my end; what would be the impact of inward looking American trade policy on your business?

Kailash R Lalpuria: There is no policy as such being declared here. Do you know of any policy being declared there?

Ayushi Mohta: No Sir.

Kailash R Lalpuria: So there is no policy because it would be universal news for all of us because everybody follows Mr Trump everyday nowadays.

Ayushi Mohta: Thank you.

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

Chintan Sheth: Thanks for follow up. If I break up your sales you did mention we have a volume growth of around 4% this year from 54 to 56 mn meters. Our topline growth is around 7%. So can you break the balance growth in terms of forex gain and inventory and improvement on realization?

Dilip Ghorawat: Chintan, we will get back to you offline on this as we do not have the data readily with me. As we mentioned earlier that in consolidated results,there is a growth of about 7%, to Rs 2258 Crores in revenues because there was that additional turnover in US business and also there were some small gains on the forex. This is part of the total overall income. .

Chintan Sheth: Sir, you did mention about the branded mix is around 11.5% for FY2017?

Kailash R Lalpuria: Yes around 11.5% in total.

Chintan Sheth: We plan it to bring that number to 25% to 30% in the next three years or five years?

Kailash R Lalpuria: Next three years we mentioned earlier.

Chintan Sheth: So from 11.5% to 25% we can expect?

Kailash R Lalpuria: Yes, 25% around on the overall extended revenues.

Chintan Sheth: I will get back through offline. Thank you.

Moderator: Thank you. We will take the next question from the line of Debanjana Chatterjee from HDFC Securities. Please go ahead.

Debanjana Chatterjee: This is regarding the capex plan. Your capex is like 36 million in FY2012 and now it is 90 million, so it will be operational from FY2017 onwards?

Kailash R Lalpuria: We have already completed and we have reported this to the Stock Exchange just after the board approval yesterday and so we have increased our capacity and we will be utilizing part of it going forward.

Debanjana Chatterjee: So any further in the next five years down the line?

Kailash R Lalpuria: We have to utilize this first. As we said we do not strongly believe in creating capacity per se. We always compliment our sales to the capacity building and we always take a view of at least three years. That is what we always aim for.

Debanjana Chatterjee: This will be stable for the next three years?

Kailash R Lalpuria: Yes, this should be, but we have already explained that we will be adding up some weaving capacity going forward in our Phase II. So the next three years we intend to first utilise this increased capacity.

Debanjana Chatterjee: As previously an investor said that EBITDA would be around 22% for the next three years?

Kailash R Lalpuria: We are always maintaining that we would be around 20% plus, but this is a wishful thinking of always to perform better.

Debanjana Chatterjee: So can we keep it like 20 plus, you can always expect?

Kailash R Lalpuria: Yes.

Debanjana Chatterjee: Thank you.

Moderator: Thank you. We will take the next question from the line of Dhaval Shah from KR Choksey Shares & Securities. Please go ahead.

Dhaval Shah: Thanks for taking my question. Just one question; what is our debt repayment programme?

Dilip Ghorawat: The debt as on 31st March 2017 represents the buyer's credit which will be paying off in three to four years and term loan of Rs 4.40 Crores which will be repaid after a moratorium of two years in five years.

Dhavan Shah: The capex is this year is Rs 75 Crores to Rs 80 Crores excluding weaving?

Dilip Ghorawat: Yes.

Dhavan Shah: And the weaving capex is 250 Crores?

Dilip Ghorawat: The weaving capex is around Rs 230 Crores to Rs 240 Crores.

Dhavan Shah: So that will be in FY2018-2019 or how is it?

Dilip Ghorawat: As Mr. Lalpuria explained, the project is a Greenfield project wherein we have applied to the government for allocation of land and we are also looking at the textile policy of state Government of Maharashtra. So once the same commences we shall appropriately inform the exchanges and investors.

Kailash R Lalpuria: We are ready with the plan to expand. We have the money and the resources available. The only thing we are looking for a favorable policy and once that is decided then we will add on this capacity in weaving wherever the policy is conducive. So, we are ready with that and as I mentioned earlier out of Rs 475 Crores, Rs 200 Crores will be debt and Rs 275 Crores will be internal accruals and today what long-term debt and short-term debt we have, we have a long-term debt of Rs 23 Crores, which is by way of buyer's credit at 2.5%, and short-term debt is the working capital. So the internal accruals are basically being utilized towards repayment of working capital.

Dhavan Shah: Sir just another question is with regards to the realization so if I look at the last, I mean, the Q4 and Q3 FY2017 numbers in terms of the volume growth it was around 7%. I understand that it was basically because of the lower demand from US, so now how do you see the traction from US market? I mean, is it improving from Q1 onwards or what kind of growth are you expecting from US?

Kailash R Lalpuria: It is stable as I mentioned and we still have to see the momentum growth because you see once it tapers down it takes a little bit while to improve upon because there is inventory in the pipeline. So we feel that it should improve definitely because the customers are looking for more new innovation, new programmes and new areas to promote. So we feel that the market has revived and in times to come it should improve and as we said that in our business we should always look at the annual number rather than on a quarterly basis because in quarter we do not justify because the business is sometimes a little bit seasonal as well. So we should see overall the annual numbers because we also supply replenishment items, which are repeat businesses in a particular programme. We are not supplying promotional businesses, which are one-time like in a particular season so there are projections across and they keep on adjusting depending upon both the sales and the other outcomes of retail. So, we have to see from an annual perspective rather than a quarter.

Dhavan Shah: But if we look at the topline growth I mean the number seems muted in terms of realization. So it shows that may be the market is more competitive and that is why there is pricing pressure among all the textile players?

Kailash R Lalpuria: Product mix also changes. Sometimes there is more sale or more promotions in thread count there is more promotion in 400 thread count or there is more promotion say may be in quarterly number which is involved today in fashion, there may be a quarterly risk force. The quarterly risk force pricing is different to cotton and linen, so you will see there are so many variables in textile wherein you cannot ascertain the per meter realization. Like even in garment you do not see that if a company has done like say 100,000 shirts you do not derive what is the per meter realization if one shirt takes 2.5 meters what is the realization because it all depends on various means of fashion and other things. It is not a purely like a commodity wherein we can calculate the per meter realization. So what I request one, you should see the overall annual number and secondly the per meter realization what we believe do not provide a correct justification to our growth or muted numbers or realization. That is what we feel because sometimes you see there is a quality which is in vogue which is lighter say may be there is a value addition of anti-bacterial or antimicrobial bed sheet. Now those are being sold in summer more than in winters and in summer they sell the lower thread count, so the absolute value and the margin becomes lower in that product. So, if you sell 600-thread count, you will have a higher margin and now if the retail is accepting a higher thread count and if there is more winter there is a thicker fabric then we get better margin in that. If we sell to Bed Bath & Beyond we get better margins, if we sell to a departmental store like Macys then we get a lower margin. There are so many variables in our business, so a correct and true picture would be to look at the margin maintenance basically.

Dhavan Shah: So, I mean do we expect the same kind of gross margin in the next two years or how do you see the cotton and yarn prices scenario in India?

Kailash R Lalpuria: You see cotton is in good supply in the future and we feel that the price of the raw material should taper down.

Dhavan Shah: So do we pass that benefit to end-users?

Kailash R Lalpuria: Of course, if the raw material cost is reduced you get a better gross margin and also you see what happens in our case when we have expanded capacities, we have one-time expenses and still we have to grow our revenue based on that. So from here on once we start selling the capacity our revenue would grow and the expenses would marginalize.

Dhavan Shah: So what kind of utilization rate are we expecting from this 22 million meters of capacity?

Kailash R Lalpuria: We have said that in three years we would consume this.

Dhavan Shah: Thank you so much.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Kailash R Lalpuria: I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Mr. Dilip Ghorawat or SGA. Thank you once again for joining us.

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