"Indo Count Industries Limited Q4 & FY18 Earnings Conference Call"

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MANAGEMENT: MR. K.K. LALPURIA – EXECUTIVE DIRECTOR
MR. DILIP GHORAWAT – CHIEF FINANCIAL OFFICER

Moderator: Ladies and Gentlemen, good day, and welcome to the Q4 & FY18 Earnings Conference Call of Indo Count Industries Limited. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K.K. Lalpuria – Executive Director of Indo Count Industries Limited. 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. Dilip Ghorawat – our CFO; and SGA, our Investor Relations Advisor. We hope the investor presentation has been received by everyone. We would like to state that there is a small typographical error in Slide #27 of the Investor Presentation. The import of cotton bed spread from India to USA should be read as 2%, increasing from USD152 million to USD155 million, while China should be read as increase from USD478 million to USD531 million. Further, India's contribution in cotton made ups to USA for year-to-date till February 2018 should be read as 4% increase from USD1013 million to USD1056 million. We regret this mistake.

Now, I would like to discuss the industry. FY18 has been a challenging year for the global home textile industry. India has however done better than many other countries and we expect this positive trend to continue going forward. This trend we believe is supported by the India's focus on textile coupled with huge availability of raw material and adequate labour, in addition to compliance of processes and global best practices. We have seen that India is performing continuously and consistently for a better future. These factors will help India to not only sustain but strengthen its position in the global home textile industry. In India we are continuously investing in technology to address the growing market, especially in the fashion, institution and utility bedding segments. At Indo Count, going forward, our focus will also be towards increasing our share of business in all these segments.

With this optimism, we have recently launched three new brands in the fashion segment namely, Heirlooms of India, Boutique Living Coastal and ATLAS in the USA Home Textile market which will help us not only consolidate our position but also strengthen our offering to our customers. We have also launched a license brand "Morris & Company" in the US. On our domestic business we continue to perform well. Boutique Living, our aspirational domestic brand is now present across 465 multi-brand outlets in 96 cities across 21 states.

I would now like to talk about our initiatives which we believe will strengthen brand Indo Count globally. Over the past few years we have opened offices in many geographies. These offices have developed deep understanding about customer preferences and built lasting relationship with retailers. Most of these offices have matured over the last couple of years and are contributing immensely in terms of making our product more innovative, functional, trendy and in line with the changing customer trends. This is increasing our "go-to-market" proposition worldwide. We continue to invest in R&D. We have realized that customers in our business are in continuous need of differentiated products which capture not only higher share of their wallet but also makes them loyal to their retailers.

In our R&D effort we are continuously striving to create such exceptional products that bind the retailer and their customer base. We continuously invest in modernizing our plants. We believe in the latest systems, technology and processes and adopting state-of-art technology we shall be able to achieve operational efficiencies, increased productivity and ultimately leading to overall operational leverage.

At Indo Count, we will continue to play on our strength of world-class manufacturing facilities, strong customer relationships built over last decade, portfolio of owned and licensed brands with a proven track record, constant product innovation and high client acceptability. We are confident that this will further strengthen our position in the global home textile market.

Coming to financial year highlights. In FY18, our fall in revenues was on account of multiple headwinds, namely:-
a) increase of in-house consumption of yarn from the spinning segment,
b) strengthening of rupee,
c) change in government incentives and duty structure and
d) de-stocking from some of the large retailers.

The EBITDA margin was lower on account of volatile raw material cost, higher power and fuel charges, job-work charges, including other expenses. In FY18 we ended up with a sales volume of 54 million meters. For FY 2019 we expect sales volume to be in the range of 58 million to 60 million meters.

That's it from my side. Now I would like to hand over to Mr. Dilip Ghorawat – our CFO, for the financial highlights. Over to Dilip.

Dilip Ghorawat: Thank you, Mr. Lalpuria. Good afternoon and a warm welcome to everyone present on the call. We have uploaded the Q4 FY18 and FY 18 presentation on the Stock Exchanges and Company's website. We have circulated the presentation to all the investors and analysts. I hope you have been able to have a look at the same.

I shall now share the financial highlights.

REVENUES

Standalone total revenue stood at Rs. 1,808 crores for FY18 as against Rs. 2,085 crores in FY17. Consolidated total revenue for FY18 was Rs. 1,958 crores, against Rs. 2,258 crores in FY17.

EBITDA

Standalone EBITDA stood at Rs. 265 crores for FY18 as against Rs. 419 crores in FY17. FY18 margin was recorded at 14.7%. The consolidated EBITDA for FY18 stood at Rs. 262 crores as against Rs. 428 crores in FY17.

PAT

Standalone profit after tax for FY18 was Rs. 131 crores as against Rs. 228 crores in FY17. For FY18 PAT margin was 7.2%. Consolidated profit after tax for FY18 was Rs. 125 crores as against Rs. 232 crores in FY17. The profit after tax margin was 6.4% for consolidated FY18.

CASH PROFIT

The standalone cash profit stood at Rs. 182 crores for FY18 while on consolidated basis the cash profit stood at Rs. 176 crores for FY18.

EPS

We recorded an EPS of Rs. 6.64 on standalone basis, while on consolidated basis EPS was Rs. 6.38 for FY18.

The company's net debt to equity as on 31st March 2018, was about 0.38x times.

FINAL DIVIDEND

The Board of Directors have recommended a final dividend at the rate of 20%, i.e. 0.40 per equity share of face value of Rs. 2 each for the year ended 31st March 2018, which together with interim dividend paid at rate of 20%, i.e. 0.40 per equity share, aggregating to 40%, i.e. Rs. 0.80 per equity share for the current year.
The final dividend of 20%, i.e. 0.40 per equity share of face value of Rs. 2 each is subject to the approval of the shareholders at the ensuing annual general meeting.
The total dividend payout is 14.5% on a standalone basis.

That is all from my side. I now leave the floor open for question-and-answers. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Giriraj Daga from KM Vysaria Family Trust. Please go ahead.

Giriraj Daga: A couple of questions from my side. Sir, I would like to understand how were the customer interactions so far in terms of CY18 or FY19 outlook, have they given a visibility of somewhere about like 8% - 10% kind of increase compared to last year, how is the dialog so far?

K.K. Lalpuria: We are witnessing a pick-up in demand and the de-stocking was major concern in H1 FY18 which we reported and projections what we are receiving today gives us confidence that FY19 will be better than FY18.

Giriraj Daga: Okay. And if you can also throw some light on the margin direction, the absolute or direction wise how is the margin looking like in FY19?

K.K. Lalpuria: We should be able to more or less maintain the margin going forward which we had indicated around 14% to 16%. We are waiting for the government to clarify on some of the incentive schemes which would be informed in Q2 FY19. So, we will be able to provide you a much better guidance then.

Giriraj Daga: Okay. My last question on the CAPEX side, we are saying that we will be launching the phase II CAPEX, so what is the CAPEX in FY19 we are looking at? And just a small clarification, if I look at standalone minus consolidated numbers there is a loss at EBITDA level compared to last year profit, if you can just throw some highlight there also. Thanks.

Dilip Ghorawat: Giriraj, this year for FY19 the capital budget we have projected is around Rs. 60 crores to Rs. 70 crores which will be used towards modernization of our spinning mill, cut and sew and other ancillary processes and routine modernization. As regards to the phase II Capex, Govt of Maharashtra has announced Textile policy 2018-23, we await the notification of the land in Maharashtra identified by us and outcome of our application for mega project status. We hope that once we get all above these approvals, we plan to start Phase II Capex in FY19 and hope to commission the same by the end of FY20.

Giriraj Daga: Okay. And the difference between consolidated and standalone EBITDA?

Dilip Ghorawat: The basic reason for that is in one of our subsidiaries there was some mark-down in inventory.

K.K. Lalpuria: And also the spinning when we consolidate, because more and more spinning we are absorbing in our home textile and that turnover is getting reduced, but in-spite of that this year has been challenging on the cotton front so we are unable to make a better EBITDA margin there. So when we present consolidated numbers, overall EBITDA gets impacted.

Moderator: Thank you. Our next question is from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Hello Sir, Thank you for taking my question. Sir, Trident has been pushing its volumes in all the levels, in low segment, mid-segment and premium segment, as well as we are seeing that Bed Bath and Beyond, Walmart etc have not been doing good, even the analysts are guiding off not a good quarter going ahead. So sir, if our end clients are not doing well how do we expect to do well or see a better pickup in order book?

K.K. Lalpuria: Basically everybody's business model is different, and we are focusing into bed linen market right from the day one and we are sticking to that. So we are a focused company into bed linen wherein as per our business model, we are positioned into mid to high segment and as we have been informing that we are focusing more in different channels of businesses by making the customers compel to buy from us all categories of product like sheets and fashion, utility etc as well.

Dimple Kotak: Sir, would the price point be under pressure even if your market share is not lost but because your competitor is trying to infuse volumes at lower prices, won't you be also forced to reduce your realization?

K.K. Lalpuria: No, it depends on what segment they are targeting. As you mentioned earlier that they are targeting even the lower segment, so their business model is different and we are doing business for the last ten years so we already have a good positioning in the market place and as we move ahead, we are trying to protect our margins, and market share.

Dimple Kotak: And sir, secondly, we had given a volume guidance of 56 million meters for this year but we ended up with 54 million, am I correct with that?

K.K. Lalpuria: Yes.

Dimple Kotak: And sir, the reason being de-stocking only or any other factor?

K.K. Lalpuria: No, basically in our line of business sometimes there are big rollouts and which get delivered say from one quarter to another quarter. So what we see that in the coming quarter there would be a better performance than what we did in the last quarter. Some businesses get shifted to the next quarter and that is the cause of ending up with 54 million rather than 56 million to some extent.

Dimple Kotak: And sir, are we completely done with de-stocking or we are still seeing. I mean my question is would we be seeing the best of our margins which we saw earlier or that mark would be difficult to achieve?

K.K. Lalpuria: We have already indicated earlier that because of various factors affecting the businesses the margins direction which we already have provided like around 14% to 16% going forward, so I think those can be protected unless something drastic happens. But we see that there are positive trends where we can believe that going forward both the volume and the margin can be protected in this range.

Moderator: Thank you. Our next question is from the line of Raghav Mittal from Lotus Capital. Please go ahead.

Raghav Mittal: I just have a couple of questions on the industry side. One, in the most recent Budget the Government has fixed the minimum selling price of all cotton crops at 1.25x of the production cost. So if I am not wrong currently it is 1.25x A2+FL which is actual cost plus family labor cost. So do you foresee any price increase, because if we take A2+FL then a 20% price increase would be there which might make the Indian textile exporters uncompetitive versus China and Bangladesh?

K.K. Lalpuria: See, basically the cotton prices are ruled by the demand and supply in our country and also the end mill use. So if the production and yield is good and if the crop does not get destroyed by pests, pink boll worms and all kinds of other factors and if the supply is maintained then there is enough cotton to feed all the mills, wherein the prices of cotton shall remain stable. Now the MSP is also related to keep the farmers intact in producing cotton otherwise they shift to another cash crop. Secondly, India is largest producer of cotton as compared to China, and China had a different policy towards cotton wherein they had defaulted in making huge reserves and unable to unwind, which is still on the negative side. So the Chinese cotton is still expensive by almost 25% to 30% and Indian cotton still is cheap. So we feel that going forward there would be some impact on the MSP front but we cannot correlate directly to the prices because the demand and supply will take care of it.

Raghav Mittal: Sure. But what is the current price in terms of C2 and A2+FL, how many times is the current price?

Dilip Ghorawat: The current price of cotton is around Rs 42,000 per candy. As regards to prices in terms of C2 and A2 + FL we do not have the data presently in respect to cotton.

Raghav Mittal: And my second question was, India's total contribution to the US textile imports according to your presentation, if we just consider bed sheets, bed spreads and pillow cases, has increased around 4% year-to-date till February 2018?

K.K. Lalpuria: Yes.

Raghav Mittal: While the biggest Indian organized exporters are showing decline in revenues, so where would you attribute this growth coming from and does it impact that the smaller Indian players are taking away market share?

K.K. Lalpuria: The Indian mills are positioned into different business and product categories and different segment as well. So sometimes it affects overall though some other exporters get a better share rather than the other players. This sometimes happens due to the product mix which gets exported to the US.

Raghav Mittal: But this 4% increase is for the three product categories in which Indo Count is present, is that correct.

K.K. Lalpuria: Yes.

Raghav Mittal: So you mean there are other product categories in these three?

K.K. Lalpuria: Yes and other players could get some share of the business on account of volatility of price levels in market like USA, different customer base etc. All these factors affect exports to some extent due to either de-stocking when one services certain customer, channel etc. So the above affects the overall percentages but not to us.

Raghav Mittal: Okay. Because India as a whole has still grown, even though Indo Count has not grown?

K.K. Lalpuria: That may be to some extent yes, correct.

Moderator: Thank you. Our next question is from the line of Neeraj Parkash from Nepean Capital. Please go ahead.

Neeraj Parkash: I just had a couple of questions. One was, you had decrease in revenue in FY18, I just wanted to know how much of that was from foreign exchange versus de-stocking and what is your strategy to manage your FX exposure going forward?

K.K. Lalpuria: Basically the revenues were affected, which we explained in our investor presentation well ahead that if we take hypothetically 100 as a revenue last year it would be 91.5 on account of various factors . One was the increase in house consumption of yarn from the spinning segment, second is the strengthening of rupee, third is change in government incentives and duty structure and lastly the de-stocking of the large retailers which affected the overall revenue. Because we were expecting earlier during the commencement of the year that business moving up, but suddenly there was a de-stocking and inventory liquidation which everybody underwent and which one can see in everybody's result. So this happened primarily with all large retailers and that affected the overall revenue of the company.

Neeraj Parkash: Right. But what I want to understand is going forward what is your strategy to manage the FX exposure, because more than 90% of your revenues comes from outside India, foreign exchange can keep fluctuating, so do you have hedging strategy when it comes to that to manage that fluctuation?

K.K. Lalpuria: We have a very prudent robust foreign exchange policy in place and we are hedging almost 65% to 70% of our revenues. So number one, it takes care of volatility and it helps in the competitiveness of the business. Recently we are seeing that the rupee is depreciating which would help us in becoming a little bit more competitive and attracting more business out of India. We are also seeing traction in the value-added products which will improve the margin going forward. We are reducing our dependency on the US market and exploring some other markets and for this we are opening offices worldwide. We are also stepping up our operational efficiencies which by better utilizing our volume and exporting better volumes we will be able to take advantage of economies of scale. So all these factors going forward like adding on value through better product mix, new clientele, better geographical outreach and appreciating dollar etc. shall support us going forward to absorb the overall impact both on the revenue side and on the margin side.

Neeraj Parkash: So just considering what you said, does the guidance, I think you had given previously if I am not mistaken, a full utilization of your volume by FY21, does that still stand? Because your guidance for FY19 is pretty tepid, it is only about 9% to 10% of volume growth is what you guided to us.

K.K. Lalpuria: We are still optimistic because the de-stocking by retailers has eased out, we see a positive trend. India is growing day by day into supplying home textile product as you can see both in the world trade and the made-up segment, the growth is almost around 4% to 5%. And we have performed for the last decade almost in this category provides a lot of confidence to all global retailers. We expect the new channels to provide us the opportunity to increase our market share and through this channel and the product mix, we hope that we will still be able to match up the expectation to consume our capacity by FY2021.

Neeraj Parkash: Okay. So considering that you are basically assuming high double-digit growth from FY2021?

K.K. Lalpuria: Yes, because we are trying to establish in these three new segments as well as we are trying to increase our customer base in non-US market through opening of offices and showrooms wherein we are finding a good traction there. We also expect that things would change in Europe which we are suffering due to lower duties applicable to Pakistan and Bangladesh and we expect at least in some point of time, may be in 2020 or mid-20s the duty factor would change and already we see a good traction with European buyers moving towards India away from Pakistan and Bangladesh. So we feel very optimistic about getting a better business share in the coming years.

Moderator: Thank you. Our next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on a full year basis what is our volume growth?

K.K. Lalpuria: We did around 54 million meters this year.

Manish Ostwal: And sir our average capacity utilization for FY18, sir?

Dilip Ghorawat: It is around 60% of our Current capacity of 90mn meters.

Manish Ostwal: And secondly, could you throw some light, because you shared one slide in the presentation that shows that the revenue funded becomes 91 but if I do the reported basis backward calculation then it would be Rs. 84 if Rs. 100 is revenue for last year. So what are the other factors that contributed to the fall in revenue apart from the three which you indicated in the presentation?

K.K. Lalpuria: I think it is 13% overall from 100% if you calculate, and that is also because we were unable to meet 56 million in absolute terms. So on the 2 million volume we lost revenue, we were expecting the ROSL to go up to 3.9% instead of 2.2%, MEIS to be 5% and USD realization. So this is what we had indicated and hence we have clocked 13% less in revenues.

Manish Ostwal: And secondly sir, on power and fuel cost this year the cost has increased 14.2% so how do you see the major cost increase already done or did you see there will be further increase in this cost line?

K.K. Lalpuria: No, in fact Maharashtra Government has come out with a good textile policy and we expect to reduce this cost because they are indicating some power subsidy in their new policy which we have already applied for. So, going forward I think that we will be able to some extent reduce the power cost increase in the coming years.

Manish Ostwal: And lastly, you did comment about stability of margin for FY19 compared to FY18, but you gave the guidance of better volume growth for FY19, so don't you expect some improvement in margin should be therein FY19?

K.K. Lalpuria: No, we would not like to comment on the EBITDA margin in very fine terms because government still has to decide on some of the incentives which they would do in Q2 FY19. So we would be able to provide a better guidance at that point of time, but we expect to maintain this margin which we have already shared a while ago.

Moderator: Thank you. Our next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy: Sir, if you can give idea regarding the market penetration that the company has, because as your presentation has mentioned the total market size, so this will be good for us to understand the business.

K.K. Lalpuria: We have already indicated the market size in our presentation.

Pratim Roy: Yes, it is there, but I just want to know what is the penetration from our company for Indo Count?

K.K. Lalpuria: Come again, I am not clear about your question, please?

Pratim Roy: I just want to know what is the penetration or the market share of Indo Count in this total market?

K.K. Lalpuria: So, we have around 11% share of the US market in the basic bed sheet. And other markets are all fragmented in Europe, so we are supplying to many countries where we cannot call it consolidation of market share. So overall if you look at from Indian standpoint we are like around 11% in the US market.

Pratim Roy: And Asian markets any idea, sir?

K.K. Lalpuria: Asia is where we don't have that much presence, yes we intend to do so, it is a large market of course but Asia being producer of textile they are having domestic consumption rather than exports. So each of these countries which are largely populated are supplying to their own masses, so that would happen in the future as well. So Asia is actually exporting to the developed nations around the world and 85% of the developed nations are importing out of Asia. So Asia is again a consumer as well as an exporter.

Moderator: Thank you. Our next question is from the line of Yash Shah from Unicorn Investments. Please go ahead.

Yash Shah: As you mentioned in the slides that raw material cost for financial year 2018 were volatile, so do you expect the same trends to continue in financial year 2019?

K.K. Lalpuria: Cotton crop is expected to be better, and if you look at one of our slide the production of cotton is on an upward trend in India, it is close to around 38 million bales. And with better yield in the future and better protective insurance of crop against pest and pink boll worms, we feel that there will be a better crop in the future if the rain gods are helpful. So we are expecting in India a better cotton crop going forward and we expect it to be stable. We are little bit concerned about the quality of the cotton. So we are addressing those issues and that is the reason we now have a policy to accumulate at least five to six months of cotton in the season and that is what is reflected in our numbers as well. We are holding stocks of cotton to help us tide over this problem as well.

Yash Shah: Sir, and the second question is the destocking which was there in financial year 2018 which was done by some large retailers, this trend would also be there in the financial year 2019, do you expect some changes on this thing?

K.K. Lalpuria: We feel that when destocking happened in H1FY18, the trade is limping back to normalcy. Of course some of the retailers are still feeling pressure, but destocking is not happening to a similar extent. So we feel in FY19, we would not see much of it that is what we expect as of now.

Yash Shah: And sir my last question, on the government incentive which you are saying you will be able to give better guidance in the second quarter. So, will it be a positive upside for the company, for the government incentives which you are expecting further?

K.K. Lalpuria: Government shall address WTO concerns in the coming years. So they are addressing this by having dialogue with all the export council, industry and they are trying to figure out how they can address the same through the embedded taxes on various inputs. And we feel that this is positive initiative taken by the government to help the industry. They are hearing us in a transparent way and we feel that they may come out with some positive measures. So we are in constant dialogue with them and we feel that there shall be a proper hearing on all our concerns, and that is the reason gives us a confidence that they may come up with a better solution going forward.

Moderator: Thank you. Our next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Sir, just wanted to understand a particular aspect, of this shift from offline to online which is taking place in the US, isn't this more structural because we see the likes of Amazon, etc, taking away market share in a lot of categories from the offline retailers, not just in the products that we are dealing with. So what is our strategy to reach out to the online retailers and in your view can we form the same contracts that we had with offline retailers earlier with the online retailers, do you see that as a possibility as well or that will always be a market where a lot of small players will be able to sell and cater to the demand?

K.K. Lalpuria: We all know that there is an impact on the retailers business due to online. But as we mentioned earlier also, it is not in our product category to the same extent. Of course, there always would be some traction in this but not to the extent where it will harm our industry or our volume or our sales. We are not witnessing any major traction in our home textile because it still forms 1% to 2% of the total revenue of the online players. Ourselves and the other companies also have been taking steps in order to promote online business in the US and globally, but nobody has to our knowledge we have seen that much traction happening to us as well as any other company around the world. So we feel that the bedding or the home textile is a category where the customer would like to go in the store and feel and touch and also coordinate the fashion along with other aligned product categories. So we feel that still it is a category which may not be affected immediately. Yes of course as a company, we are taking appropriate steps in order to see how we can increase our presence in that and still the retailers are also helping us on the offline businesses and they are also upbeat whatever we are doing so far. Of course, they are also taking necessary steps to increase their online business which are more or less affected to other categories like toys, books and food, electronics and all other category of products. So what I mean to say that still we are like not seeing that impact to answer your question.

Madhav Marda: And sir the other question, slightly more longer term, but if you have seen across like a long-term history production of home textiles has basically shifted from various countries and now from China to India was the most recent shift. So are you also seeing countries like Bangladesh and Vietnam, etc, coming up with capacities in our category or that is something which is not really happening right now and India can maintain this market share for say 5, 10, 15 years in the future?

K.K. Lalpuria: Our business is unique because we need a finer count of yarn as an input in raw material and India is blessed with abundant availability of both cotton and spinning industry. Both these countries which you mentioned, Vietnam and Bangladesh are import based. Now we do not see with the kind of investment what you need in spinning it will be a viable proposition to go after our kind of business. Secondly, if you look at both these countries there is a labour arbitrage which is on an upward trend. And secondly, they are not supported by any kind of raw material growth or they are not into cultivation of cotton or anything, so they still will be import based. So we feel that in our category we are not affected or impacted by countries like Vietnam or Bangladesh to that extent going forward.

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

Pankaj Kumar: Sir, my question pertains to the other income. So other income of roughly Rs 100 crores, so how much is from exchange difference?

Dilip Ghorawat: Majority of this is from exchange difference only. We are an export company and we take a forward cover, so this is part of our business operating income year-on-year.

Pankaj Kumar: So last year roughly some Rs. 80 crores from exchange difference as well as from MTM forward contracts, so we can assume it will be more or less in the similar levels ?

K.K. Lalpuria: Yes, correct.

Pankaj Kumar: And sir, regarding this guidance that we have given 58 million to 60 million meters, so if you break that guidance between H1 and H2 where do we see the larger pie coming in?

K.K. Lalpuria: See, if you look at on a YoY basis basically the first quarter was impacted heavily by de-stocking which we do not see in this quarter. So we feel that going forward you will see some better traction in H1FY19 and if that gets helped with better sales you would rather see an upward trend in H2FY19 as well. So what we have done is we have been able to sustain, looking at the overall business that we have been able to maintain in spite of all these headwinds, a volume of 54 million metres against 56 million metres. Having said that, we feel that in the first quarter we would see some better positive results the way we are running our business today.

Pankaj Kumar: So this is probably due to the earlier guidance we had for FY18 was 56 million, so we missed it by 2 million and you stated that some spillover might have happened also. So this Q1FY19 might be good because of this?

K.K. Lalpuria: No, to some extent because of de-stocking as I mentioned, Q1FY18 was weak last year. However we are witnessing a positive trend wherein we have been able to provide a better sales volume guidance of 58 million to 60 million metres p.a. in FY 19.

Pankaj Kumar: And lastly sir on this debt number, what is the gross debt at the end of the year?

Dilip Ghorawat: The total debt net of cash equivalent is Rs. 359.48 crores for FY18.

Moderator: Thank you. Our next question is from the line of Ankit Gor from Systematic Shares. Please go ahead.

Ankit Gor: Sir, just to take earlier participant's question further ahead. According to your guidance 1H FY19 we should see 15% - 16% kind of volume growth. Considering in 1H FY18 we did around 25 million meters and if we break 58 million meters divide by 2 it is 29 million, so 29 divide by 25 we see 16% - 17% sort of volume growth in 1H . Is it fair to assume that way, sir?

K.K. Lalpuria: We will not be very specific on the percentages. What we need to look at, Ankit, is the full year, so we had not been correct into providing every quarter because in our kind of businesses the customer preferences of promoting any new businesses or carrying on new category or may be some promotions like back to school or back to college, the Black Friday promotions and all that affect both our volumes and revenues. So what we would request the investors to may be is to expect from us overall annual volume which we can correctly provide, because sometimes it happens that you are not delivering, the rollout gets extended to a later day and there is a mismatch. So what I would request is to consider our guidance for FY19 on a full year basis.

Ankit Gor: Sir, second question with regards to inventory. We piled up inventory in this quarter and Dilip ji said average inventory cost of cotton was around Rs 42,000 kind of number, our inventory days on a full year basis is 116 days versus 80 days last year. In this case do we assume that cotton prices will go up and will not come down, that is why we have piled up inventory or is there any strategy behind that?

K.K. Lalpuria: Two things are important to consider. As I mentioned earlier also that the quality of the cotton is better at the start of the season than later when the season fades out. So as a strategy we have adopted to cover at least five to six months of cotton this time so that it provides us a better cushion against quality going forward. Secondly, we have also seen in the past that the cotton prices tend to move up post the season and we being a financially stable company have been able to stock the cotton to some extent and hedged it against the raw material requirement. So that is a kind of policy which we have adopted which will help us to mitigate the volatility. But as I said also earlier the entire cotton price depends on the demand and supply and the demand are able to be met through better trend of cotton cultivation and production. So overall the situation is under control and that is why we feel that the prices may not move to that extent, but we have taken to some extent the position where we have covered our cotton and that is reflected in our inventory cost also.

Ankit Gor: Sir, approximately we should have five to six months inventory as we speak, is it right to assume?

K.K. Lalpuria: Yes.

Ankit Gor: The only risk is if cotton prices go down then probably we will face some risk?

K.K. Lalpuria: The MSP is already defined plus the demand and the export demand is also there. So we feel that there would be reduction in prices. So if it happens then we will average it out.

Moderator: Thank you. Our next question is from the line of Nandan Vartak from Wealth Managers India Private Limited. Please go ahead.

Nandan Vartak: My question is on licensed brand, so we have new brand William Morris & Company, so what kind of agreement it is or what is the time period, what is the tenure, or we pay fix fee or it is variable fee?

K.K. Lalpuria: See, the licensed brand, because we already have in our kitty some of the license brand which we informed earlier like Harlequin, Sanderson, Scion. And we always add up new brands according to market needs and customer trends. So we have to complete our brand portfolio all the time. And the kind of arrangement which we have on licensed brand is all through variable expenses, so it is a matter of fact, royalty which we need to pay depending upon the sale we do. But as and when we meet the customer demand we have to keep on adding new brands and bring about new ideas to promote our product in the market place.

Nandan Vartak: And what would be tenure for these licenses?

K.K. Lalpuria: Depends, three to five year normally.

Nandan Vartak: And if you could please provide sales mix between our own brands and licensed brands?

K.K. Lalpuria: It is very hard to say, Nandan, we do not provide that because that is the sales analysis that is meant for us. But we do require all the time and if you look at our presentation we have been able to promote actually our own lifestyle brand, three of them, whereas we have picked up only one license brand. It all depends on the market opportunities and yields. So it cannot be split up between our own brand x% and licensed brand y%. It depends on the customer need and the traction and expectation of the market to fulfill.

Moderator: Thank you. Our next question is from the line of Aveek Mitra from Aveksat Financial Advisory. Please go ahead.

Aveek Mitra: My first question is regarding your inventory, you are having this highest inventory for years this time around, so what is the specifically different because your sales have gone down, but inventory has gone up, you though have explained that you are having this for quality cotton. But I think this issue was earlier there too, right?

K.K. Lalpuria: First of all, as we mentioned as per the policy we are trying to add on the cotton side, take up a position there so that we protect the quality of the cotton and also mitigate the volatility on the price front. Secondly, as we mentioned that to some extent we will have a better quarter this time and some of the businesses have been pushed back in this Q1FY19 rather than last Q4FY18. So there is an additional WIP and finished goods as well which will get liquidated in this quarter. So these are some of the reasons wherein you will find our inventory levels have gone up. But as you would see in the coming future, this will get liquidated and come back to normalcy.

Aveek Mitra: Another part is your domestic business which you are having so many retail outlets and on the stores you are getting, what kind of margins you are expecting there and what kind of growth you are expecting there?

K.K. Lalpuria: Basically our major aim is to promote “Boutique Living” as an aspirational brand, we are currently not focusing on the selling side to have large numbers because our first initiative is to see how pan-India we are able to distribute our products well so that they reach all over India. And we are very excited with the acceptance of this brand in mid to high positioning in India and that is the reason you would see that every quarter we have been able to add more and more stores to our distribution base. So, the brand could not do well this year because of the demonetization and the GST changes and various other reforms, but we expect the Indian market to grow at 8% CAGR going forward. So that gives us promise that we would be able to do much better into selling and distributing our brand in India, that is what our expectation of the future.

Aveek Mitra: So what is your margin aspiration, or say in the last festive season what kind of margins you have been able to get out of this business, if you could give us some highlight?

K.K. Lalpuria: These are initial promotion on the brand, we will not be able to divulge or give this information, but we are getting a respectable margin in this business because we have positioned this brand into the mid to high segment and we are not into the lower end of the business. So we expect better margin than our business. We also have a policy of not discounting this product in any of discounters or online counter, we can see a clear-cut strategy that going forward we wish to promote this as an aspiring brand in India.

Aveek Mitra: And sir my last question is regarding this your falling margin where you have mentioned that 3.5% fall is due to the rupee appreciation. So what is the base line of the rupee you have taken going forward or what is the calculation base on which you are taking it? And say rupee now has depreciated almost about 5% since last quarter, so how do you see that affecting margin or have you included that in to 14% to 16% margin in your guidance which you have already given?

K.K. Lalpuria: No, the base line we will not be able to inform, but that the volatility of the rupee is always protected through proper hedging policy which has been consistent and helping us to tide over all this problem. So we feel that going forward also, as Dilip has also mentioned that we should be able to see prudent robust hedging policy helping us in our overall operations.

Aveek Mitra: You said 3.5% of the margin contraction is due to rupee appreciation in your presentation?

K.K. Lalpuria: Yes. Overall you see earlier the rupee was higher, FY17 the base price of the dollar to rupee was around 66.50 and above. This year we had seen 63.50 and above. So that is the reason there was a decline in the absolute terms of dollar value.

Dilip Ghorawat: And further as I mentioned earlier, we are hedged 65% to 70%, we are open by around 30%. So any rupee further depreciation from present one shall benefit us going forward.

Aveek Mitra: So can we expect rupee depreciation benefit going forward in coming quarter because rupee has already depreciated I think beyond 66?

K.K. Lalpuria: No, not to that similar extent, but whatever Revenue which we have on spot there might be some gain on it.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

K.K. Lalpuria: Thank you everybody. At Indo Count we are confident of growth going forward on account of multiple levers, product development, backed by strong R&D capability and innovative product lines, improving operational efficiency with improvement in sales volume and better absorption of resources, increasing global reach via multiple office and deeper penetration of relationship with multiple marquee clients. With a stable economy in US, Europe and our continuous focus in venturing into newer geographies we are confident as a company of scaling back to a growth trajectory. 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 Strategy Growth Advisors, our investor relations advisors. Thank you once again.

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