"Indo Count Industries Limited Q1 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Indo Count Industries Limited Q1 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinion and expectation of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded.

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

K. R. Lalpuria: Good morning, and a very warm welcome to everyone. Along with me, I have Mr. Mohit Jain – Managing Director; Mr. Dilip Ghorawat – our CFO; and SGA, our Investor Relations Advisor. We began FY18 guiding 62-63 million sales volume based on offtake estimates of our customers. However, in Q1 FY18, we witnessed de-stocking resulting in offtake deferments from our customers, which has resulted in de-growth of the sales. We further believe that re-stocking will commence slowly, which shall benefit utilizations of our capacities going forward.

We continue to work closely with our customers adding value to their retail strategy and maintaining their market share. We have not lost any customer. However, as a prudent financial measure, we have refrained supplies to a few financially stressed customers.

We are working diligently on differentiating ourselves to establish a top-of-mind recall for our customers and their clients. We continue to focus on innovation and branding by providing functional benefits through our differentiated products, which are outcomes of our continuous innovation. Since we are capacity-ready backed by strong customer relationship, we are confident to capitalize on the opportunities in the global and the domestic home textile industry.

In October 2016, we launched our own premium bed linen brand 'Boutique Living' to bring an element of luxury for the Indian customers. We are seeing a good traction and since March of this year, we have expanded our presence from 234 stores to around 310 stores pan India.

On Raw Material front, we believe that cotton prices are likely to be stable owing to enhanced sowing and favorable monsoon. The future of the Indian textile industry looks quite promising, strengthened by both strong domestic consumption as well as a good export demand. Besides, India's export share in the home textile market is likely to increase over the next few years, as it leverages the twin benefits of lower cost of production and significant share of global installed capacity.

We are confident of growth going forward on account of the following multiple factors. We, as a company are consciously moving up the value chain by adding new products. We are entering in various newer geographies. We are also enhancing our focus on the institutional business. And finally, we are quite confident to fully utilize our expanded capacity by the year 2020.

That is from my side. Now, I would like to hand over to Mr. Dilip Ghorawat, our CFO, for the financial highlights.

Dilip Ghorawat: Thank you, Mr. Lalpuriaji. A warm welcome to everyone present on the call. We have uploaded the presentation of Q1 FY18 on BSE, NSE and Company's website and have circulated the same to all the investors.

Coming to our Standalone Financial Performance for Q1 FY18.

The total revenue stood at Rs 432 crores against Rs 493 crores compared to same period last year. EBITDA stood at Rs. 65 crores with a margin of 15.1% in Q1 FY18. Increase in raw material and operational costs coupled with lower absorption of fixed costs on account of lower volumes impacted our EBITDA margin for the quarter. The Profit after Tax stood at Rs. 32 crores, with a margin of 7.4%.

We recorded an EPS of Rs. 1.62 on a face value of Rs. 2 per share for this quarter. Cash Profit stood at Rs. 40 crores for the quarter.

The Company's Net Debt to Equity as at 30th June, 2017 improved to 0.33 times. We are also pleased to inform that ICRA has reaffirmed the long-term credit rating of the Company to ICRA AA- (Double A minus) and short-term rating of ICRA A1+ (A one Plus). The outlook on the long-term rating has been revised to positive from stable. The rating reaffirmations and revision in the outlook by ICRA are demonstrative of the Company's sustainable financial position.

The finance cost has reduced to Rs. 8.22 crores from Rs 9.80 Crores q-o-q and the interest coverage was 7.04 times. The return on capital employed stood at 29.8% while return on equity was 23.1% on TTM basis ended 30th June, 2017.

That's from my side. And now, I would like to open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-answer session. We take the first question from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: Lalpuriaji, this question pertains to two things. One is regarding the guidance. Now, you said you started FY 18 with guidance of 62mn to 63mn meters p.a. So now with this two quarters, means first quarter was obviously a flat one but this quarter being a de-growth, do we see the guidance to be revised downward or we will be able to cope up in the next two quarter on the same? And secondly, on the margins we have been seeing continuous deterioration in the margin, maybe this quarter more exaggerated because of the volume itself going down. But eventually going forward, what kind of margin we would be able to sustain, given now the outlook on the cotton is getting slightly subdued?

K. R. Lalpuria: First of all, regarding your question about the revenue de-growth, we had given the guidance based on the estimates and the projections which we received initially from our customers when the year started. And that's how we were able to guide you to a much better number. But we witnessed de-stocking resulting in offtake deferments from our customers, maybe because of the interest hike or their own strategy to liquidate the stock. So this happened and that's the reason we had to revise the outlook to be flattish for the full year as this quarter the numbers have not been received. Now as far as the margin is concerned, it will be in similar lines but we will be able to better project the margin post September 2017 when we really get the true picture of GST, - duty-drawback ROSL and various other government policies. So, we should be able to guide you much better. But having said that, we had achieved an EBITDA margin of around 17% in Q4. We should be somewhere in between 15% to 17% at the end of the full year.

Vijay Sarda: Okay, 15% to 17%, sorry?

K. R. Lalpuria: Yes.

Vijay Sarda: And just in terms of the client addition that we've been speaking about, how the traction on the US business is building on the new segment that you entered into and new geography, so when we can see the traction coming up there? So maybe next year will be year where we can see traction coming in?

K. R. Lalpuria: We have been informing everybody that we have entered into this new segments of business, i.e fashion, utility and institutional bedding. We are working hard on that front and we are seeing positive outlook as we have added two more customers in this area. We see a positive outlook going forward. And maybe at least next year onwards, we should see some more results coming in, in this area. Just to inform you, we have improved our offering to these customers by almost 1%.

Moderator: Thank you. We take the next question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: I had two questions, one is on the gross margin part of it, and I think we've seen a good expansion of 150 basis points to 160 basis points on gross margin in spite of cotton being on the higher side. And given the fact that now quarter is expected to come down, is it safe to assume that we will see even grosser margin going forward?

Dilip Ghorawat : No, if you assess, you see normally we have commissioned new capacity, job working done outside for some of our raw material, and that is getting reflected in the other expenditure. And in this year, that is up by almost 2.5% due to raw material. So if you club these two figures, there is a small impact of almost 2% on our raw material cost. So just because we had to show it in other expenditure, it is not getting reflected in the gross margin. So, we feel that there is a positive and stable outlook going forward. The sowing of cotton is much better. So, the prices should stabilize and maybe it may come down, which shall be beneficial to us going forward.

Niket Shah: Right. So, if the prices actually which is being anticipated that once the supply of cotton comes to the market, if it comes down by 10% to 15%, you should basically return back to your original higher gross margins, is that a safe assumption?

Dilip Ghorawat : I think so. We are quite optimistic about it and we are keeping our fingers crossed that there should not be any adverse thing happening on the cotton front because we hear about the pest and we hear about flooding of some of the states, but still feel that there is a growth of almost 8% which should nullify the mill consumption increase of 2%, and which should give us some advantage going forward in quarter.

Niket Shah: Sure. And one question to Mr Mohit. Have you seen any such instances in the past since the time you got into home textile business where you've seen some deferment in a quarter and then it just suddenly comes back with a great force and at that time if you have capacity then the growth is exponentially higher, so it kind of takes care of it in the upcoming quarters? So have you seen any of those incidents in the past, anytime in last 10 years or something like that?

Mohit Jain: Hi, Niket. Of course, I mean, we had some similar situation in the year 2009-2010 and we got to realize that we are dealing with a retail environment which is a very dynamic world out there. And this is part and parcel of the game. So we've seen demand coming back and getting picked up again. Even as KK mentioned that we see this year to be flattish, because we have seen the second half of the year better than the first half of the year. That's the reason why we should be able to make up those numbers.

Niket Shah: Got it. And final question on the e-Commerce side, I mean you've seen in the US a lot on e-Commerce guys disrupting the offline channel. So how well is the penetration within this whole e-Commerce channel in US?

Mohit Jain: So as far as Indo Count is concerned, we have two distribution channels in the US, one is for brick-and-mortar stores and there is a separate one is what we call a pick-and-pack for direct to consumer so we as a company are very well equipped to do this. A lot of the e-Commerce business has yet done, which is very price sensitive and from that perspective, but as a company, today we are already supplying to around seven to eight e-Commerce customers. It's a very small business at this point of time for us. We do see that growing, but it's not a discounted model that we're going for, it's more from a brand building perspective.

K. R. Lalpuria: Secondly, one more thing, Niket, is that we have seen that there is not much of a high traction happening in e-Commerce sale as far as our product category is concerned because still people feel that they should go and touch the fabric, assess the product before buying because e-Commerce is mainly finding traction in standardized product, that's what our take is. And that's why we have been in this business for almost four years and we haven't seen much of traction. But we are keeping our eyes open all the time on this channel as well.

Niket Shah: Right, because somewhere I read that Amazon has its own private label but maybe that might be a lower count bedsheet as compared to the mid to premium that you guys service to, so that is something that we don't want to cater I guess.

K. R. Lalpuria: Yes, we are not into a discounting model because we are supplying to the mid to high segment. And as we had mentioned earlier, we are trying to go up the value chain by supplying to the premium segment as well. So, we are focusing on that strategy. Of course, the e-Commerce strategy is also in our plan, but we are not going to discount anything just for the sake of our revenues.

Moderator: Thank you. We take the next question from the line of Jay Prakash from India First Life Insurance. Please go ahead.

Jay Prakash: Just want to have your outlook on, so you are saying flat year for FY18, does it mean we will be delaying our capacity expansion process?

Dilip Ghorawat: No, not at all. We have already expanded to 90 million meters based on offtake which we have been receiving projections from our customers in the beginning of the year. As regards to the capacity expansion we are going ahead with all our plans for the Phase II capex.

Jay Prakash: Okay. And can you brief us about your hedging policy sir, just for my information?

Dilip Ghorawat We are well covered for this year and we as a company are following a policy to hedge almost 70% to 75% of our revenues going forward based on the order book position. And hence, whenever we confirm an order, we always hedge it going forward. So we are covered at this moment of time, but we always have to be watchful as an export company how US Dollar to INR pans out. If the dollar goes to 62, we have to change our strategy.

Jay Prakash: Okay. And sir last question from my side, last year our proportion to specialized product increased, which increased our job costing by 32% roughly. What would be for this year, will it be flat or how is it to you?

K. R. Lalpuria: No, we are waiting for the cotton to get stable, and that's where the main worries are and that's why the impact on this quarter job work expenses as well. So, we are watching the situation and I think it should improve from here.

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

Aditya Bagul: Couple of questions. Firstly, sir, if you could share your outlook on the newer geographies that we are entering into, Europe, Middle East, Australia etc. and if you could just explain to us, what are we doing differently as against the US market and what would be the revenue contributions from these regions?

K. R. Lalpuria: See, we have informed earlier the marketplace that we are expanding our global reach by opening offices in Europe and in UAE as well, which we are very close to. We are into the nitty-gritties of these opening of offices and we'll be soon declaring our plans. As regards to the revenues are concerned, there will be a positive outlook.

Aditya Bagul: Okay, sir. So it's fair to say that you would reveal your plan in a couple of months' time or something like that?

K. R. Lalpuria: Yes.

Aditya Bagul: Okay, sir. Sir, the next question is for Mr. Ghorawat, sir. If you could just explain to us if there is any benefit that we draw from the RoSL scheme and what is the impact if the scheme is rolled back and if you think that the scheme will be reinitiated on that?

Dilip Ghorawat: Presently RoSL is 3.90%.

Aditya Bagul: Right, sir.

Dilip Ghorawat: On implementation of GST, RoSL has been extended till end of September 2017. Through various associations, we have strongly represented to the Government to maintain RoSL at existing levels wherein Ministry of Textiles will take a call. We shall be able to comment on the impact after final rate is announced.

K. R. Lalpuria: See, basically the RoSL scheme was declared this year, which was an additionally budgetary provision for improvement of the employment and government has different plans rather than the drawbacks scheme for this RoSL. Now RoSL's full form is Refund of State Levies, basically electricity duty, entry tax, Octroi and state VAT etc. We are also getting refund of the central levies through the drawback scheme. Now we have represented the government that because some of these taxes are still not subsumed by the GST, hence RoSL needs to be maintained at existing levels. So proper representation has been submitted through the councils and we hope that there is a positive stand on rate of RoSL. Further the government have also to follow the WTO norms on the subsidy front. So some of these will get reduced and even if we get like say maybe around 2% in the reduced form, still we end up paying 2%, so it will be evaluated whether we should go for RoSL or go through the SGST refund form. We shall know about the RoSL rate post September 2017 and we will be able to give you clarity on the same thereafter.

Aditya Bagul: Sure, sir, maybe I'll take that offline with Mr Ghorawat later. Sir and then one last question. If you look at excluding our job work on the operating overhead, if you could just share a little bit on what would be the increase in employee cost and operating overhead purely attributable to the increase in capacity?

Dilip Ghorawat: See, the increase in the employees cost will be about 2% and to job work, it will be at same percentages for this year.

K. R. Lalpuria: Further as we haven't consumed our capacities, it will get amortized to existing costs to some extent. And secondly, there is a positive outlook for cotton and job work charges also expects to mellow down in the coming quarters.

Moderator: Thank you. We take the next question from the line of Sahil Doshi from Birla Sun Life. Please go ahead.

Sahil Doshi: Sir, the question relates to the item, which you put in your press release that you lost two clients in the sense you vacated two clients. So this would be in what geography and what will be the rationale behind this, sir?

K. R. Lalpuria: No, what we have mentioned is that we are staying away from financially stressed clients. We cannot divulge the name of these clients.

Sahil Doshi: Sure, but in terms of profitability, sir, any particular geography and how big would these be in terms of your entire sales contribution?

K. R. Lalpuria: No, not much exactly, but what we are mentioning is that there is some financial stress on some of the clients, so we are staying away from them. And the geographies also like are mixed because there are some global cues in some of the countries, so we are staying away from them.

Sahil Doshi: No sir, meaning these two clients in particular will be from which geographies?

K. R. Lalpuria: No, we have mentioned couple of clients.

Sahil Doshi: Okay, sir. What is the reason why these guys are facing some financial problem? Is there because of increased competition from the online players or what is the real reason behind this?

K. R. Lalpuria: There may be many reasons, which are beyond our understanding.

Sahil Doshi: Sure. So going forward, how do you see? Do you expect more stress from a lot of these clients further or how do we see things get?

K. R. Lalpuria: As it happens in every industry, that there are some companies or customers which are financially stressed, maybe because of their own business model which we cannot comment upon.

Sahil Doshi: Sir, because this seems unique to Indo Count per se because we haven't heard some similar commentary from other textile exporter from India.

K. R. Lalpuria: To that we cannot comment now. If somebody has not heard it and we cannot comment on it. We have made a statement that we are not going to deal with some of the financial stressed clients.

Sahil Doshi: Sure. Okay, sir. I'll appreciate that. Sir, the second question relates to the margin guidance that you've mentioned is 17% to 18%. Just really wanted to understand, if you were to shave off some duty drawback benefits from your EBITDA in terms of post GST, we understand there is some rationalization there. So if you were to negate that, how do you really see? Where could margin really settle that?

K. R. Lalpuria: See, that's why we are waiting for this clarity from the government post September 2017 and that will give us a clear picture, but our case is pretty strong because the government has not subsumed some of taxes and excise duties with the levy on petrol, diesel, coal in other areas where it affects us because of the logistic cost, electricity duty on power generation etc. So we have made representation to the government through associations and we hope it may be considered favorably. We are waiting for these rates to be finalized, which is likely to be announced by end of September 2017. So we will be able to give you correct picture of what will be negative and what will be the positive thing to happen.

Sahil Doshi: Sir, but based on your calculations currently, what's the differential, sir, meaning what could realistically differential be today?

K. R. Lalpuria: As I already mentioned in this quarter we have achieved EBITDA of 15% and last quarter Q 4 FY 17 we were somewhere around 17% plus.

Sahil Doshi: No, sir, my question relates to the duty drawback, sir, meaning in terms of duty drawback and the amount of taxes which you are paying today, meaning how much are we excess, how much duty drawback are we collecting etc.?

K. R. Lalpuria: Presently the rate of duty drawback is 7.5% for our category wherein we are having an input of around 5.5%. 2% was the additional which we gained because the government always considers the lower paying states to the highest paying state and neutralizes this by declaring a middle rate.

Sahil Doshi: Absolutely.

K. R. Lalpuria: So we were getting some benefit out of the duty drawback, but because of the ROSL this was getting offset. ROSL did not exist last year and if we get this ROSL post September 2017, that will negate the reduction in the drawback rate. Because in drawback also there is a custom portion and there is an excise portion. The custom portion, the government has already declared to the extent of 2% to be continued. So, we will have some clarity on the same post-September. That's how we look at it.

Sahil Doshi: Sir, just a final clarification, does the MEIS benefit still accrue to us or does it not accrue to us?

K. R. Lalpuria: It still accrues to us.

Sahil Doshi: That is 2%.

K. R. Lalpuria: Yes.

Sahil Doshi: And that also is likely to phase out by this year end, is that correct?

K. R. Lalpuria: I don't think so, because that is given on focus product and focus market, so it is declared for five years, basically for the growth of the exports in that particular product or to that country, wherever we are having minus trade balances.

Sahil Doshi: Sure. So if you have to totally break down your duty benefits which we get from government today, 7.5% from duty drawback, MEIS 2% plus ROSL of 2%, is that correct?

K. R. Lalpuria: Yes. But you have to also see the input on the drawback side, on the state levy side; also for 3.9% we were already paying 2%. And the MEIS also has to be considered as a cost, because when we export to, say, Latin America we pay a freight of $4500, then for promotion of our exports we take participation in different countries, then the duty anomalies of, say, today like Europe vis-à-vis Pakistan and all, so government considers all these factors in order to help the exports to grow.

Moderator: Thank you. We take the next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, few questions, just a continuation because there is a lot of confusion still post GST. So, duty drawback was 7.5% and the input taxes which we were paying was 5.5%, now duty drawback has already gone, right, you just get input tax credit right post to July 1?

K. R. Lalpuria: No, existing duty drawback rate is still continued till 30th September 2017.

Bhavin Chheda: But what I believe is that ROSL continues till September 30 or you're saying that duty drawback also continues till September 30?

K. R. Lalpuria: Yes.

Bhavin Chheda: Both continue till September 30?

K. R. Lalpuria: Yes, please.

Bhavin Chheda: Okay. So ROSL of 3.9% is separate and a duty drawback rate was 7.5%, right?

K. R. Lalpuria: Yes, please.

Bhavin Chheda: So post September 30, this differential 2%, which we were having over input taxes on duty drawback, that will surely go, right, or it has to come via some other head, right?

K. R. Lalpuria: No, that will go away. As I mentioned, you see, our input was around 5%-5.5% on the central taxes and we were getting 7.5%. Now as I mentioned, some of the states we are paying higher taxes, even more than 7.5%. So the government takes some middle view to declare a drawback rate based on the input-output norms.. In drawback also, there are two portions, one is the custom portion and the second is the excise portion. Now the custom portion 2% continues irrespective of whatever the government declares post September, this will continue, this we are going to get.

Bhavin Chheda: So under what head is this continuing? It is called as a custom drawback or something?

K. R. Lalpuria: No, it is a drawback only, it is having custom portion because normally when you import, there is a CVD and a cess levied for protecting the domestic industry from imports. So, there is a countervailing duty. Now because this countervailing duty is removed, whatever the basic custom duty we were paying is being given to us as part of duty drawback and will be continued. So now ROSL, because it was not there earlier, you see, in 2016, it came only in effect from last quarter in FY17. We are considering that whatever benefit of the state levies which we were paying and which we would get refund was in the form of ROSL. Now ROSL, even if it is discontinued, it will not impact us in any way. Yes, the drawback would impact but how much, we need to see post September 2017.

Bhavin Chheda: Okay. What is the worst-case impact, the differential between the input tax and duty drawback of 2% and the ROSL which started from January 1, 2017 is around 3.9%, so if I combine this both figure, there is a 5% to 6% impact, assuming nothing comes, and right?

K. R. Lalpuria: How nothing will come? I've already mentioned that in drawback there will be a 2% custom portion, which will be given.

Bhavin Chheda: Which will be, so 2% remains?

K. R. Lalpuria: And even if they provide 2% additional which we have already represented to the government on drawback and in ROSL, they are saying that they will provide us, say, 0.39%, so it will be almost close to 5%.

Bhavin Chheda: Okay. So 5% will continue. So the impact would then be a marginal max to between 1% and 2%?

K. R. Lalpuria: Yes please, that's what I'm trying to say, but still we need to see because as I mentioned, the ROSL is a separate budgetary provision for generation of employment. So they are considering that favorably in order to grow the textile exports. So, we hope that this should continue in somewhere between 2% to 3%. And if that continues, that will offset the drawback.

Bhavin Chheda: Right. Now coming back to, sir, guidance, you have revised it down to flat. So this is the volume guidance or turnover guidance? I think we were guiding volumes of 62 to 63, so now you said flat, so that's on flat volumes, right, for 2018, flat volumes as well our flat turnover?

K. R. Lalpuria: Yes.

Bhavin Chheda: So FY17, we did volumes of around 56 million, right?

K. R. Lalpuria: Yes.

Bhavin Chheda: So now we are expecting 56; and what would be the Q1FY18 volumes like?

K. R. Lalpuria: Volume for Q1FY18 would be around 12 million.

Bhavin Chheda: Q1FY18 would be around 12 million, okay. And margin, sir, as you said you hope it will come back to around 17% EBITDA margin assuming that the government in some way clarifies on this duty drawback and all that, right?

K. R. Lalpuria: There are two aspects on the margin front; the second quarter and the fourth quarter are always positive in our businesses. But this year, Q2 is witnessing slower off-take in similar lines of Q1. So, that's the reason. However, we are seeing that there is some traction in the third and fourth quarter happening. So, we feel that the margin should improve from here because always the first quarter is slow in our businesses. Secondly, the margin also depends upon how the government pans out the draw back and the RoSL finally, and lastly the cotton price.

Bhavin Chheda: Understood, sir. And sir, one last question, obviously this business is more on batch orders and a season order business, so when we start off the year we projected 62 million; as you said, there is some deferment in this, can we assume that the two financially stressed customer where you refrained was the major reason for margin guidance?

K. R. Lalpuria: No, you see, what we have stated that we have been dealing with a couple of customers who got financially stressed. So, we are pulling out of them. They are not very large customer for us, but still it was our duty to inform the market.

Bhavin Chheda: So in that 62 to 63 million number, whatever you had projected earlier, that two customers were not materially large?

K. R. Lalpuria: No, this is not the reason for de-growth on the volume and the value, please try to understand.

Bhavin Chheda: No sir, because our understanding of the business as such when we speak to most of the guys in home textile exports, normally there is a visibility of six months because normally the clients get orders on season basis, so that doesn't vary. So suppose when we were doing a first half projection, we already have an order from April to October.

K. R. Lalpuria: No, not orders, projections we do have.

Bhavin Chheda: But the clients also give projections and more or less he gives the order of every 45 days to 60 days, he gives you the order, right?

K. R. Lalpuria: No, we receive projections on a yearly basis in fact. So we cannot consider them orders. Now those are based on the traditional sales which the customer does in the last financial year. So he gives projection and in our businesses, he books the capacity as well. But as we move forward in a particular month if the sales goes down for that particular product, the retailer on the customer, then he has to adjust the orders going forward as what we call replenishment. So in business, whenever say for example, in India today due to demonetization, GST, the sales are lower. So definitely, they won't rebuy it, because those are temporary sales and they will adjust their inventory levels accordingly and that's why we mentioned that some of the customers have done destocking also because they are also trying to liquidate their cash through inventory because they feel that the interest rate hike would be there. So all this has happened simultaneously, which has pulled down the numbers of the projection. So, that's why we have mentioned that the offtake is slow. And we feel that this offtake will improve in the third and fourth quarter. That's what we have mentioned also.

Moderator: Thank you. We take the next question from the line of Srinivas Seshadri from Mirabilis. Please go ahead.

Srinivas Seshadri: Sir, my question is slightly different. I wanted to understand, especially on the technology side, I mean what is the kind of innovation happening especially in the garment printing segment? Is there any major change in the way, especially moving towards digital printing etc. in your kind of product portfolio or it's still kind of more of a conventional printing?

K. R. Lalpuria: Basically it's a dynamic situation, as and when there are innovations happening because we had mentioned earlier that the functional needs of the consumers are changing, their lifestyles are changing. So there is more demand for our product to deliver functions going forward. And for this, we do regularly market research and we bring about to identify those consumer preferences and building our products and deliver to the customer, so that the consumer can accept those product. So this is a constant element, which is in our business to innovate and provide solution to the marketplace. But there is more dynamic situation here that being in the need-based product, there will be a total revolutionary product, which will preempt the people not to buy sheets. So things like digital printing and those things are happening. There are always focus upon how you can save more energy, how you can speed up the production, how you can reduce the number of labors through automation. So those things are being focused by the manufacturers. And these are happening in the industry and as we move forward, this we call it as a technology and we absorb those technologies from time to time. So there is nothing to worry that there are some preferences which are changing. Of course, you hear about smart textile and all that which are of course going to play a role somewhere in between.

Srinivas Seshadri: Okay. Sir, in your segment there is not much of a sudden shift or something in the way things are happening?

K. R. Lalpuria: People would still sleep and dream, so they will use bedsheets of course.

Srinivas Seshadri: No, I didn't mean the end product use, but the way it is manufactured, that's what I mean.

K. R. Lalpuria: That's what I said, the technology is an ever-changing phenomenon and these are focusing on the speed or automation or how you utilize your energies. So, those always would remain and we keep on absorbing technology and plus we keep on innovating product ranges, so that it finds the preferences of the customer because the consumers are also changing. Just for example, now we always say about Baby Boomers and Gen X and Millennials. But just to inform you, in Millennials also, there are e-Commerce and impulsive buying. So, it's a dynamic situation and as a Company we take into consideration all this and innovate and bring about those technology absorptions so we can deliver value addition to these customers.

Srinivas Seshadri: Sure. Sir, just one statistic, if you have any ballpark number of the finished product, how much would be going through, say, a digital printing kind of setup on the final printing stage? Is it a sizable number now or?

K. R. Lalpuria: I don't think so because the traditional dying finishing is still moving ahead, and traditionally US is buying solid dyed sheets instead of more prints. The heavy prints are much more in fashion in Europe. So, we have more sales in the US market and we are delivering the dyed product.

Srinivas Seshadri: The final printing is not an operation separately in that.

Mohit Jain: Also just to clarify, digital printing is a new technology, which is prevalent. We as Indo Count have invested in an Italian technology last year. We are utilizing our equipment, but as a percentage to the total production, it's very low because the cost of inks in digital is extremely high. So, this digital printing is used more for shorter runs, more for the fashion side of things so for those kind of things. The end consumer price point changes if you print something completely digitally, basically because the production cost is much higher. So wherever there is short-run, this is something which is helpful and that's why we are utilizing it. Having said that, probably three to four years down the line we see ink cost going down and then the proportion of digital would also go up in the business.

Moderator: Thank you. Next question is from the line of Giriraj Daga from KM Vesaria. Please go ahead.

Giriraj Daga: First, there is a data point question. So what was the last year volume quarter one and fourth quarter volume?

K. R. Lalpuria: Last year, the volume was 56 million

Giriraj Daga: No, first quarters I am talking about.

K. R. Lalpuria: The first quarter was around 14 million.

Giriraj Daga: And fourth quarter?

K. R. Lalpuria: Fourth quarter, I just don't remember it, I can tell you offline, but this quarter we have done around 12 million.

Giriraj Daga: Sure. And just another data point question; so what was the Forex income in the quarter one and quarter four, if you have handy?

Dilip Ghorawat: We do not have the numbers handy but we had an MTM loss of Rs. 9.18 crores for Q1FY 18.

Giriraj Daga: This quarter MTM loss was Rs. 9.18 crore. But as I see, the other income looks high for 33 crores?

Dilip Ghorawat: That was under operating income for the whole year because we are doing an export business, so we are gaining export revenue. So, that is a part of that export business.

Giriraj Daga: Okay. Just my other two questions, sir. So what was the size of the two institutional clients, you mentioned we have got two new clients, so what was the size, sir?

K. R. Lalpuria: No, the institutional businesses are done by large sized distributors because it's like small business which we cater to. So definitely these customers are large in size and that's why we mentioned that slowly we are having traction in this business, which looks very positive. And it takes almost 2-3 years to crack down a customer of this large size. So that's what we mentioned. We are fundamentally setting up the ground rules for both production and marketing in this area and we are very positive about it.

Giriraj Daga: And if I ask, how far we are there from delivery to them?

K. R. Lalpuria: No, as I mentioned, it takes time to open up an account with a large customer because there are FASB compliances in which we need to follow. Then there should be an opportunity because he is already buying with some other company or manufacturer. So it takes a while to really crystallize this. We will inform as and when we come pretty close to it in that customer.

Giriraj Daga: Okay sir. Then last question, sir, looking at the recent rupee depreciation, in our current contracts what we are negotiating, how we have been able to get any higher pricing compared to what we were earlier doing?

Dilip Ghorawat: At this point of time, we haven't approached any customers for any price revision for old contracts.

Giriraj Daga: Okay. But on the new contracts sir?

Dilip Ghorawat: For any new contract is of course priced out with the new pricing with whatever the currency is at that point of time. For any old contract we look at the raw material pricing etc wherein cotton arrival starts from Oct 2017 and keeping all these things in mind, we move forward.

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

Sagar Parekh: Firstly, you said that the Forex MTM loss was Rs. 9.18 crores. Under which line item was this booked?

Dilip Ghorawat: This was booked under miscellaneous expenditures in the results of Q1 FY 18.

Sagar Parekh: Okay. And also in the Annual Report there is a difference between exchange rate difference which is booked in other income and MTM loss, so what are these two pertaining to, so this Rs. 9.18 crores which is booked in other expenses and the Forex gain which is booked in other income, what is the exact difference between the two? And how do we look at this number, MTM loss? Can it be classified as extraordinary?

Dilip Ghorawat: Yes, that can be an extraordinary item as it is notional as per Ind AS. As regards to the previous whole year FY17, there was a MTM gain of Rs 48.64 crores.

Sagar Parekh: Correct. So that Rs. 48.64 crores is extraordinary in FY17 then?

Dilip Ghorawat: We have just for Q1. So we'll have to look for the whole year what the rates pan out, but as Lalpuriaji said, we are covered 70% to 75% of our products. So going forward, depending upon that revenue, so we will look over that numbers.

Sagar Parekh: No, what I'm trying to say is in FY17 your total MTM gain was Rs.48 crores .

Dilip Ghorawat: Correct.

Sagar Parekh: This you classified as extraordinary income for you in FY17?

K. R. Lalpuria: No, Rs. 48.6 crores when we follow Ind-AS, we have to do mark-to-market. So, we have just done a mark-to-market and the mark-to-market gain in our FY17 results is Rs. 48.6 crores.

Sagar Parekh: So, then what is this Rs. 37 crores which is booked as forex gain in other income?

K. R. Lalpuria: What happens is, when our documents go to the bank, instead of taking it in sales we have to show it as other income, it's an accounting entry.

Mohit Jain: Basically there are two gains. One is the other income gain in Forex and other is the mark-to-market, correct. The mark-to-market is basically transaction profit or loss booked on the foreign exchange as compared to the spot rate. That comes in the other expenditure, whereas the other income is the part of the business operating income, which has to be shown separately.

Sagar Parekh: No, I mean in FY17 both are classified as part of other income, so I am just trying to understand why is there a difference between exchange rate gain and mark-to-market gain. So what I understand is basically in both the things, you hedge, both of them are used for hedging purposes? Am I right?

Dilip Ghorawat: We will discuss with you offline all those numbers because some numbers we are having and some we are not having.

Sagar Parekh: Okay. And my second question is on this ROSL benefit for last quarter, how much would exactly be the benefit? So after the ROSL, we are getting 15% EBITDA. So let's say from next quarter, we will have some GST impact as well, so you believe that Q2 onwards the margins will be lower than Q1 also?

K. R. Lalpuria: No, we are anticipating clarity on this, as I mentioned earlier, post- September we will be able to comment on.

Sagar Parekh: Exact benefit of ROSL in Q1 then?

K. R. Lalpuria: We do not have numbers currently for Q1 FY 18 and we shall inform you offline.

Sagar Parekh: Okay. On your gross margin front then, how much would be the high cotton inventory that you will be holding and what is the outlook going forward?

Mohit Jain: No, cotton today in our warehouse would be for the next three months and that's the way we normally run the business, because at this part of time, the inventory should be coming down because the new sowing season starts in October onwards. So, we would not keep any high inventory levels of cotton at this point of time.

Sagar Parekh: Is it safe to assume then this 200 bps impact Y-o-Y on gross margins is largely because of the high cotton prices?

Mohit Jain: Correct, the raw material prices across the board have gone up because it all depends on cotton. I mean this is an important time of the year for cotton sowing. If the sowing has been good, we expect a good crop. We hope there are no more surprises. In the second half of September, one will get a good perspective of what the new cotton prices are going to be for this season, and that's important for our business.

Sagar Parekh: So assuming that the cotton prices probably remain where it is right now, which is not the case, I agree with you, but let's assume that the cotton prices remain at a higher level, will you be able to pass it on to your clients at higher rates then? You will start negotiating with them?

Mohit Jain: We hope to.

Sagar Parekh: No, I mean there is always a hope, but is that the case.

K. R. Lalpuria: It's a global phenomenon. Cotton is a commodity which is globally being looked upon by all manufacturers. And whenever there is a substantial price rise, every manufacturer addresses this problem through asking a higher price rise. And we in our business have also being doing so for almost a decade. So whenever there is a substantial price rise, we go to our customers, sit across, discuss the price and we pass on. So, this is the natural business phenomena, whenever the raw material price increases substantially there is always a consideration by the customer.

Sagar Parekh: Okay, fair enough. And sir, on your volume front, we witnessed about 14%-15% decline in Q1 FY 18. What gives you the confidence that you will still be flattish for the full year? Are you seeing some uptick in Q2 now? It's been almost 1.5 months for Q2, so are you seeing some kind of volume offtake improving over Q1?

K. R. Lalpuria: See, we are seeing this similar trend in Q2 for the volume offtake. But as far as Q3 and Q4 is concerned, Q3 being a festival season in the US and other areas and we hope that things should improve and because of destocking also, the buyers and the customers have liquid cash in their hand and as the sales pick up, the demand would go up. And we are already seeing some traction there.

Sagar Parekh: So you are seeing some traction in Q2 then, that's what you're saying?

K. R. Lalpuria: In Q3 and Q4.

Sagar Parekh: In Q3 and Q4, okay. So you still believe that 56 million numbers is achievable for full year then?

K. R. Lalpuria: Yes, we are hopeful for that.

Sagar Parekh: Okay, sure. All the best sir. That's it from my side. And we can talk offline about this.

K. R. Lalpuria: Sure, of course. We are sorry that we could not give you the numbers, but we will talk offline and provide you the same.

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

Pankaj Kumar: Sir, my question pertains to what is the other income in Q1FY 18 that we have booked because we have a total income that we have mentioned; we have not given any other income, which we normally give in the Annual Report?

K. R. Lalpuria: See, what I would request is that other income, MTM and Forex numbers though, it would be better if we define it separately, so that there is no confusion in this.

Pankaj Kumar: So, what are the exchange rate difference or MTM forward contracts that we have booked in this current quarter, I mean the Q1 basically?

Dilip Ghorawat: We have accounted MTM loss of Rs. 9.18 crores in Q1 FY 18, which has been shown under other expenses.

Pankaj Kumar: Okay. And apart from that, is there any exchange rate difference that we have booked in?

Dilip Ghorawat: Yes. We have booked about Rs. 32 crores.

Pankaj Kumar: For the quarter?

Dilip Ghorawat: Yes please.

Pankaj Kumar: Okay. And sir, second question pertains to this value added product segment. What revenue we have booked in the current quarter, what percentage was it?

K. R. Lalpuria: So as of full year, we will be able to provide you a much better numbers on the value-added businesses, because they should be looked upon annually.

Pankaj Kumar: Okay. Sir, but have you seen any traction in it till now or it is at the same, what we have seen last year?

K. R. Lalpuria: Yes I did mention that last year we had reported 11% and this year it is around 12%.

Pankaj Kumar: Okay. And sir, last question, this was regarding like your target; I mean you have 90 million meter capacity that you intend to achieve by 2020. And if I look at your current year, you have given like flattish outlook. So if I do just growth for next 3 years, it should be ideally some 15% to 17% volume growth that you are targeting. So, do you believe this is achievable and that kind of demand is there in the US or other market where you are present?

K. R. Lalpuria: Yes, on a macro level, the market is growing. If you see, the US market is growing almost by 3% and as we have been mentioning that the other markets also should improve, say maybe in Europe about the FTA which we discussed, of course we do not see anything happening in the next six months or one year. But we feel that after that, there should be some traction in the European market as well because we are seeing some positive outlook in the other market as well apart from the US.

Mohit Jain: Also when you look at the business on a macro level, the inherent strength of the business remains strong and competitive. India is extremely well positioned within the textile business. We feel that India will have a larger share of the textile market and within that, of course home textile will also play an important role. And we as an organization, when we look at it from a two to three-year perspective, we have a clear strategy in place which will help us utilize our capacities which we have already provided.

Pankaj Kumar: And just add to this like, what kind of growth outlook that we have from the Indian market because Indian market we are focusing very aggressively, so what are the outlook for that, how much growth that you are building from the Indian market in this whole projections?

K. R. Lalpuria: When we are promoting a brand; it takes almost five to six years to establish a brand. Now we are developing Boutique Living as aspirational brand. And we feel that in the next three years, we should be reaching a turnover of almost Rs. 60 crores to Rs. 70 crores in this area.

Moderator: Thank you. We take the last question from the line of Nitin Agarwal from JM Financial. Please go ahead.

Nitin Agarwal: Sir, I am sorry that I joined the call little late. If you can just give what was the reason that the EBITDA margin for this quarter is so low at 15%?

K. R. Lalpuria: There are couple of reasons, one is the raw material cost which has gone up which is reflected in the miscellaneous expenditure because we do commission job weaving outside. So that has increased by 2.5%. And secondly, on the operational cost, some of the expenses are not amortized like salary wages, and then there is power and fuel cost also going up. So because of all this cost, the EBITDA levels are down.

Nitin Agarwal: Okay. And secondly, sir if you could give the CAPEX guidance. So last quarter you had given the CAPEX guidance of Rs. 75 crores to Rs. 80 crores for shaping the weaving. So, does that stand same or?

K. R. Lalpuria: Yes, like this year we would be spending around Rs. 70 crores to Rs. 75 crores on modernization of spinning and putting up some backup to deliver our fashion and utility bedding. The Greenfield project for weaving is still undergoing toward selection of land, which we are discussing with a few states because they are likely to release their textile policy very soon, say, for Andhra, Telangana and Maharashtra. We are in discussion with their officials. And once the textile policy is declared, we will be able to judge better which state can provide us much better economic-conducive situation.

Ashuthosh: Sir, this is Ashuthosh. Can I just quickly ask on the revenues, why has the revenues declined Y-o-Y? Why have we done badly in the volumes for this quarter? We logged in a bit late in the call, I'm sorry about that. So can you just take us through what happened in volumes in this quarter?

K. R. Lalpuria: See, we guided in the beginning of the year like based on the projection which we received from our customers that the volume would be better and the revenue would be better. But the offtake did not happen to our expectations because there was destocking and there were deferment due to lower sales at the customers' place.

Ashuthosh: So any pain points specific to a particular client?

K. R. Lalpuria: No, it was across.

Ashuthosh: Okay, because if I look at the OTEXA data, the volumes have actually gone up for India on a Y-o-Y basis in terms of million square meters reported. So has it been bad for India in general or this is particular to our case?

K. R. Lalpuria: No, you are right that the OTEXA shows that the growth is around 3% on a Y-o-Y basis, but you see its across the categories, may be some other category have picked up which we don't deliver . So we have to identify that which category did well. And since we are catering to the mid to high segment and we have ventured into the premium segment, we are focusing on our businesses. And as we mentioned earlier, we are not targeting any lower segment.

Moderator: Thank you. Well, that was the last question. I now hand the floor over to the management for their closing comments.

K. R. Lalpuria: Yeah, once again, I would like to reiterate that the current period is a temporary blip, but the long-term is sustainable and we believe to increase our capacity utilization significantly for the next 2-3 years. 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 us or Strategic Growth Advisors, our Investor Relations Advisor. Thank you once again.

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