"Indo Count Industries Limited Q1 FY-16 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen and welcome to Indo Count Industries Limited Q1 FY-16 Earnings Conference Call of. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performances and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. Now, I hand the conference over to Mr. K.K. Lalpuria – Executive Director of Indo Count Industries Limited. Thank you. And over to you, Mr. Lalpuria.

K.K. Lalpuria: Good afternoon and a very warm welcome to everyone. Along with me I have Mr. R. Sundaram – Chief Financial Officer and Company Secretary, and SGA – Our Investor Relations Advisor. Let me start with the Textile industry update and then Mr. R. Sundaram can take you all to the quarterly numbers, the financial part.

We begin the financial year '16 much like we ended our financial year '15. Our industry out performance was a result of long-term structural shift and the profitable growth of the company was the result of our sustainable business model. The global home textile market was $74 billion in 2014 and it is estimated to touch $96 billion by 2017. Thus sustainable growth of 5% till 2017 is observed.

Bed Linen segment constitutes around 21% of the total Home Textile industry by volume. Indian Textile industry is becoming globally competitive. It is consistently increasing its share especially in the made-up imports in the U.S. which is one of the largest and fast growing markets for Home Textile product. Total made-up import to U.S. between January to May 2015 increased by 7% compared to same period last year. Whereas, exports from India increased by 13% in the same period more than China which grew by only 8%. The consumer spending in U.S. is expected to be stable during the current year thus demand for textile product is expected to remain robust at the similar level. India's share is increasing in the export of Home Textile segment to the U.S. because a structural advantages of various things like skilled labor, quality, premium product, reliability on the supplier front, integration, et cetera.

Indo Count is one of the leading and preferred suppliers of Bed Linen to the U.S. with innovative product and committed services. Apart from U.S. the company also exports it's product to Europe, UK, Japan, Latin American countries, Middle East, Canada and Australia. Just to inform you we have recently received the Export Excellence Award for Top Exporter - Non MSME -Trading House Category which is conferred by FIEO under Ministry of Commerce and Federation of Indian Export Organization.

We recently expanded our capacity from 45 million to 68 million meter. This will be utilized towards increasing our share in value added products like fashion bedding, utility bedding and institutional bedding, which is yet an untapped segment for us. The additional capacity will also help us to service our existing customers better providing more flexibility. This will make our product portfolio more lucrative as – they are better margin products. With this we will be able to enter new market thus increasing our geographical reach.

Just to summarize our agenda for financial year 2015-2016 we would like to reach 50% utilization level in the new capacity which we have built in last year. We are trying to increase our customer base as we are expanding our product base. More focus on the value added products like fashion bedding, utility bedding thus enriching our product mix and providing a one stop solution to the customers, foray into new countries like, Canada, UAE, Germany, Japan, et cetera accelerate our product innovation so we can provide customer satisfaction at all level. Thus creating an awareness, Indo Count as a brand and well positioned into the mid to high segment as the global Bed Linen Company.

Now I would like to hand over the line to Mr. R. Sundaram to update you on the operational performance of the company for the June Quarter ended FY16. Thank you and over to Mr. Sundaram.

R. Sundaram: Good morning all of you, this is Sundaram, I am the CFO of the company. Our Press Release along with the Investor Presentation has been circulated to everyone. I will just give a brief summary of the financials.

The revenue for quarter stood at 460.99 crores as compared to 316.08 crores in the corresponding period last year presenting a growth of around - 46% on year-on-year. The revenue from Bed Linen increase from 227 crores to 408 crores registering growth of 79% there has been a negative growth in the Spinning Division of 11% and we discontinued consumer goods that is the reason why the 79% is the growth coming from Home Textile. The growth in the revenues mainly attributed on the back of higher volumes, better realization and also on account of better product mix. We also secure business from new clients.

The EBITDA for the quarter stood at 104 crores as compare to 52 crores in the previous year thus registering 100% on year-on-year basis. The EBITDA margin also improved by 608 basis points to reach 22.5 average for the company as whole. The margin expanded on the back of reduced material cost to turnover 48.7% compared to 56.8% which was slightly offset by higher operating expense. Operating expense were on higher side on account of new capacity addition which is expected to come down as the capacity utilization increases. This margin improvement can also attribute towards growing share from the Home Textile from 60% to about 90% across the last eight quarters. Company presently has in the two divisions which is Spinning and Home Textile. As for the first quarter the Home Textile accounts were - 90% of the total revenue and 10% is the Spinning.

Going further down the line the volume of business for Home Textile increase thereby increasing the share from 90 upwards to go up to 95% in a couple of years. As regards to tax we have exhausted the entire accumulated losses last year. We have provided for the complete corporate tax 34.6%. However the net cash outflow will be 21% on MAT. The balance what MAT we have paid in the previous year was adjusted towards the tax obligation.

The PAT for the quarter was 55 crore as against 25 crores, they registered growth of 122%. PAT margin also improved from 8% to 12%. I just on briefly came on debt and interest. The company's net debt position as on June 15 is 247 crores including both short-term long-term and the cash balance available. The long-term debt is 74 crores and the remaining 173 crores is the debt in terms of working capital net cash balance.

We recently got upgraded the rating from ICRA which gave us AA rating for the long-term and A1+ rating for the short-term. This will certainly benefit the company gaining and improved interest costs and the bankers do not have to provide for capital adequacy or the reedited exposures.

Our net debt to equity stood at 0.54 as of June end which was 1.21 time similar quarter in the last year. The company interest cover has improved 3.5x to 6.7x. One important element is the net debt position as on June 15 vis-à-vis the EBITDA for the annualized EBITDA 0.6x times as compared to 1.7x in the last year. During the course of the year the net debt will certainly come down there is a scope for reducing the 0.56x to about 0.5x.

This is the complete presentation from our side. I will now leave the floor open for any questions and answers which will be addressed here. Thank you so much. -

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Amit Vora from PCS Securities. Please go ahead.

Amit Vora: My first -question is of the growth that you have got this quarter what has been the value growth and the volume growth exactly?

R. Sundaram: The value growth I told as far as the Home Textile is concerned is grown by 79% as on year-on-year basis under the volume basis we had a growth of close to from 6.8 million to almost like 50% growth.

Amit Vora: 50%, okay. And the share of high margin product that you had mentioned what would be that during this quarter percentage wise?

R. Sundaram: See the share of high margins it is like composite basket whereas we cannot exactly pinpoint how much the share in the high margin, how much share in the low margin. The average EBITDA margin improved from 17.6 to 22.5.

Amit Vora: I am trying to get to only that the EBITDA margin that you have reported this quarter how much of that is that you expect that is sustainable during the next three quarters to come or the next year?

K.K. Lalpuria: See there are various factors for growing the margin. As we explained you one is the product mix enhancement like when we got to fashion bedding, utility bedding and other value added products we had a better margin we by one or two points and the operational leverage like when we start utilizing our capacities better we amortize the expense. Then third is the reduction in the raw material cost because you see we are focusing on the mid to high segment we are targeting the basket of better product which provide us reasonable margin enhancement. Then fourth is we are targeting better clientele in each of the countries so that we go to the mid to high segment and target them and getting them into the fold then amortization of expenses. So there are so many factors which depends on if not just alone like selling a product at a higher price.

Amit Vora: I understand that and I appreciate that you are being doing a fantastic job. So my question is that is this margin that you reported is say for example 20% of that is coming high margin product, can this percentage basically increase over the next few quarters?

K.K. Lalpuria: See we would first like to maintain and sustain this margin because we have grown the margin due to various factors and of course there is always initiative to increase our margin by supplying better end products to the marketplace so the markets are positive there is always scope for improvements. So we do expect like in the years to come as we become a more credible and reliable supplier the retailers would rely on us to supply the better end product and as we bring out more innovation in our product line we would expect to do better in the years come and at least maintain and sustain the margin and grow it from there.

Amit Vora: Okay. And - next question and after that I will jump back in the queue. What has been our plan in the CAPEX you have mentioned that you will be deciding that going forward but if this is a kind of growth scenario that we are looking at what is that we are anticipated CAPEX in the coming year?

K.K. Lalpuria: See basically we are focusing on utilizing our increased capacities from 45 million meters to 68 million meters there has been an incremental capacity of 23 million. We expect to utilize 50% of this 23 million this year which we are fairly confident because we have already reported first quarter positively and have been able to utilize the capacity increase capacity well and thereafter our order book positions are fairly sound so that we expect this year to utilize almost another 9 million to 10 million further in the increased capacity. And then next year the kind of customers which we are targeting and focusing and enough potential to grow our business to that level. So once we have fairly a good idea of utilizing increased capacity thereafter we are thinking about a Brown field or a Greenfield project to take further quarter in top-line as well as bottom-line in the years to come. So we are expecting appropriate time to see how we can expand further to other CAPEX streams.

Moderator: Thank you. Next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: I had questions on a few data point if you could help me. Sir, as you mentioned in the opening remarks and also in the presentation the net debt is 247 odd crore. As we can see the first quarter the interest layout is about almost 15 crores. Now assuming annualized run rate on this 247 seems the interest rate is too high so where is the discrepancy out here?

R. Sundaram: No, this we had been explaining last two quarters. What is the exposure on debt is only in the **- Packing & credit** and trade in the term loan we have export this bill discounting for which no banker leaves any limit for that. We negotiate the bill from the LC, the interest is payable on LC that also is a part of LC cost comes into picture, number one we also open LC on the supplier it is reverse bill discounting, we pay interest on that also so, you cannot raise, we want we have a separate break-up how much interest cost on term loan, how much interest cost on working capital, how much is the export bill discounting, how much is the purchase bill discounting. The interest is more related to the net debt which I had explained in the last two quarters or so.

Rahul Bhangadia: Okay. That I am aware of my question was do you include the acceptances as a part of your net or not when you calculate net debt?

R. Sundaram: We do not acceptances only come as a part of current liability in the financials.

Rahul Bhangadia: So you do not include that as a part of the debt?

R. Sundaram: No, we do not consider.

Rahul Bhangadia: And sir, how much of your debt is dollar debt?

R. Sundaram: We have no, zero dollar debt.

Rahul Bhangadia: Zero, foreign currency I mean…

R. Sundaram: No, foreign currency debts

Rahul Bhangadia: No.

K.K. Lalpuria: Also on year-on-year basis you would see that we were getting interest subvention earlier so, that if we get it our interest component will go on which is on cards with the government.

Moderator: Thank you. Next question is from the line of Laxmi Narayan from Catamaran. Please go ahead.

Laxmi Narayan: I was just going through your presentation where you mentioned about your raw material procumbent and how you ensure that stronger terms of trade with customers and raw material providers. If you can just help me understand what is your source of raw material, number one. Is it only cotton? And third, how do you ensure that given the cotton prices are actually trending low for the last three years to four years, how do you ensure that we are not affected by the volatility? So just to recap what raw material we procure is it only cotton and from where do we procure and how do we ensure that our buying is kind of ensures this low volatility?

K.K. Lalpuria: You see the cotton prices are stable if you look at the A Index last year and the A Index today it stands at around $0.72 that is number one. So they are stable. Secondly, there has been an increase in the cultivation of cotton crop and increased crop has provided light decent supplies against demand and that is the reason the prices have been contained. The third thing is about China, China is not importing because their consumption has gone down and secondly they have built in their own reserves and they are also cultivating the same numbers. So overall the raw material situation is stable and in the next two years - three year at least you would not see any upside because that been only one year where the prices were spiked which we should leave but traditionally cotton has been stable overall these years so you know. So the volatility is not expected in the raw material cost that is what we would like to comment.

Laxmi Narayan: And I understand from your Annual Report that bulk of our raw material is actually locally procured.

R. Sundaram: No, 95%.

K.K. Lalpuria: 95%.

Laxmi Narayan: And you actually procure yarn?

K.K. Lalpuria: Yes, see are having different models of outsourcing wherein we sometimes procure yarn and provide it for job work and certain times we buy -grey fabric, certain times we produce our own captive consumption. So it is a flexibility which we always in cash on depending upon the prices in the market.

Laxmi Narayan: And you in that procurement bulk you procure yarn as in you have say on VAT you procure yarn from and what price also?

K.K. Lalpuria: It depends on the quality what you buy it all depends upon what orders you are running and what quality you buy. So we procure like locally there is enough capacity of yarn and – grey fabric available in India so, we have ample offers for yarn and -grey fabric.

Laxmi Narayan: So what count of yarns you normally procure sir? Because since our product is run the highest quality thing right that is the positive thing on this…

K.K. Lalpuria: We normally procure 40’s, 60’s, 80’s and 100 count and also beyond that like 120’s and 140’s. See India is having fundamentally a very versatile spinning industry and we are able to spin right from 2’s count to 140’s count and the availability is ample. As you can imagine even the Southern mills are operating at 50% today because of the power cut just imagine if they had order we would have run at 100%. So there is ample capacity available for both yarn and Greige fabric there are enough looms also to supply - grey fabric. So we have at our disposal the raw material like whatever we need to procure at the time of our on the basis of the pricing which we would move on.

Laxmi Narayan: So usually how many cycles you procure sir? Because for example, if somebody gives you because the yarn would have actually procure at the high price during the start of the season and if there is a price goes down or in the other cases price goes up when - we purchase down purchases at a very lower price.

R. Sundaram: It is a dynamic situation we do not wait for any particular cycle or something the dynamics need based activities. Our ultimate issue is to maintain the margin.

Laxmi Narayan: Do you hold good amount of…

R. Sundaram: No, we do not hold very inventory. We require optimal inventory.

R. Sundaram: It is available of the shelf.

R. Sundaram: We do not play with the raw material prices.

Laxmi Narayan: Okay. I mean in a sense if the price when someone purchases at a very high price and towards the end of say…

R. Sundaram: No, our business model we are not interested in any forecasting what the pricing do you like.

Laxmi Narayan: You do not do it, okay.

R. Sundaram: We do not do it. We want to ensure that we make a margin on the sales.

Moderator: Sorry, to interrupt, sir. May I request you to please return to the queue?

Laxmi Narayan: Okay, sure.

Moderator: Thank you. Next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: Just wanted to get some sense - how would GST impact us given the fact that most of the textile companies in the country would not be paying any excise duty per say. So if GST rates were assuming if it comes at say 18% which is lot of media articles have to say then how does it impact the larger textile companies at large including us as well?

K.K. Lalpuria: See basically we are into exports. So GST as such is not going to impact us or whatever the duty component will be there we will be refunded by the government because normally the government always refund on the basis of duty drawbacks on VAT refund to export. So since we are exporting 100%, we think we would not be affected. Secondly, there is no excise duty on cotton and cotton yarn. So you see the duty component for us will not be applicable even if GST will be implied upon all industries at a future date.

Niket Shah: Sure. And my second question was on the duty draw back rates. Do you think there was I think a circulation recently which say duty draw back rates were supposed to get reduce and then it got reverse so, can you just highlight some of the confusion related to that? Or has there been any change in the duty draw back rates basically?

K.K. Lalpuria: No, there has been not because you see the duty draw back rates are not as subsidy being provided by the government they are provided for a level playing sales particularly for exporter to minimize the impact of the local taxes so, they are always considering the prices you quote. So the government refunds whatever duty component is there or the local tax component is there on the product which you buy and which is an input into your exports so, they are not going to change that much because yes, of course when the GST implied we need to see how much it is implied and on what product and how it is being implied upon the industry. We will come to know at later date but since we are in exports we are quite a few of that there will not be any impact on this.

Niket Shah: Sure. And just wanted to get a sense on I think Mr. Sundaram mentioned that there are 50% volume growth and 70% kind of value growth. What was the large reason for such steep increase in realization growth given the fact that cotton has been lower is it migration to higher cotton I mean higher count yarn or higher count product basically?

R. Sundaram: No, there are two reason generally what happen in the past trend is the quarter one is always a low quarter for all the Textile industry. It can be able to beat that so basically if you see comparison of sales of this quarter compared to the preceding quarter our sales for the first quarter is almost equal to sale on the fourth quarter whereas the sale of the first quarter of last year is quite low so that now we have an equal distribution of the volumes and sales over a period of time, they have the similar run-rate the second and third quarter much more competitive what is produced that is why the volumes and the quantity growth has been substantial in this quarter.

Niket Shah: No, so I am still trying to understand sir on the realization part of it a 50% is volume growth and around 70% is value growth 20% will be realization growth?

R. Sundaram: It is 78% and 79%, 78% is volume growth and 79% I value growth.

Niket Shah: Okay, 78% is volume growth. So realization growth is basically flat?

K.K. Lalpuria: It is a combination of various factor minor changes is we are not interested in as far as able to get about 22.5% margin on EBITDA we are quite happy with that.

Niket Shah: Sure, got the point. And sir, what would be your target for this year for the full year in terms of sales that we can do in terms of volumes?

R. Sundaram: See last year we had a sales we are expecting about 25% growth in the volume terms in the current year out of increased capacity. On a like-of-like basis we have 1,800 crores last year if we continue taking of that probably this maybe touch about 2150 or 2200 or it may touch more than that.

Niket Shah: So basically on from 44 million the number should look something like close to 54 kind of a number?

R. Sundaram: Yes. 45 to 68 is 23 we are targeting at least 10 million to 11 million of the capacity utilization in the current year. We are targeting 10-11 million in the next year. So by March 2017 we should be close to about 65 million - 68 million meter.

Niket Shah: Right. But this quarter only itself you would have seen around five million - six million addition over last year so the run rate for next nine months…

K.K. Lalpuria: The first quarter will be about, 12.5 million sheets.

Niket Shah: Right. As compare to last year of?

R. Sundaram: 6.8.

Niket Shah: 6.8 so, you have already almost like six million additional this year.

R. Sundaram: But this is not compared on quarter-to-quarter it is compared to on last year, the whole of last year it was about 44, we do have a run rate of 12.50 some more quantity will come in next three quarters more. So on a similar run rate the slight increase volumes on the subsidiary quarter you should take 53…

Niket Shah: No, what I am trying to understand is this growth in Q1 likely to sustain in Q3, Q4 in terms of percentage?

K.K. Lalpuria: Yes, we have a confirmed order book.

Moderator: Thank you. Next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Just wanted to understand two things in the full FY-15 we had FOREX gain of 50 crore against loss of 6.7 crore in FY-14. So how is the position of the FOREX gain loss in FY-16 vis-à-vis Q1 FY-15?

R. Sundaram: It is probably given in our presentation also in the power point presentation on the page number in the P&L that is on page number six. The other revenue income comes to about 6 crore odd. The operating income is about 6.33 crores, profit is close to the 4 crores will be on the foreign exchange…

HR Gala: You are talking about the operating income?

R. Sundaram: Yes, operating income it comprises of TUFF subsidy comparison of foreign exchange gain.

HR Gala: So 20.7 has become 6.33?

R. Sundaram: Which one?

HR Gala: You were talking about the operating income?

R. Sundaram: Correct, but it comprise of two parts.

HR Gala: Yes, because you have not given the FOREX part separately.

R. Sundaram: We have not given that out of this 6.33 include the FOREX part.

HR Gala: No, I just wanted to understand that gain has not turned to loss or something like that because…

R. Sundaram: No, not it is still a gain of 4 crore - 4.5 crore.

HR Gala: How much?

R. Sundaram: 4 crore - 4.5 crore is the gain from the first quarter.

HR Gala: Okay, 4 crore - 4.5 crore. And how much it was in Q1 FY-15 out of 12…

R. Sundaram: It should be on the same level it was 12 point last the IPS was figure which is not the current year. Last year also it should be close to about 6 crore.

HR Gala: So again 6 crore it is now 4 crore - 4.5 crore.

K.K. Lalpuria: Yes.

HR Gala: Okay. My second question pertain you did explain about the average tax rate having gone up so for full year what kind of effective tax rate we should look at?

K.K. Lalpuria: For the P&L it should be a full tax of 34% full complete tax.

HR Gala: Okay, we should consider the full tax?

K.K. Lalpuria: Yes.

HR Gala: Okay. And my last question is that when we talk about our further capacity expansion maybe end of FY-16 or FY-17 what kind of CAPEX we will have in mind and what kind of capacity increase we will have in mind?

R. Sundaram: See with our past experience on the capital expenditure we can probably in incremental capacity sometime can done in six months to nine months' time. We will not do a big lot of big investment or something but it will depends on how much is the Brown field and how much is the Greenfield to what extent the backward integration has to come in there are some studies going on internally. That studies once it is completed we will come to know what is the optimum forward integration what is optimum the backward integration and that depends upon the investment which is required probably for the couple of months' time we should have a clear picture of that.

HR Gala: Okay. So in FY-16 what kind of capital expenditure we will be having?

R. Sundaram: That is normal capital they were 10 crores - 12 crores normal capital expansion.

HR Gala: How much?

K.K. Lalpuria: About 10 crores - 15 crores of normal capital expansion.

HR Gala: Okay. So there will not be any further project?

R. Sundaram: Not in the current year certainly not in the current year it will be we have to ensure that the enhanced capacity is consumed our target consumption up to March 2017 but we have to ensure at least about 15 months - 18 months before that will start the process of that. In March 2017 we should be in line to for the next level of revenue growth.

HR Gala: Yes, because I was just referring to our page number 115 of the Annual Report where the estimated amount of contracts remaining to be executed on capital account has been stated as 32 crore. So part of that 32 crore might be spent in FY-16 that is what I was looking at.

R. Sundaram: Okay, let me check and get back to you on that.

Moderator: Thank you. The next question is from the line of Deepanshu Madan from Locus Investments. Please go ahead.

Deepanshu Madan: One question I have a confusion on your realization I may have not heard it properly. So of the 461 crores of quarterly revenue 90% is from Home Textile and you have sold about 12.8 million meters which is about Rs. 325 of per meter realization. In 1Q ’15 this was 6.8, I am assuming it is 90% Home Textile that would be about Rs. 415 per meter is that correct?

K.K. Lalpuria: No, it is not correct.

Deepanshu Madan: Can you explain the discrepancy in that?

K.K. Lalpuria: It will be a too proprietary details to give you the break-up of realization.

Deepanshu Madan: Okay. And sir in terms of the average price of cotton holding in terms of inventory that you used in this two quarters what would be the average price in 1Q ’16 versus 1Q ’15?

K.K. Lalpuria: You see always what we need to consider in the retail dynamics because you see we sell products right from 144 thread count to 1,000 thread count and in different countries and different economies and in different market. So you see the demand varies from one place to another and also the retailers sell in a different way or promote in a different way the product also over and above the business cycle is seasonal and cyclic as well depending upon the economy how they fair. So you see sometimes they demand 200 thread count product sometimes they demand a 400 sometime they demand of 600 and that is the reason you see on the average realization in the past like concall and other statements as well we have not been able to provide you an average realization – per se because it keeps on changing. So sometimes you see they try to promote a higher end product as their economy is growing as their market share is growing and sometimes they ask for a lower end or a mid-end product. Now we are not into the lower end product like opening price we are into the mid to high segment and that is why you see our average realization would always be better than the average market price. Now the average realization also defer sometimes based on the product mix what you sell to a customer so you see it is a very dynamic situation and that is the reason you see you will not get a fair idea on the average realization point of view.

Deepanshu Madan: Right, okay. And sir one question on the fact the cotton prices have sort of come down and stabilized at least in the last two quarters. I wanted to understand this that I was reading an article which said that India is probably going to carry 70 lakh bales of cotton this year and that is the highest since 2008-2009. Now given that China is not importing raw cotton and it does not seem like they will be doing for the next two years and consumption in India is lower than the production of cotton. So does that mean that going forward there is going to be further pressure on prices because consumption may not certainly increase at the rate at cotton we have and we have already have closed the market our market is close where it use to export. One is there is going to be a further pressure on cotton prices in your view and secondly how long does it take in terms of the time lag to pass the cotton price to the end consumers the customers that we have what is the time lag between that?

K.K. Lalpuria: You see to answer your first question I will just quickly brief you, we are I having in India we are the second largest cotton producer, number one. Number two, we are producing around 40 million bale the mill consumption is around 24 million 5 million is exported around 5 million is opening stock and 5 million is the closing stock so we are fairly well players as far as cotton is concerned. Now our prices are ruled by season, by minimum support price, by our export demand, and by mill consumption. So this depends on the demand and supply. You are right in saying that the supply is on the fairly good side so there would be a reduction in the cotton prices but that is not there because you see worldwide there is a good cotton demand in other countries and they are also increasing their production based on India's cotton and yarn. India is a cotton surplus nation whereas it exports cotton as well as yarn as well as fabric so whatever the mill would consume that would get increased in the coming years because there is a fillip side, positive side on the garment export as well. So I think it would balance out the additional production as well as the additional supply. So I think India is fairly well-placed as far as cotton is concerned. Now to your second question on the timeline you see the prices are stable and I would say that when cotton prices are stable we are able to do better business because we are able to visualize and order and secondly we are based on cost plus margin basis which we quote on and the retailers are focusing on their margin and their market share. Once they have a product which is supplied consistently with quality and service levels then there are not negotiation if there is a price difference between 4%-5% or 7%. Only if there is a substantial difference then there is a discussion point. So I think India is well placed in cotton and we as an exporter in India are very well-supplied with the raw material and there is no worries about this fact in the time to come.

Deepanshu Madan: Right, so you know the reason why I asked this question was that I just wanted to sort of get an understanding we have got significant gross margin increase if we compare it to last year. Now clearly one of the biggest reason is that the share of all the demand from the consumers is for a high value added product. Is there a sort of impact that we see from cotton prices and what is the impact of increase in gross margin just because our **(Inaudible) 42:54** is at a lower price? That is the reason why I sort of wanted to get to this.

K.K. Lalpuria: I hope it is stable like cotton supplies are stable you can read from the all the reports like you see the prices are stable and they are going to remain stable because China has got a big reserve and cultivation which will take care of their consumption so, they will not import. And on the manufacturing side like other countries they have shifted or either close down like in Europe, UK and other textile producing countries so you see the demand in those producing countries are down and that is the reason you see it has shifted to the eastern countries wherein in India it is fairly well-placed so I think in the two years - three years - four years to come India will fairly be able to meet its demand through its supplies.

Moderator: Thank you. Next question is from the line of Kalpesh Gothi from Wallfort Financial. Please go ahead.

Kalpesh Gothi: Sir, what is your share of the high value product like institutional bedding in the Q1?

K.K. Lalpuria: See institutional bedding is a new category which we have added just last year and we are selling this in the U.S. and other emerging and developing countries and it also depends on what qualities they import between a three - star hotel, to a five - star hotel, to a resort, to a cruise, or to a prison or to a hospital. So there are different institutions which imports and utilize them. So we again should not debate about the average realization we should look upon the gross margin which we should draw on any product which we export and we work on cost plus basis so whichever quality which we would supply we would add-up our gross margin and exports. So the average realization we would not be able to tell you precisely.

Kalpesh Gothi: Sir, is it a 5% of the Home Textile business?

K.K. Lalpuria: Last year it was 5% we are trying to grow this business and we hope that in this year we would end up doing at least 10%-12% of the new product mix like fashion bedding, utility bedding, and institutional bedding. Our aim is in the next two years - three years to bring this level to almost 20%-25% of our entire export basket.

Kalpesh Gothi: How much new client we added in this category, sir?

K.K. Lalpuria: See we have added almost three clients in this category particularly in institutional exports and we are targeting many other markets like UK and Australia as well in the near future where there a good demand, tourist demand and there are many hotel chains over there. So were targeting this market very well in this developed market.

Kalpesh Gothi: Sir, what is the cost of debt of working capital?

R. Sundaram: At present the packing credit is 11% and term loan is at 12.5% with ICRA rating come into picture you know it is likely to be sanctioned shortly and we expect the packing credit rate should be around 10.25% and the term loan should be about 11.5%.

Moderator: Thank you. Next question is from the line of Nidhi Agarwal from Sharekhan. Please go ahead.

Nidhi Agarwal: My question is how has been the response in new countries where do you see that contributing going in next three years - four years?

K.K. Lalpuria: See apart from the U.S. you see Europe is the second largest big market and once India signs an FTA with them because we are not at the level clearing field with Europe yet because Pakistan and Bangladesh are having beauty advantage supplying the product over there. So a lot many customers demand but because of the price competitiveness going down due to the duty tariff we are not that competitive in this market. And so once the FTA is signed like the whole of Europe will be open for us to explore and export. Secondly, you see the other markets like Japan where we already signed FTA last year there was a duty component of 20% on Home Textiles which has been done anyway. So we assume that is another market to look at. Then the Middle East market is stabilizing and moving as usual and the other developed nations also are we being a need based product there always would be demand for this Bed Linen product worldwide and all the developed nations and the emerging markets will be market for us in the future. We have just concentrated on the cotton side of the business. But in the years to come as we do away with the duties on the polyester and we become competitive in the polyester area I think the blends in the polyester blending and also we will be able to export to these countries. So I think fairly there is a large market out there to tap. And India is fairly well-placed as far as cotton is concerned so it is having a big advantage because it has got its own raw material and slowly it is building in other fibers as well and I think in the years to come we would have a fairly good market share in the Bed Linen segment worldwide.

Nidhi Agarwal: Okay. Any thought process on dividend?

K.K. Lalpuria: See we were a dividend paying company earlier you see and we were debt free company in the past. We have exited the CDR we do understand the aspiration of all our stakeholder so the board will appropriately decide in time to come for dividend pay-out.

Moderator: Sorry, to interrupt, ma'am. May I request you to please return to the queue?

Nidhi Agarwal: Okay.

Moderator: Thank you. Next question is from the line of Pawan Kumar from Unifi Capital. Please go ahead.

Pawan Kumar: Sir just wanted to understand the value added total you just mentioned that we wanted to do around 10% to 12% contribution in FY-16. How much could be the same contribution in Q1 if you can just give an approximate figure?

K.K. Lalpuria: You see if you subdivide that 10-12 it would be 2% I can say.

Pawan Kumar: No, sir what I am asking is of the overall revenue whatever we have achieved in Q1 around 10% would be from value-added products or would it be lesser?

K.K. Lalpuria: Around 7%-8% because you see we had just launched last year and we have made presentation we have been able to make designing input our products and have launched into different showrooms which we have worldwide like in New York and Manchester and Australia and we have shown this first time to many of the customers they are reviewing our product and just to inform you, you see since we are in the entire Bed Linen segment and sheet sets is one of the component as you understand the fashion bedding complement the sheet sets because the bed is not complete without fashion bedding, Comforters, and shelf. So in time to come you see whosoever we are approaching and selling our products like sheet sets they would start demanding the fashion bedding also so that we would be able to grow horizontally our product mix.

Pawan Kumar: Okay. Sir, I just wanted to understand is this 7% to 8% whatever incrementally have come from this particular segment is it of a better profitability overall how much better would it be from the normal product?

K.K. Lalpuria: See it is hard to say because you see it all depends upon on the quality which you supply. In fashion bedding also most of the time you see the cost is paid on the fashion element part of the product. So it will be hard to define the realization part or the value part on this kind of business because it is very dynamic.

Pawan Kumar: Okay. But overall do you hold the view that the overall increase in this margins whatever we are seeing has been contributed from this segment also or presently the contribution has not yet come?

K.K. Lalpuria: It has not yet come because as I mentioned you we have just started and we intend to grow this business in the years to come and as I have mentioned we have been showing our products to potential retailers worldwide and we are getting acceptance in this line as well. So I think in the years to come we should be able to place this product at the retail and grow our margins thereafter.

Pawan Kumar: Yes, regarding the TUFF subsidy scheme sir for setting up new projects is it going to be taken off it will take what is going to be what is your view about what the government policy is going to be and how are we going to approach that?

K.K. Lalpuria: See the TUFF scheme is going to stay, the government is positive about it as on date. Only thing it depends on the funds which are available for particular sector like textile they have their own priorities but we are quite hopeful with our presentation that in times to come they will provide funds for the textile sector as well and the TUFF subsidies would remain because the government would like investment in the textile sector because it is the second largest sector after services. So it is going to stay I think and then we also have Maharashtra state also declaring textile policy wherein they are also providing they are also taking positive steps for providing appropriate subsidies on new investment. So I think overall we are quite hopeful that the government would provide us necessary support in the time come and the TUFF subsidy is going to remain.

Pawan Kumar: Okay. So no overall frittering of capacity is expected in the industry as of now?

R. Sundaram: It all depends upon on the promoter to promoter these billings that is need for expansion we will do whether the TUFF exists or does not exist.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Just one question regarding the discrepancies. One what is the cost that we end up for having these discrepancies and…

R. Sundaram: Same like packing credit cost, same like working capital cost.

Sachin Kasera: What is the figure as of June ’15 for acceptances compare to March ‘15?

R. Sundaram: I think it is already given in the presentation it should be close to about 120 crore or something. I will come to you on that.

Sachin Kasera: Because it was I think around some 65-67 as on March.

R. Sundaram: Yes, most of the LCs may converted into this transaction so it will be about 120 crores.

Sachin Kasera: Okay. My second question sir as regarding your Annual Report, when we read the Annual Report you have subsidiary in America and at the end of year that company had an inventory of close to about 120 crores on the turnover of 200 crores. So can you just update us what is the nature of operations of the subsidiary and why does that subsidiary need to carry such a large inventory on their books?

K.K. Lalpuria: Yes, you see at certain point of time we have a roll out. It is called a new order when placed we have to build in an inventory for the first two months 60 days over there so that there is a proper roll out to all the stores so that time the inventory is build. Secondly, they have promotions at time. So when they have promotions at time we have to increase once again the inventory level so that we can support the promotion. Then the third is the new product when launched in a new retailer where at that point of time we have to carry all additional inventory so you see in time to come we do liquidate that inventory and to support our business the business volatility at certain point of time we do carry some of the inventories to support the retailer for all the volatility in the retail nature.

Sachin Kasera: Which are basically inventory lying at the warehouses is that understanding correct sir?

K.K. Lalpuria: This is all presold. So you see whatever lying in our subsidiary is presold. We do not have any inventory which is not sold to the retailer.

Moderator: Thank you. Next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Just sort of one question on the margins again I know there had been a fair bit of discussion with. So if you look between March and June quarter your gross margins did go up by almost

300 basis points or even actually more than that. I mean between the various drivers what would be the driver of let's say between March and June quarter. So Home Textile was 90% even in March compare to the June?

R. Sundaram: No, in March you are talking March quarter or the financial year?

Hiren Dasani: March quarter only.

R. Sundaram: March quarter, yes, Home Textile will be 90%.

Hiren Dasani: That is 90% in June also now?

R. Sundaram: Right.

Hiren Dasani: So how does the gross margin expansion of 340 basis points between March and June quarter get explained?

R. Sundaram: One is indicated as a material cost as the consumption has come down as compare to March quarter.

Hiren Dasani: And that is because of the lower cotton prices or that is because of the change in the product mix?

R. Sundaram: Combination of both the factors.

Hiren Dasani: Okay. And when you say better product mix is essentially you are selling more to higher value retailers or is it more due to the value-added.

R. Sundaram: It is a combination of percentage higher by the retailer maybe slightly more the current quarter as compare to the previous quarter it would not depends on the order book position of the customer.

Hiren Dasani: Okay. So has cotton prices per se has come down between March and June quarter?

R. Sundaram: See cotton prices not basically yarn is also major on, grey cloth is also major one so whole combination various favors comes into picture.

Moderator: Thank you. Next question is from the line of Chirag Lodiya from Value Quest. Please go ahead.

Chirag Lodiya: I just wanted to know what are the export benefits what we are getting currently.

R. Sundaram: Export benefits we get a duty - drawback of close to about 6.8% another about 1% is other focused market and focused product scheme. Effectively about 7.8% to 8% is the total gross one and total drop back is basically reimbursement, replenishment of the local cost local VAT and taxes that is implemented which we are paying the government is reimbursing in the **(Inaudible) 01:00:34 form of duty draw back**

Chirag Lodiya: Okay. So in all it is fair to assume 7.8% to 8% of…

R. Sundaram: Yes, you can assume that.

Chirag Lodiya: Okay. And in terms of expansion so now we have expanded our capacity to 68 million meter from 45 million meter and earlier we were having backward integration of around 25% so now on this expanded capacity what will be our backward integration?

R. Sundaram: As of now the backward integration remain same right now for the next 12 months we may probably try to work which can compensate for this shortfall.

Chirag Lodiya: No, I just wanted to understand so basically when we are utilizing this whole capacity of 68 million meters without adding any backward integration so what will be the backward integration percentage?

R. Sundaram: See backward integration as a percentage we do not require. What we use it for yarn, the spinning, the weaving is only to a specific customer and specific product so those will continue as of today we are self-sufficient on that. The day we find it is not self-sufficient then we may probably put that capacity. But a general product is available we don't have to reinvent it again, market is available for those product the supply is available at a fairly attentive price we will continue with this procurement model.

Moderator: Thank you, sir. Next question is from the line of Abhijit Singh from CRISIL. Please go ahead.

Abhijit Singh: Sir, just a follow-up question like now following up to a participation who asked question on margins like compare to March quarter last year and June quarter we see this 340 basis points improvement. So sir just wanted to understand that if you can help me understand that how much was the decline in the raw material prices I think that you primarily procure Grey fabric from the local market. So if you can help me understand how much was the decline in price of grey fabric? And second thing sir you already mentioned that there has not been significant increase in the premium products sequentially like this just wanted to understand how this 340 basis points improvement comes?

K.K. Lalpuria: I will explain you quickly on how the business works in our made-to-order business. There are two seasons basically the spring-summer and the fall-winter. Now there are seasonal sales also like say for example Christmas sale then there is a summer sale. During summer sales you see the product line which is expected out of us is basically a lower thread count and in fall winter they require a thicker material which is higher thread count. So you see the average realizations moves ups and down depending upon the product mix which we export. So you see when we speak about this 340 basis points it should not be compared apple to apple on the basis of average realization on the product value. Now secondly when we say about 340 basis points it is a mix of all the factors like say we increased our capacity so better capacity utilization amortize the expenses. Secondly on the bottom side you see the prices are stable and we have been able to gain a little bit like 100 basis points or 150 basis points on the raw material side then we have enhanced our product mix also to say fashion bidding and institutional. So on that side we are able to able to gain on that. Then adding on you see departmental stores and specialty stores. Once you are selling to in the good, better, best category to say mass merchant departmental stores and specialty store and you upgrade yourself for product and sell it to specialty store basically your price levels moves up for the same product which you are selling to mass merchant. So you see there are numerous factors on which our price movements are so our basic aim is to protect our manufacturing margins when we export and see that we are able to add-on cost plus and sell the product effectively in the marketplace. And always there is focus or there is an intuitive to increase our margins by selling better product to the better stores. So this is how I would like to explain the 340 basis points which has increased.

Abhijit Singh: Okay, sir, got it. And sir, one question on the depreciation like we have incurred 68-60 to 70 crores of CAPEX last year when we will see like you know but however the depreciation has not increased significantly.

R. Sundaram: Since you are adopting a straight line method I mean it is on a 68 crores this for the quarter it has gone up by about 1.5 crores in the quarter compared to previous quarter. On a full year basis that will be the full strength line depreciation will be coming.

Abhijit Singh: So how much will be the incremental depreciation?

R. Sundaram**:** As compared to last year about five crores to six crores will be the incremental depreciation.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir I am asking about you have shown that there has been an incremental increase in the fabric by 50% but there is no change in the backward integration that is we have not added any spinning capacity. So I was dwelling on the point that today the market is conducive for cotton prices being lower and greater available of yarn. What is our future program because this is the best time when you can add capacity in the spinning segment also?

R. Sundaram: Yes, it is that we do not want to be high asset base company and there is the capacity available in the country there no point in reinventing the wheel by ourselves. As long as the procurement there are other who have interested the funds the ability of raw material at attractive. We want to be gross area where we feel we are the best where we can put a value addition.

Saket Kapoor: Sir, what is our spinning capacity our own spinning capacity…

R. Sundaram: We have 80,000 spindles, we have manufactured 14,000 metric tonnes every year. Anyway I can call up today within in hours' time you can 10 offers for spinning across India.

Saket Kapoor: Sir, you talk about the taxation being at the highest rate of 33%. As per the directive of the Supreme Court for investment in green energy by all consumers I mean many companies are setting up investment in the renewable sources. Sir are not looking into that space to lower our….

R. Sundaram: We are looking to it but unfortunately what happens those are much lower compared to the business so there is always a conflicting view whether you put the money in a renewable energy which has very lower return only to save taxes or pay taxes use the results for growing the business. So we on the cross roads as of now.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari: Just one question from my side today in front of page of newspaper there is an article about USA giving that subsidy or something like with retrospective effective from August 14 for textile exports as a **mother** exports. Can you give some light on that?

K.K. Lalpuria: We have to go through further details Rajesh about this because you see there are things which are declared but we have to go into the fine line and really study this aspect we can come back to you in the course of time.

Rajesh Kothari: But can it be big benefits, I mean let us assume if it is there then how percentage generally that benefit is?

K.K. Lalpuria: That is what I said see we have not gone to the fine lines. We have to go through the fine lines to make any concrete statement in this effect.

Moderator: Thank you. Next question is from the line of Vaibhav Baid from Motilal Oswal. Please go ahead.

Vaibhav Baid: How much would the capacity utilization this year we are expecting, 50 right sir?

K.K. Lalpuria: Around 53, 54 mn meters.

Vaibhav Baid: Basically a 20% growth is very much possible right sir?

K.K. Lalpuria: Yes, since we have already completed the quarter and our order position is almost six months to nine months.

Vaibhav Baid: Okay, order book is for six months to nine months is already here.

K.K. Lalpuria: Yes.

Vaibhav Baid: How much would that be sir accounting to the order book?

R. Sundaram: Yes, order book there are six months to nine months of order book…..

K.K. Lalpuria: It is around 800-900 crores order book position which we have.

Vaibhav Baid: 800-900 crores, okay. And sir on the interest cost so how much should you expect it to be for the last year I think it was 65 crores.

K.K. Lalpuria: We expect it to be 10% lower than last year.

Vaibhav Baid: 10% lower so around 64, right sir?

R. Sundaram: 10% of 64, last year we need up to close to about 58 or 57 crores for the whole year.

Vaibhav Baid: 57 crores for the whole year. Okay.

K.K. Lalpuria: It might increase if we get interest subvention which is on the cards if will reduce.

Vaibhav Baid: Okay. And sir the tax rate would be 34% for the coming two years.

R. Sundaram: No, this year onwards there will not be a coming two years…

Vaibhav Baid: Okay. So it will be 34%, right sir?

K.K. Lalpuria: Yes.

Vaibhav Baid: Just any update on the Disney order that you have got sir?

R. Sundaram: That is an ongoing order which we had did about six months back. We continue doing that.

Vaibhav Baid: But what is the value sir value of the order?

K.K. Lalpuria: See the value of the order is around $15 million and you see once we start supplying it is being replenished. So once we start supplying to Disney they just do not take off and it continues as replenishment.

Vaibhav Baid: Okay, one last question. EBITDA margins or 22 is sustainable for the year, right sir?

K.K. Lalpuria: Yes.

Moderator: Thank you. Next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

Aman Sonthalia: Sir one question is that how long you expect the state of growth in this industry for the coming years?

K.K. Lalpuria: See basically we are in the business with a positive set of mind and the business is of enduring nature we are into need-based products and made to order. The product started getting exported out of India only when the quotas went away in 2005 and the real export started to all major countries in the year 2008-2009 onwards after the subprime went away. So it is fairly a young industry and we see a long way to go. We have just built in quality, service level, the compliance level, the product acceptance, and India as a brand with major retailers worldwide and as of now we have focused in the U.S. because U.S. is fairly large market. Once the other markets opens up as I mentioned earlier like EEC, Latin American, Canada, South Africa even Russia, they are huge markets out there to export Bed Linen and I see a big future in the years to come we as a young company have fairly good potential to grow and we will focus on this product line and see that we grow the brand India in most of the developed nations worldwide in the years to come. So fairly we feel that we would grow at a fairly good pace in the years to come.

Aman Sonthalia: Sir, one more question is that right night we are basically into cotton fabric. But how big is the polyester from textile market where you are also thinking of entering into?

K.K. Lalpuria: See it is fairly large. If you see at the numbers like China today controls almost 88% of the polyester blend and polyester fabric exports in Bed Linen worldwide. Even if India is able to get almost 5% of that percentage it will be a very big number. So we do have a very big potential in the polyester side of the business and plus us see you have around India all the other countries like which are highly populated where you see you do not see fundamentally like any cotton or polyester industries supply raw material as well as you see building on the other fundamental base industries by sewing, weaving, and processing. So we feel that there is a good scope to export this product even to the neighboring countries and worldwide in the future. And India as market is growing there we see the lifestyle changing and people are accepting good products at their own. So we feel that there is a big scope for growth in India as well as neighboring countries as well as in all the developed nation.

Moderator: Thank you. Next question is from the line of Sandeep Raina from Edelweiss. Please go ahead.

Sandeep Raina: Sir, one thing I am still not very clear. We have done a growth of around 45 odd percent but on the volume side I was just confused have we done 70% volume or 50% volume growth?

R. Sundaram: 46% is on a company to company. The first quarter last year we had an electronic division so, that division sale is not in the current quarter. When we talk about of revenue growth from last quarter of 270 vis-à-vis 450 it is 46% growth but the Home Textile last year was about 227 crores has gone up to 408 crores in the current year that is a growth of close to 79% on the Home Textile and resulting in a volume growth of 78% on a quarter-to-quarter basis.

Sandeep Raina: Value versus volume growth is more or less the same?

R. Sundaram: More or less same on the quarter-to-quarter.

Sandeep Raina: Right. And second thing is that we said that we have done 12.8 million meters of volume sales, right?

R. Sundaram: Right.

Sandeep Raina: And if I just take that and this I think the realization is gone up by 12-13 odd percent am I right in calculating no.

K.K. Lalpuria: 12.48 million meter. Last year it was 6.86.

Sandeep Raina: 6.86, okay. But you are saying average realization has not gone up significantly just one or two times?

R. Sundaram: Yes.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we will be taking the last question from the line Sachin Kasera from Lucky Investments. Please go ahead.

Sachin Kasera: Yes, what is the debt reduction that you are planning in the current year?

R. Sundaram: The overall debt is on 74 crores as of June and this will get paid off by close to another 28 crores odd in the next three quarters but there will be an undrawn amount of the expansion of 49 crores will be bought in. If you see the net debt position of 247 crores which is mainly 0.6x the annualize EBITDA it is fairly comfortable our target. We have no present plans to prepay any of the loans right now.

Sachin Kasera: So what we intend to do with the surplus cash in the balance sheet, sir?

R. Sundaram: Yes, whatever surplus cash that is what some working capital will come down and they will have to preserve some cash for the future expansion apart of course for considering at the end of the year dividend to shareholders if the board approves.

Moderator: Thank you. I now hand the conference call over to the management for their closing comments.

K.K. Lalpuria: I take this opportunity to thank everyone for joining on the call I hope we have been able to address all your queries and questions. In case for any further information kindly get in touch with me or SGA or Mr. Sundaram. Thank you once again for coming on the conference call.

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