



# Indo Count Industries Limited

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26<sup>th</sup> February, 2016

**The National Stock Exchange of India Ltd.**

Listing Department  
Exchange Plaza,  
Bandra Kurla Complex,  
Bandra (East), Mumbai 400 051

**BSE Limited**

Department of Corporate Services  
Floor 25, Phiroze Jeejeebhoy Towers  
Dalal Street,  
Mumbai - 400 001

**Company Symbol: ICIL**  
**Scrip Code No.: 521016**

Dear Sir/Madam,

**Sub: Copy of Transcript of Q3 FY16 Earnings Conference Call**

Please find enclosed a copy of a transcript of the Q3 FY 16 Earnings Conference Call held on 10<sup>th</sup> February, 2016.

Thanking you,

Yours faithfully,

For **Indo Count Industries Limited**

**Amruta Avasare**  
**Company Secretary**  
ACS No. 18844

Encl: A/a



**“Indo Count Industries Limited Q3FY16 Earnings  
Conference Call”**

**February 10, 2016**



**MANAGEMENT: MR. K.K. LALPURIA – EXECUTIVE DIRECTOR, INDO  
COUNT INDUSTRIES LIMITED  
MR. R. SUNDARAM – CFO, INDO COUNT INDUSTRIES  
LIMITED  
STRATEGIC GROWTH ADVISORS - INVESTOR RELATION  
ADVISOR**

**Moderator:** Ladies and gentlemen, good day and welcome to the Indo Count Industries Limited Q3FY16 earnings conference call. This conference call may contain forward looking statements about the company which are based on the beliefs opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K.K. Lalpuria - Executive Director. Thank you and over to you sir.

**K.K. Lalpuria:** Good afternoon and a very warm welcome to everyone. Along with me I have Mr. R. Sundaram – Chief Financial Officer and SGA, our investor relation advisor.

First of all, I would like to share with you all some positive news for the company. Texprocil gave us the silver trophy. We are now the second highest manufacture and exporter of bed sheets, bed linen quilts out of India. Our company has improved its position from 13 to 11<sup>th</sup> largest supplier of home textiles across the world to USA as per home and textiles today magazine recently published. Mr. Anil Jain our Chairman and Managing Director is among India's best hundred CEOs as given by business today for the year 2015. I would also like to share with you about the recent HEIMTEXTIL in Frankfurt which happened in January between 12 to 15. We saw a very good response with a clear increase in the number of visitors, digital printing, bed product segment and upholstery were on the rise indicating promising 2016 for the home textile business out of India. Now let me give you a quick update on industry and then Mr. R. Sundaram can take you all through the quarterly numbers the financial part, as you all know post the turnaround in the US housing market we saw increase in demand for home textile product for the past few years. This is backed by increase in consumer spending on home goods mainly because the home goods industry responded to what the customer wanted or needed. As retailers are acknowledging the popularity of home goods sales of home textiles and fashion increased over a period of time. As per the recent data from OTEXA, total textile and apparel imports to USA has grown at a rate of 4.8% in volume terms from January to November 14-15, whereas made ups imports to US from India has grown by 9.22% for the same period. India's share is now at 48% of this import. Made ups imports from India increased at a higher rate than China roughly at 12% in the same period. Except for Vietnam other countries showed marginal growth as compared to India; however, imports from Vietnam are very less in volume terms. India has been able to gradually increase its share in global textile markets because of all positive reasons.

Coming to the category of home furnishing industry which includes fabrics, bed linens, table linen etc, India has adopted several measures and techniques to offer premium quality and ecofriendly product to the global industry. As US economy is expected to pick up which in

turn will lead to growing numbers of households, the bedding penetration levels will be high in the home furnishing products with an increased consumer interest in home interior products. Thus we as a Indo Count is expected to do well in the coming years as we are successful by paying attention to the changing mindset of consumers and more importantly by helping to shape their desires and demands. For the other opportunities we have already planned our CAPEX to increase our capacity from 68 million meters to 90 million meters and this will be in place by the end of this year 2016. On the domestic front Indian textile industry accounts for 13% of total exports from India and cotton textile share is 31% of India's textile exports. Currently Indian textile market is \$108 billion and is projected to 5 fold in 10 years. Favorable trade policies and premium quality products demand is expected to drive its growth. More over the government has also taken number of initiatives with an aim to create India as a largest textile in apparent manufacturing hub.

Followed by recent moves from the government are allocated with 185 million under integrated textile park and 21,298 million under Technology Upgradation Fund Scheme which is sanctioned in February 2015, granted 3% interest subvention scheme to boost exports, revised restructured technology upgradation from schemes which covers manufacturing of major machinery for technical textiles and others thus the future for Indian textiles looks promising both in domestic consumption as well as exports. In India the per capita consumption of home textile product has been very low compared even with developing markets like Brazil, China etc. Traditionally Indian consumer's behavior toward home textile and furnishing products had always been perplexed. However, we expect this behavior to change gradually in the upcoming years due to rapid increase in acquisition of new homes and increasing nuclearization of house holds, thus we feel going ahead Indian consumer spending in this category will be analyzed. This will be a huge positive for us as we are present in premium category that is in the mid to high segment. For this we are making an entry in the domestic business to create Indo Count as a home textile brand over the near future.

That's it from my side. I would like to hand over the line to Mr. R. Sundaram to update you on the operational performance of the company for the 9 months ended financial year 16 and the December quarter.

**R. Sundaram:**

Thank you Mr. Lalpuria. A warm welcome to everyone present on the call. We have circulated the IR presentation to all the investors and uploaded on the BSE, NSE and company websites. Slide #7 and #8 provided the complete financials for Q3 and 9 month ended 31<sup>st</sup> December 2015. For the sake of time constraint, I will not repeat but come briefly with the analysis of the performance. Q3 revenue growth, the company has two business division which is spinning and home textiles, spinning has degrown by 9%, whereas home textile has grown by 22% resulting in the company growth of 17.3%. Revenue growth for 9 months, spinning has degrown by 9.4% whereas home textile has grown by record 39.7% resulting in the company growth of 26.4%. In addition, there was no revenue on consumer durables during the current 9 months' period whereas in the previous year, revenue was Rs. 57 crores. As regards the

quantity for home textiles sold 9 months' period is around 42 million meters, resulting in a volume growth of 37%. This is almost in line with a value growth of 39.7%. On this trend we expect to achieve 55 million meters during the FY2016. At the time of implementing the project and during the last four conference call we have been saying that in FY16 we should be achieving 55 and FY17 we should be achieving the balance, i.e. remaining 66 and 68. Our actual achievement is in line with these projections.

EBITDA: EBITDA for Q3 grew by almost 32.6% as compared to revenue growth of only 17.3%. EBITDA for 9 months' period grew by 57.2% as against revenue growth of 26.4%. Profit before tax for Q3 grew by 52.6% whereas for 9 months' period it grew by about 81.2%.

Income Tax: The company has been paying full tax on the profits, during this quarter on a 9-month period ended FY16.

Profit after tax: PAT for Q3 grew by 46.6% whereas for 9-month period it grew by 66.4%. This is highest ever PAT during the quarter. PAT margin was 12.6 for Q3 with a growth of 240 basis points whereas for 9-month period it was 12% with a growth of 290 basis points compared to the previous period.

On the debt interest, the company's net debt as on 31<sup>st</sup> December 2015 is around 298 crores. This comprise of short term, long term less cash balance. This net debt results into 0.52x net worth. Probably this will be the lowest in the textile industry. The long term debt is Rs. 60.37 crores. We have paid all the term loans of working capital bankers. This long term debt resulted into 0.11x net worth and the lowest in the industry. The company's interest cover for this quarter was 8.16x highest ever in the industry. On our other couple of key ratios, our annualized return on equity stood at 44% for the quarter, our annualized return on capital employed stood at 61% for the quarter. Our total outside liabilities are only 1.4x of net worth another lowest in the industry. That is from my side. I would like to open the floor for question and answers by the investors. Thank you very much.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

**Chirag Lodaya:** Can you just highlight on your progress on fashion bedding, utility bedding and institutional orders and any new geographies you have been able to get inroads?

**K.K. Lalpuria:** Thanks for your compliment. We had started with 3 new categories fashion bedding, utility bedding and institutional bedding last year 2014 and because we complement each other in the sheet sets **14.12** and we have the same audience of customers we are getting positive responses from the customers. So initially this year we would finish the volumes in this businesses almost 10% and we intend to grow this business to almost 30% in the coming years and the fashion bedding side we have appointed designers both in the US and in UK and we are

developing our own collection and just recently at HEIMTEXTIL we have presented these collections as they have been very well received by the customers. Some of the customers bought in instantly, that is a positive side. On the fashion bedding side, we are also making arrangements at our factory of operations to bring in all the necessary machineries for quilting comforters as well as stitching pillows and shams. So we are making all means to initiate our efforts to take positive steps in this direction so that we are able to sell more and more of fashion bedding which complement sheet sets. Also on the utility bedding side we are launching this March Market Week, an entire collection on the mattress pads and other utility bedding products and we hope to receive positive response there as well. On the institutional bedding side, we have been able to make inroads with a couple of good large customers so that you see overall we are receiving positive responses in this field and we hope that we will be able to grow this business in the near future.

**Chirag Lodaya:** And on 30% target do you have any timeline?

**K.K. Lalpuria:** Within the next 2-3 years it always takes some time to make inroads with the customers. The customer is already in the process of buying this and we are also learning the trade. So we are taking positive steps by building the designing and the product development team which is very necessary in this part of the business and that we have already put into place and we hope that we will do well in this sector.

**Chirag Lodaya:** Second question is on margins, so if I see first 9 months our gross margins have improved by around 650 bps where as our overall EBITDA margin if I see it has grown up by 440 bps. The reason for lesser improvement in our EBITDA margins is higher employee cost and other expense for first 9 months. So if you can just throw some light on what has led to increase in employee cost and other expenses for first 9 months?

**R. Sundaram:** We have been talking about EBITDA margin which we have been projecting at 20% and we are able to deliver much beyond our projections which is 21.76. So interchanging will be there but we always talk about EBITDA margin.

**Chirag Lodaya:** But I understand that your EBITDA margins are quite above your expectations or our expectations, but what has led to increase in our employee and other expenses? If I see overall cost has gone up by 40% Y-o-Y. So specifically for employee cost, can you just throw some light on that?

**R. Sundaram:** Probably at a separate offline we will discuss this, we will explain this, readily this information not available.

**Chirag Lodaya:** No issues and on interest front if I see in Q3 interest has gone down by around 40%, 9 crores versus...?

- R. Sundaram:** Interest equalization fund which is declared by the government of India was in December, was effective from 1<sup>st</sup> April. So the impact is close to about 4.8 crores for the 9 months' period. So that impact has come in the Q3 because we have already closed for the Q1 and Q2. So that has affected the lower interest cost for the Q3. On a run-to-run basis, the interest is lower compared to the previous year with a growth of almost 26.4% revenue growth.
- Chirag Lodaya:** And last question on this other operating income, if I see my other operating income for Q3 6 crores versus 15 as well as 9 months is 21 versus 53. So can you just give the breakup and what has led to such a sharp decline?
- R. Sundaram:** No, the reason is, one of the issue is on the foreign exchange gain. As per the guidelines says, because now what happens that much amount has gone to the revenue account not to the operating income account. In the past also prior to FY14 the foreign exchange never treated as other income, it is part of revenue only. Either the revenue will go up or the operating income will go up; it is in totality.
- Chirag Lodaya:** But if I see, what has been the FOREX income or loss for this quarter and first 9 months, vis-à-vis last year?
- R. Sundaram:** No, as a prudent policy we have been covering FOREX cover as soon as the orders is coming in and since the manufacturing industry would like to protect our margin.
- Chirag Lodaya:** But can you just quantify that?
- R. Sundaram:** No, quantification is only for academically interest, basically it is the revenue parameter, we are not treating as a separate profit center.
- Chirag Lodaya:** And any update on our Phase-II CAPEX of 300 crores?
- R. Sundaram:** Still the project is under discussion; it has to be placed before the board; it is not been done. So as and when the board approves we will communicate to all the investors.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisor. Please go ahead.
- Rajesh Kothari:** Just one thing, your volume growth in Q3 I think over Q-o-Q as well as Y-o-Y basis it has increased significantly. I think for full 9 months and if I reduce first half that gives close to 16 million as a volume number, so can you just highlight that with the product mix how that was because your revenue growth is probably lesser than your overall volume growth?
- R. Sundaram:** I said for 9 months' period the volume growth was 37% and the value growth 39.7.
- Rajesh Kothari:** I am saying for Q3.

- R. Sundaram:** On the Q3?
- Rajesh Kothari:** Yes.
- R. Sundaram:** So what exactly you wanted?
- Rajesh Kothari:** On Q3 your volumes look like 16 million, right? Compared to, because in first half it was close to 23-24 if I am not wrong as per the last conference call?
- R. Sundaram:** No, it is not 16, there is only 13 million for the Q3.
- Rajesh Kothari:** What is the first 9 months' volume if you can?
- R. Sundaram:** It will be 42 minus 13, 29.
- Rajesh Kothari:** But in the first half conference call you said it is 24-25, so that comes to basically 12 million, this is what you were saying in the Q2?
- R. Sundaram:** No, it is a 29 million for the first half.
- Rajesh Kothari:** So why then volume has reduced?
- R. Sundaram:** There will be, the Q2 is always have high end quarter for the industry and consistently over the last 5 years. So Q2 is slightly more, quantity wise is greater than Q3 or Q1, is a traditional history for the company last five years.
- K.K. Lalpuria:** Mr. Rajesh our business is cyclic and in the second quarter normally we deliver for the festive season and second quarter is always high and even with your argument like even if Q3 is 13 million if you multiply by 4 it gives you around 52 million and we will be ending up at 55 million. So I think you need to see from whole year period because you see the retails are all cyclic in nature in their performance.
- Rajesh Kothari:** And in terms of product mix would you like to highlight in terms of product mix, in terms of the value added in the high realization, how richer is product mix in Q3 compared to first half?
- R. Sundaram:** Gradually what we said was the newer products will over the period of time increase of 5% to 30%. At this particular stage it is not possible for us to give the breakup of that.
- Rajesh Kothari:** See normally it our own endeavor to promote better end products as the company matures and grows and as we enter the business and as we mature, you tend to sell to better end customers better clientele mix, better product mix. So we are also making all those efforts in order to sell to better end customers and better product mix. So we have established this sheet set business in 2014 and that is the reason we enter into fashion bedding because that requires much more

detailing and much more expertise both on the operation and on the designing and promotion side, so we have to be developing those expertise within the company space and promote it. So that is what we are doing. We have set up all the backend and now we hope that in the future years to come we will be able to make inroads into this business as well.

**Moderator:** Thank you. The next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

**Pawan Kumar:** My first question is about the CAPEX plans of 170 crores. Can you please provide me the breakup on how much is towards the water treatment and how much is towards the machine quilting equipment and how much towards capacity expansion and when they are expected to be commissioned?

**K.K. Lalpuria:** We had done, the first phase of expansion which is close to about 175 crores and part of it was towards effluent treatment and reverse osmosis plant. Some of these were made ups, some of these have capacity and the entire expansions should be completed before the calendar year 2016.

**Pawan Kumar:** So is the breakup like 50 crores effluent treatment and around 30 crores for machine equipment or is it more than 30 crores for the machine and equipment.

**K.K. Lalpuria:** We said about 50:50 and 75, 50 crores were for the reverse osmosis and effluent treatment plan, other 50 crores for stitching and made ups and balance is for capacity expansion, so entire, all the three plants some of it is already completed and some of it will be completed in the next 6 months' time and we expect the entire capacity to complete it before calendar year 2016.

**Pawan Kumar:** You are saying 2016 calendar year. Before the end of this calendar year we should be able to complete that.

**K.K. Lalpuria:** Before end of calendar year we should be able to complete that.

**Pawan Kumar:** Sir can you give me any idea on how much of this 170 crores have been, I mean how much of the CAPEX of this 170 crores have been done by now and how much we are expected to capitalize in FY16?

**K.K. Lalpuria:** See close to about 100 crores should be capitalized before March and another balance will be next year, a rough figure on that.

**Pawan Kumar:** Alright. Another question on actually the interest cost, can you throw some more light on...?

**K.K. Lalpuria:** In the previous year interest subvention was given by the government. Now it is terminology called interest equalization fund. Effective from 1<sup>st</sup> April 2015 valid for a period of 5 years'

time. This 3% benefit the government is giving for all the packing credit and export bill discounting. Separately if the interest cost is 10%, 3% is funded by the government. So effectively my interest cost comes down to 7% for the working capital.

**Pawan Kumar:** So on a steady state can we assume 1.3 crores lesser for every quarter going forward because in this 4 crores?

**K.K. Lalpuria:** Yes, absolutely correct. Depending up on the utilization, utilizing is lesser, interest equalization also will come down.

**Moderator:** Thank you. The next question is from the line of Rahul Bhangdiya from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** This is Sachin Kasera here sir. Sir on the home textile you mentioned that the volume growth is 37% and the revenue has grown by 39% for the 9 months' period, so if we take the average foreign currency for the 9 months FY16 versus 9 month FY16, it is higher by around 7%-8%, so does it mean that the dollar realization has come down by around 5%, is that the correct inference?

**R. Sundaram:** No it is not a correct inference because we have been regularly covering the foreign exchange on a month to month basis. Today you are talking of Rs. 68 may be the current rate. The rate was 63 about a year back. So these are all 6 months to 12 months' forward contracts. So basically that is, whenever the order is received the forward contract is booked. We cannot take that as incorrect...

**Sachin Kasera:** In terms of the pricing that you get from the clients you are not seen any pressure as of now.

**K.K. Lalpuria:** Not much pressure on the currency side because it gets averaged out, you see the FOREX revenue volatile and you know which everybody endorses that we transparently take into consideration the current foreign exchange while booking the next order and our order book position is 6 months. So the other 6 months is on spot.

**Sachin Kasera:** That I understand that. I understood the FOREX part that is explained by the CFO, my query is that are we seeing any pressure or any correction on the dollar prices that we get from the client. That is my specific query.

**K.K. Lalpuria:** No.

**Sachin Kasera:** The second question was regarding your finance charges if we see the presentation your net debt has come down but if we adjust for this, interest equalization you have got, was there also some element last year, is that the way to look at the number, it was there last year

**K.K. Lalpuria:** This is the interest equalization only from current year only.

- Sachin Kasera:** Last year was there interest subvention?
- K.K. Lalpuria:** No, there was no subvention for 14-15, there was interest was no subvention.
- Sachin Kasera:** So in that case sir, if we look on a gross basis because this is a net number, then if you look at the gross excluding this interest equalization then the interest is not lower by that much as compared to the reduction in debt?
- K.K. Lalpuria:** If you see the interest for the 9 months' period is 39.67, add 4.4 to, so it is about 44, whereas the last 9 months is 46. So although the company has grown by 26%, interest has almost remained the same. That means you have a better utilization of working capital.
- Sachin Kasera:** Sir one more regarding this debt, there is also a figure of 437 crores of other current liabilities, so is there any working capital or short term debt for maturity which is part of this 437 because as per the annual report this number was close to 9200 crores as on 31<sup>st</sup> March.
- K.K. Lalpuria:** The working capital will be, there will be other current level, that will be form part of the installment due in 12 months' period.
- Sachin Kasera:** So how much would that amount to?
- K.K. Lalpuria:** It is about 22 crores?
- Sachin Kasera:** So that means that gross debt is 296 plus 60 plus 20, is that it?
- K.K. Lalpuria:** Yes, you can add that.
- Sachin Kasera:** So 20 with over and above 60 and 296, to get the gross amount?
- K.K. Lalpuria:** Correct, absolutely.
- Sachin Kasera:** And acceptances, if you can show some light on that, has it come down?
- K.K. Lalpuria:** No, it remains the same. It is the replacement for the supplier's credit. It is almost the same only.
- Sachin Kasera:** It is around 50-60 crores?
- K.K. Lalpuria:** Yes.
- Moderator:** Thank you. The next question is from the line of Ashutosh Somani from JM Financial. Please go ahead.

**Ashutosh Somani:** There are two parts to my question. Firstly, some book keeping questions regarding the breakup of the revenues in value terms, if you could help us with the home textile division revenue for the quarter and secondly you have a 6 months' sort of an order book. So based on your current visibility is this guidance of 10-11 million meters incremental every year in the backdrop of cotton to polyester prices ratio being higher than 1.3 and your sense of EBITDA margin whether this has peaked out at the current level, so if you can just give a broad guidance on how this sector is going to perform going forward. This 11 million meter will it be incremental, how confident we are of achieving that especially with polyester prices coming down. Does it affect our business cotton sheets and secondly your sense on the EBITDA margin, has it peaked out at 21% currently or do you think some expansion given the operating leverage in the next financial year?

**R. Sundaram:** As far as textile revenue is concerned Q3 revenue is about close to 455 crores. As far as the margin is concerned the margin we have been talking all along 20% is the EBITDA margin, anything more than is upside. So with the current scenario we feel we will be able to achieve and maintain this 20% minimum margin, may move up to 21-22 depending up on the product mix and the expand in the market geographies. As regards the cotton versus polyester, Mr. Lalpuria can explain.

**K.K. Lalpuria:** You see, India is at an advantageous position as far as cotton is concerned and now what we hear on the government is that they are going to rationalize duty on synthetic as well. So once we see that happening it will take some time for things to stabilize but India will keep on performing better in cotton and it is the country where you know people do expect the cotton numbers to grow in the coming years, so we expect more business to follow in cotton and synthetic also the businesses are wide spread in all the categories which we have entered now into like fashion bedding, utility and institutional. So we will have quite a good spread in the coming years and it will only help us rather than cutting back across the cotton segment.

**34.00 edited**

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

**Kaushal Saha:** If you can throw some light on the competitive intensity sir we have had fairly volatile global scenario, so how is the competitive intensity particularly in our segment, home textiles, etc., and how do you see the next 6 months to one year panning?

**K.K. Lalpuria:** As I mentioned, India is at an advantageous situation as far as cotton is concerned, the cotton prices are stable and as what we mentioned earlier in the con-call India has grown reasonably well in the US market and what we are growing like, there is a volume growth of 3.8% and from India the US imports have grown by 9% which we feel for a need base product, it will be there and what we see for the home sales and changing life style and digital buying and all

those will help this category to grow and that is what we have even mentioned for our domestic markets. So we expect this segment to keep on growing and as what we are also seeing that India is making inroads into the new categories as well like fashion bedding and utility bedding as well as institutional bedding where India currently has only 10% market share as compared to 85% Chinese market share. So once the synthetic price stabilizes and rationalizes, India will have means to become more competitive in this segment as well. So taking both this into consideration these cotton advantageous situation as well as synthetic getting much more competitive out of India, we have fair means to grow our business in this segment and as I mentioned it is a need based product so that keeps growing and that is growing on a macro level at 4% in the US the overall bed linen segment.

**Kaushal Saha:** So will the competitive intensity intensify if we see some more devaluation by China, they are already a significant player?

**K.K. Lalpuria:** Earlier China was focusing on an export policy and now we feel that they have an increased home consumption. So what we feel is that the devaluation like which is on real term if we compare to an Indian depreciation, Indian depreciation has happened much more, so it has neutralized that effect overall. But having said that we do not see any competition as far as China is concerned in this particular category and India will perform well.

**Moderator:** Thank you. The next question is from the line of Samit Vartak from SageOne Investment Advisors. Please go ahead.

**Samit Vartak:** Just continuing on the competitive intensity, I mean Trident is coming up with 43 million meters of capacity plus we are expanding to more than 90 million. Is there enough demand for this or is it going to impact the pricing going forward?

**K.K. Lalpuria:** As you see from the numbers which we spelled out, India is growing at a decent 9%-10% growth in this particular category in the US because as the home sales grows, as mentioned their changing lifestyle grows and at the macro level if the industry grows at 4% and plus you see there are so many other opportunities opening up for India from the future standpoint like you see we have the FTA which has been now started again in discussion with Europe, UK is doing well and the growing Indian market and plus a lot of Indian companies are growing in developing their own brands collections. We are a young industry started after the quotas went away. So there is a long way to go to develop and make India as a country to outsource this kind of product because India by default has developed the right technology to deliver this product more efficiently and competitively and we feel that everywhere because of this growth even when the new players come in there is a healthy competition, there is room for everybody to grow as we are not present in many of the continents as such. There is enough room for everyone to grow in countries like South America, Russia, China, South Africa, Middle East, Japan, all these countries they will need bed linen and we are not there at all. So we feel that there is room for everyone to grow and there is enough scope for us also to grow.

**Samit Vartak:** My second question again just dredging on to the Chinese currency depreciation I understand may be China is not the only competition that we have but I am just looking at the statistics since 2007 if we look at the US and INR, we have depreciated by more than 74%. China at the same time appreciated by 38%. So significant relative depreciation of INR against China, China was I think Rs. 5 per Yuan, now it is more than 10.5, so we have had really dream run of competitive advantage with respect to currency, but now during that time Chinese debt has gone through the roof, 7 trillion has become almost (+33) trillion with huge money printing. So there is a huge risk of Chinese currency depreciation. Some of it can reverse a trend which has continued for 7-8 years for a long period of time can easily reverse and even if it reverses by say 20%-30% could be a huge headwind for Indian companies. In such scenario, how does it really impact Indian business significantly as it has benefitted significantly over the last 8 years?

**K.K. Lalpuria:** Let me tell you one thing straight away that this is a need based product and we are into the meet-to-order business. The world needs this product and being competitive on the raw material side which forms 60% of the product. We are at comfort wherein we can promote this product reasonably well. Secondly, you see currency as we mentioned earlier is one of the areas where we have some negotiation with. It is not the only thing which makes or break the businesses. As what we do is we quote at the current foreign exchange rate irrespective of whatever the rates are. So even if it goes to 63 or even if it goes to 68, we take into consideration the current foreign exchange rate and we work on manufacturing cost plus margin. So we like are looked upon as a supplier where you know we become credible and reliable supplier and as a partner to the retailers and buyers worldwide and they need this product because they have a platform to sell. So we think that FOREX does make a little bit of difference on the overall categories but it is not the only thing where we should focus up on because this is a part of business transaction, which is always taken into consideration and is always worked up on. So I do not think so it will impact so much even though Chinese devalue because China is devaluing what we feel and what we hear is to make their own consumption grow and make use of their own home industry to the....

**Samit Vartak:** Like certain points it is not in their hands to control the currency. A lot of time goes above?

**K.K. Lalpuria:** US economy is doing strong, the dollar is doing strong and it was appreciated against most of the currencies and we have been seeing this phenomenon for the last almost since independence. So it is not the make or break. To your argument even if today what we depreciated why our exports are down.

**Moderator:** Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

**Darshit Shah:** The question pertains to like if I look at this 9 months vis-à-vis the last 9 months there is a dramatic improvement in EBITDA margin. It is almost 400 basis points, so just want to

understand is it due to the 10%-11% volume growth from our new segments that has helped us this or any other reasons you want to site for this?

**R. Sundaram:** No, it is a combined of various factors, one is the product mix, second is our outsourcing of the materials, capacity utilization, the overhead spread of larger volume, we cannot pinpoint to a particular activity which has grown by this month. It is a combination of all the factors put together. The result and benefit is there. The EBITDA percentage margin has grown by 400 basis points.

**Darshit Shah:** And we do see it sustainable coming years?

**R. Sundaram:** We have been maintaining that we should be able to do 20% of EBITDA and we are confident of the current trend which is going on. We should be able to maintain a 20% EBITDA margin.

**Darshit Shah:** Sir my last question pertains to the TPP that is coming into play, does it any way kind of impact the overall business from India?

**K.K. Lalpuria:** No, I do not think so because that is already explained by export council and the government as well, in our segment like particularly home textiles and particularly bed linen segment our duty is only 6.7%, so that is not a make or break. Secondly, Vietnam is again dependent on cotton imports and yarn imports whereas the room for TPP is yarn-forward and it is not spinning final counts which is meant to be used in our category of products. And no other countries have got such a lower cost like South Korea and Australia and all those countries are already out of their textile production. So we feel that the TPP will not affect our product category.

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

**Nidhi Agarwal:** Sir any update on Phase-II expansion plans?

**R. Sundaram:** I said earlier the Phase-II expansion till is not been approved by the board. We are elevating it and probably as soon as the board approval comes in we will inform all the investors and as of today it is yet to be approved by the board.

**Nidhi Agarwal:** One of the competitors indicated recently that they are the only selected players with Carrefour. Had you participated in this bid and...?

**R. Sundaram:** See you are giving a specific reference. We will not be able to give answer on a specific reference in the conference call. It is proprietary details.

**Moderator:** Thank you. The next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.

- Ankit Gor:** My question with regards to home textile, if you can give me a breakup of home textile with regard to just a bed sheet and a value added you give a break up of 10% in terms of volume but what is the value break up there, if you can help us, thanks?
- R. Sundaram:** What is the 10%?
- Ankit Gor:** It is a 9 months' volume from value added, right sir?
- R. Sundaram:** Okay.
- Ankit Gor:** And if you can give me a value break up of home textile for Q3?
- K.K. Lalpuria:** Let me tell you in bed linen segment these are all interrelated categories more or less because the sheet-sets has more components like flat sheet, fitted sheet and two pillows and whereas the fashion bedding includes the comforters, duvets and some of the sheets sets does include duvet also. So slowly we are making inroads into this area and at the end of the day what matters to us is how we utilize our fabrics for this category like the fashion bedding or the utility bedding or the institutional bedding. But we are promoting this by making our own collections through the designers whom we have appointed and at a particular time will give you the break ups.
- Ankit Gor:** And sir how much capacity is allocated to the value added products or how much we have utilized for the first 9 months?
- R. Sundaram:** Just a capacity allocation. It is a composite mill. You can produce any combination of product we do. There is nothing like allocation to particular segment of the products.
- Ankit Gor:** And what is the breakup of debts sir, around 60 crores in the long term?
- R. Sundaram:** 60 crores is the long-term and 292 minus 60 will be about 232 will be short-term less cash balance.
- Ankit Gor:** And you mentioned in one sentence we have paid?
- R. Sundaram:** We have paid off all the terms, small term loan is about 20 crores of all the working capital bankers because of high cost, we utilized our internal cash generation and paid all those loans.
- Moderator:** Thank you. The next question is from the line of Girisha Saraf from Ambit Capital. Please go ahead.
- Girisha Saraf:** I understand that you are not giving a breakup of products within the home textile segment but just to understand that when we look at 26% year-on-year 9-month growth what part of it would you owe to volume increase and would that volume increase be coming from new

clients or new products or like an enhanced product mix? Who would be these new clients and what percent revenue growth is from exchange rate benefit?

**R. Sundaram:** On the volume growth we indicated that for the 9 months' period the volume growth is 37% and value growth of 39.7% on textile.

**Girisha Saraf:** Sir if most of the volume growth coming from addition of new clients or is it coming from...?

**R. Sundaram:** It is a combination of various factors, including both increase in the existing clients and new clients.

**Girisha Saraf:** Would you tell who these new clients are?

**R. Sundaram:** No, it is a proprietary information, we will not be able to disclose the client's information, customer information.

**K.K. Lalpuria:** See we have opened up offices in UK and Australia with those intentions of making inroads into the market and as we spoke earlier once the FTA signed the whole Europe opens up for Indian products as well. So naturally we make all round efforts to get into new clients and that is how the business grows like. It is like you will grow with your existing customers, new clients and with your new product mix.

**Moderator:** Thank you. The next question is from the line of Urvija Shah from Samiksha Capital. Please go ahead.

**Urvija Shah:** Sir our gross margins are expanded by more than 800 points, so if you could explain what is adding the margins and also if you can give us sense about the gross margins for the fashion and the home textile business. Just I know it will be too early for you to say and my second question is if you can give your customer concentration?

**R. Sundaram:** The gross margins concerned we have already in the previous call also we have explained that it is a combination of various factor. It is a volume growth, there is capacity utilization, overhead spread on the larger one that is the reason why there is an EBITDA spread. As far as the customer concentration we have been saying that the top 10 customer's accounts are on 40%-45% of total revenue.

**Urvija Shah:** And also, with this fashion bedding segment coming in, how are the margins in that segment?

**K.K. Lalpuria:** Whenever there is a fashion element, you are paid for the designing and more detailing, which is quite apparent. So we all try to see that we sell higher-end product to better customer and since we are in a bit too high segment, we are focusing on our growth both of product as well as value.

**Moderator:** Thank you. The next question is from the line of Rahul Bhangdiya from Lucky Investment Managers. Please go ahead.

**Rahul Bhangdiya:** Sir just two questions. One was you mentioned that you want to take the share of these 3-4 categories from 10% to 30%, if you could just highlight what was the growth in the first 9 months versus the 9 months of last year in these 3-4 segments and second was regarding you mentioned that there is lot of potential even outside the US, so if you could give us some color on how the non-US geographies have done in the first 9 months vis-à-vis the last year?

**K.K. Lalpuria:** Particularly you see the growth has been as I mentioned, since we have added up these 3 new categories only in 2014 we are slowly making inroads into these 3 new categories very well and we see positive responses because the same customers sell all these products except the institutional like say for example the retailer buy sheet sets, he also sells the fashion bedding part and he also sells the utility bedding part in order to complete and now he is finding us to be a one stop solution for all these 3 categories because it works out for him and easier if he source through us because then we can align all the 3 products together as far as the designing and the color trends and everything are concerned. But you see we would like to grow this category because India so far has very less market share and as we are maturing our business we feel that we are quite confident to deliver the design aspect of the business at the relatively high segment of the market place. That is why we have appointed designers in the US, UK and we have expanded our product development team also and we have expanded our horizon for innovation and creativity in order to meet the customer's desire and requirement. Now second question what you wanted to know?

**Rahul Bhangdiya:** First of all, just to follow up on this, but if you can just share with us as you say 10% in the first 9 months this 3-4 categories, what was the same number last year, was it like 5%-6% and 5%-6% of the total has become 10% just wanted to get a sense as to directionally how we are headed there?

**R. Sundaram:** Yes, you can keep it same. We can keep it. About 4%-5% last year, grown up to 10% current 9 months.

**Rahul Bhangdiya:** Second one was regarding the geographies; you mentioned lot of scope in Japan, Europe, some of even Australian also, if you could just tell us how has non-US geography done for us in the home textile in 9 months FY16?

**K.K. Lalpuria:** See India is in the process of signing FTA with Europe which is equally a larger market as far as the market size is concerned. Say for example if US is \$14 billion at retail market, the European market is at 16 billion. So it is a large market out there but we have a 9.6% duty whereas Pakistan and Bangladesh are duty-free. So we are still not at the level playing field and once we sign this FTA, we will be at the level playing field and we presume the markets will open up more for Indian products. Secondly, you see the cotton aspect is growing in the

world consumption and that is helping India to grow its business. So that is the second aspect. The third aspect is as the home sales grows and people are becoming more fashion savvy they are intending to decorate their bedroom and that is also increasing the per capita consumption in home textiles particularly and also in bed linen. So that is helping us to grow these 3 new categories as well because once you think about decorating your bedroom and the bed in particular you tend to buy along with the sheet sets the necessary comforters and all the shams and the back pillows. So this apart from the US and Europe you see Japan we find an FTA last year, there was a duty component of 20% so we have seen that market should start responding to businesses in home textiles and like Middle East and South Africa and countries in the SAARC countries and also China for example is now demanding home textiles out of India. So we feel that there is enough room to grow in the sheets set and particularly the fashion bedding and you know the institutional and utility bedding because India is not there as such. It is dominated still by China and small shift of even 5%-10% of the numbers from the Chinese share will be a huge number for India to explore. We feel quite confident.

**Rahul Bhangdiya:** Currently in home textiles what is the share of non-US sales sir?

**R. Sundaram:** 30-35.

**Rahul Bhangdiya:** Sir any comments you can give us on this new TUF and how does it impact our expansion of this (+175) may be the proposed 300 crores, how do we benefit?

**R. Sundaram:** As TUF is concerned, the new TUF policy talks about central subsidy which is restricted to 20 crores or 30 crores depending up on the type of expansion you do it, whereas the plants are installed in Maharashtra we get a Maharashtra Textile Benefit which is close to about 6%. So effectively if the interest cost is 10.5%-11% my net interest cost comes to 5% plus I get a subsidy of 20-30 crores but that will come over a period of 7 years' time.

**Rahul Bhangdiya:** Sir this 6% thing can you explain, Maharashtra subsidy what is it?

**R. Sundaram:** Now the central government delegated each of the states to fix up their own policy. Maharashtra has given a policy on spinning separately, home textile separately, composite textile separately, some are 5%, some are 6%. So we come into the category of 6%. So once we start installing this machinery and same UID number is linked, now the Maharashtra Government is also dealing the UID number, so authorities have been delegated to some of the bankers who can propose the overall investment to the Maharashtra Government. So just like what we used to get an interest subsidy from Central TUF you will get interest subsidy from Maharashtra Textile Policy.

**Rahul Bhangdiya:** Basically whatever be the term loan that we take for the 574 crores expansion we will get a 6% interest subvention on that, is that understanding correct?

- R. Sundaram:** Whatever the loan you take, on the loan amount.
- Rahul Bhangdiya:** And how much are you proposing to take a loan for this 175 crores expansion?
- R. Sundaram:** We said about 49-50 crores as of today.
- Rahul Bhangdiya:** But nothing on working capital, it is only on the term loan?
- R. Sundaram:** No, on the working capital the central government is giving 3% benefit under interest equalization scheme.
- Rahul Bhangdiya:** And sir anything from TUF on the P&L we get other than the interest equalization, any other benefit in TUF for us?
- R. Sundaram:** No, only interest equalization for us.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.
- Chirag Lodaya:** Just a book keeping question, can you just help me with the breakup of home textile revenue for Q3, home textile and spinning, Q3 first 9 months and vis-à-vis last year?
- R. Sundaram:** The home textile for Q3 is 454 and for 9 months is 1390.
- Chirag Lodaya:** And same in spinning?
- R. Sundaram:** The spinning, Q3 was 48.6 and 9 months is 154.
- Chirag Lodaya:** And can you give me for same year last, 9 months is okay?
- R. Sundaram:** Last year 9 months was 176 for spinning and close to about 998 for home textiles.
- Chirag Lodaya:** And lastly on cost of debt, what is our current cost of debt for long term and short term?
- R. Sundaram:** The cost of debt for long term is today we have only one interest of EXIM Bank which is at TUF which is about 7% and other is at 11% and working capital should be effective will be about 7.5%.
- Moderator:** Thank you. The next question is from the line of Resham Jain from B&K Securities. Please go ahead.
- Resham Jain:** Sir couple of book keeping questions. One is any bonus impact; there is a change in the bonus act?

- R. Sundaram:** It has been recently notified by the government on December that will be affective from April of 14, we are trying to evaluate it. According to us we will not have very much major impact, any differential impact will not be there.
- Resham Jain:** And sir any debt outside the standalone balance sheet because this is a standalone balance sheet...?
- R. Sundaram:** The debt outside standalone balance sheet will be the US debt.
- Resham Jain:** What will be that amount sir?
- R. Sundaram:** That is close to about \$8-8.5 million as of date approximately. That is for the working capital for the US subsidiary. Not the term debt. It is the working capital debt.
- Resham Jain:** Sir one question on the backward integration, so after this new CAPEX which will be over by December 2016, 68 to 90, what will be the total in-house mix in the weaving segment?
- R. Sundaram:** Weaving we are not considering part of this 175, right?
- Resham Jain:** No, I am asking like how much, this year you are saying you will do 55 million meters roughly and next year assume let us say another 60-65 whatever it may be, how much of fabric you will outsource?
- R. Sundaram:** See, weaving there are two ways – either we put our own weaving plant or we outsource the weaving plants; we have been getting outsourced weaving plan with supporting working capital for yarn. So the combined both together we consume close to about 60%-65% and we are quite confident of maintaining that.
- Resham Jain:** So this year what will be the total outsourced fabric in terms of mix?
- R. Sundaram:** Outsourced fabric will be 30%-35% but process in-house like outsourcing the facility combined will be about 60%-65%.
- Resham Jain:** But do you see any risk going forward because of this since you always mentioned that...?
- R. Sundaram:** Last year same question has been asked, we are not found any risk. It is a management issue. As long as we have the material, we have our own people in the facility, technical product stuff.
- Resham Jain:** Since your capacity is now moving up and you are moving into various utility and fashion bedding...?

- R. Sundaram:** We are keeping that factor in mind at the time of the second expansion, as of today we do not find any risk as of now but there is a scope of thinking about it.
- Resham Jain:** So is it right to assume that the Phase-II CAPEX will be mostly on the backward integration side?
- R. Sundaram:** I cannot tell until the board decides.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint, that was the last question. I would now like to hand the floor over to management for closing comments.
- K.K. Lalpuria:** I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information kindly get in touch with me or SGA or Mr. Sundaram. Thank you once again for being on the call. Thanks.
- Moderator:** Thank you. On behalf of Indo Count Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.