MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC OVERVIEW

Global Economy

The global economy is experiencing a broad based cyclical recovery, reflecting a bounce back in investment, manufacturing activity and trade. This improvement comes against the backdrop of benign global financing conditions, generally accommodative policies, rising confidence, and firming commodity prices. Global output has grown by 3.8% in 2017 as against 3.2% in 2016, which is the fastest since 2011. World trade has grown strongly led by the rebound in global investments supported by favorable financing costs, rising profits, and improved business sentiment across both advanced economies and emerging market and developing economies (EMDEs). This synchronous investment-led recovery is providing a substantial boost to the global exports and imports.

The stronger momentum experienced in 2017 is expected to carry into 2018 and 2019 as well, with expected global growth revised up to 3.9% in both years mainly led by advanced economies. Advanced economies like the USA, UK, Europe, Japan and others grew 2.3% in 2017 as against 1.7% in 2016. Favorable global financial conditions and strong sentiments helped acceleration in demand and pick up in investments. These factors supported significant growth in export based economies. Emerging markets grew by 4.7% in 2017 higher than 4.4% in 2016 against a favorable backdrop of robust economic growth, increased asset inflows, solid foreign reserves, strong current accounts and stable local currencies.

Nation-wise review

United States (US)

US economy witnessed 2.3% growth in 2017 as against 1.5% in 2016. The growth was supported by strengthening private investment, diminished drag from capacity adjustments in the energy sector, rising profits, weakening dollar, and robust external demand. Private consumption continued to grow at a robust pace despite modest real income gains and moderate wage growth, as the personal savings rate fell further. With the US economy moving closer to full employment and inflation running below target, the US Federal Reserve continued to normalize monetary policy by raising interest rates and gradually reducing balance sheet size. Growth in US is estimated to be robust in coming years given higher projected external demand, and the expected macroeconomic impact of the tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investment.

Europe

In Europe growth gained substantial momentum in 2017, reaching 2.4% as against 1.5% in 2016. The growth was broad-based spurred by policy stimulus and strengthening global demand. In particular, private sector credit continued to respond to the simulative stance of the European Central Bank (ECB), and both domestic demand and import growth were robust. As inflation remaining below target, the ECB is expected to keep interest rates unchanged during 2018, by gradually scale back asset purchases. The cyclical upturn is expected to continue in 2018 albeit at a more restrained pace, as domestic demand loses some momentum following strong gains in 2017, and policy stimulus is gradually unwinding.

China

Growth in China stood at 6.8% in 2017 reflecting continued fiscal support and the effects of reforms, as well as a stronger-than expected recovery of exports. Domestic rebalancing continued, with drivers of activity shifting away from state-led investment. China's trade flows recovered markedly in 2017, partly reflecting rising commodity imports amid tightly enforced production cuts as well as strengthening foreign demand. Growth in China is projected to edge down to 6.6% in 2018 in anticipation of tight monetary policies. Key downside risks to the outlook stem from financial sector vulnerabilities, the possibility of increased protectionist policies in advanced economies, and rising geopolitical tensions.

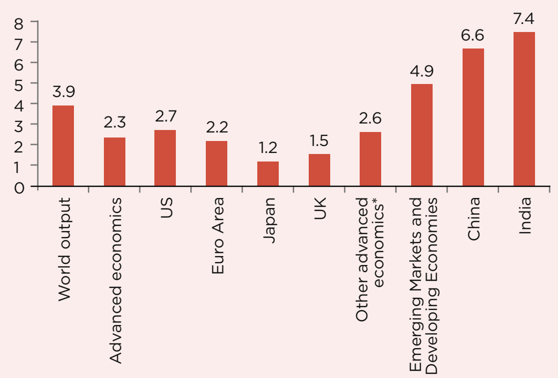
Outlook

Global economic activity is expected to pick-up pace in 2018 and 2019 with growth expectations of 3.9% in both the years. The global economy is expected to continue to recover on the back of buoyant trade and investment, as well as recent US tax reforms. The continued and broadening growth is also attributable to favorable monetary policy and fiscal stimulus. The US tax package is expected to boost growth in the US through 2020, and have a positive knock-on effect on its trading partners. Among the emerging economies, Mexico and Brazil in particular are expected to perform well, with Mexico benefiting from stronger US demand, and Brazil experiencing a firmer recovery aided by higher commodity prices. India is expected to be one of the world's fastest-growing economy.

2017

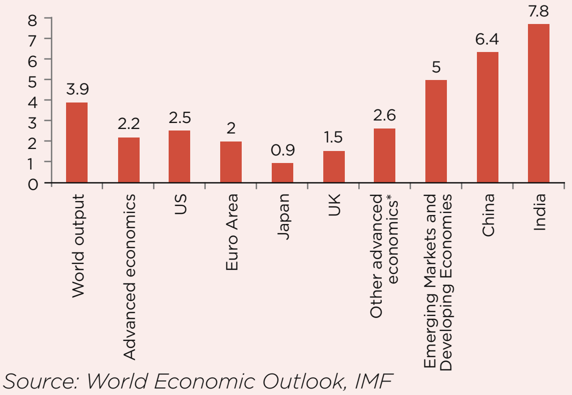
Source: World Economic Outlook, IMF

2018P



Source: World Economic Outlook, IMF

2019P



Source: World Economic Outlook, IMF

US Dollar

The Indian rupee, which strengthened 6.75 percent against the U.S. dollar last year, has been on a general downtrend since the start of 2018. The rupee is down about 8 per cent so far this year against the US dollar. The rupee is close to 69 levels per US dollar.

Five reasons why the rupee is falling against the US dollar (INR vs USD)

1) Global oil prices have crept closer to $80 per barrel, a level it has not seen since November 2014, as supplies tighten while demand remains strong. India imports bulk of its oil imports and higher crude prices puts pressure on domestic inflation and current account and fiscal deficits.

2) India's annual retail and wholesale inflation accelerated in April, mainly due to higher fuel and food prices. RBI is expected to have a more hawkish view in terms of rate revision.

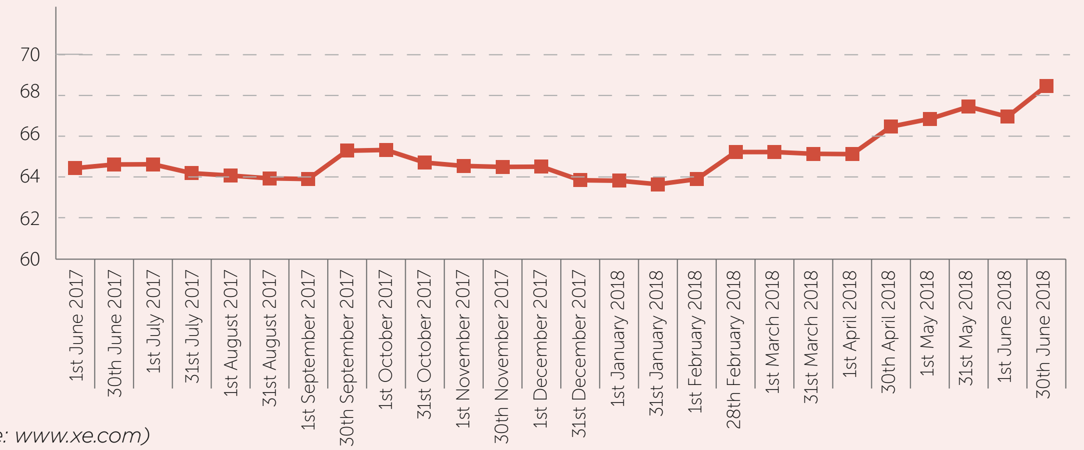
3) Trade deficit widened to $13.72 billion in April 18 from $13.25 billion a year ago and could rise further with India importing 80 per cent of its oil needs.

4) Sharply rising US dollar yields have boosted the dollar against a basket of other major currencies. The increase in US bond yields have helped buoy the dollar, which has gained 1.5 per cent against a basket of six major currencies so far this month. US 10-year Treasury yields have risen to an almost 7-year high, suggesting the world's biggest economy is on a stronger footing.

5) Outflows from domestic capital markets have also contributed to the rupee's decline.

The currency impact if sustained over a longer term period would provide an advantage to Indian exporters.

INR vs USD movement



(Source: www.xe.com)

Indian Economy

The Indian economy is in a sweet spot between slowing inflation and accelerating growth rate. Macro-economic data indicates revival in industrial production, lowered retail inflation, growth in private consumption, revival in investments and reversion of growth rate to the 7% levels. The Indian economy witnessed a growth of 6.7% in FY2018 and emerged as the fastest growing major economy in the world.

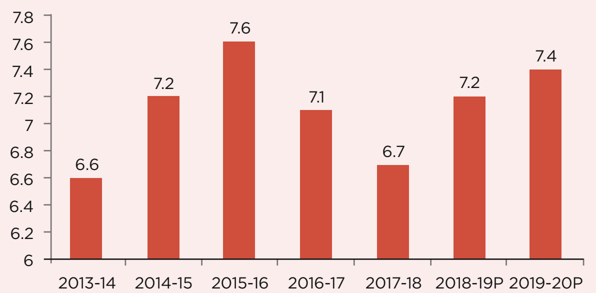
Initial challenges in implementation of GST and Demonetisation in 2016-17 have majorly settled down and the economy has regained growth momentum. However, exporters remained impacted by delays in refunds due to GST implementation. High optimism in domestic consumption demand and revival in small scale business activities, resulting in an increase in FDI flows into the country.

Government initiatives in various fields have helped boost economic demand. The Government provided fillip to manufacturing, took concrete measures for transport and power sectors and gave a push to infrastructure development by giving infrastructure status to affordable housing and focus on coastal connectivity. The Government also introduced comprehensive reforms in the foreign direct investment policy and launched special package for textile industry.

GST is expected to benefit economic activity and fiscal sustainability by reducing the cost of complying with multiple state tax systems, drawing informal activity into the formal sector, and expanding the tax base. The Insolvency and Bankruptcy Code was enacted to achieve insolvency resolution in a time bound manner. The recent recapitalization package for public sector banks is expected to help resolve banking sector balance sheets, support credit to the private sector, and boost investments.

Economic growth is expected to be influenced by revival in investment activity as indicated from increase in capital goods production and increasing global demand, which would help improve exports and attracts fresh investments. As per the World Economic Situation and Prospects 2018 report of the United Nations, the Indian economy is projected to grow at 7.2% in FY2018-19 and 7.4% in FY2019-20.

GDP growth in %



P represents projections

Source: World Economic Situation Prospects

Outlook

The outlook for India remains largely positive, underpinned by robust private consumption and public investment, as well as on-going structural reforms. Reflection of this is up gradation in Moody's rating of India's local and foreign currency issuer rating to "Baa2" with a stable outlook from "Baa3". These are on the expectations that continued progress in India's economic reforms will enhance India's growth potential over time. According to World Bank's Ease of Doing Business 2018 Report, India's ranking improved by 30 positions to 100th rank. As per the World Economic Forum, India's rank in Global Competitiveness Index is 40 out of 137 countries in FY2017-18 which puts India on a strong footing on the global map. However, fiscal slippages and a below-normal monsoon could portend upside risks to inflation. Factors such as food prices, crude oil prices, other commodity prices and southwest monsoon could impact the growth forecasts.

Source: World Economic Situation and Prospects 2018 report of the United Nations; Central Statistics Organisation

TEXTILE INDUSTRY

Global Textile & Apparel Industry

The global textile and apparel industry has seen a structural shift in terms of manufacturing locations. Earlier, the production was concentrated in major western countries but it has now shifted majorly to developing economies. In the past few decades, most of the manufacturing bases shifted to Asian countries such as China, India, Pakistan, Bangladesh and Vietnam. However, with increasing labour wages, high import duties and other concerns in some Asian countries, the manufacturing base is expected to shift towards other low-cost destinations. As per Wazir and Advisors, the global textile and apparel trade in 2016 was US$765 bn which has been increasing at a CAGR of 3% since 2006.

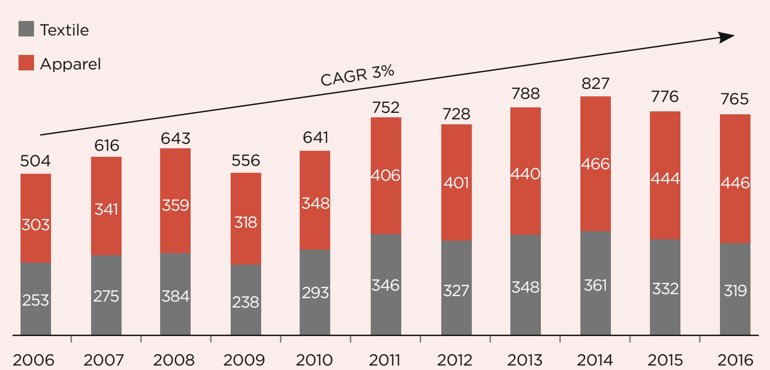
Apparel was the largest traded category with a share of 58% of total trade, while textiles categories had the remaining share. Apparel was the only category which recorded growth in 2016, while there was decline in trade in all other categories. The global textile and apparel trade is well poised to touch US$ 1,600 bn in 2025 growing by 8.6% CAGR.

European Union, USA and China remained the top three markets for textile and apparel in 2016, which together accounted for 53% of the world textile imports. The top 10 markets accounted for 68% share in the value of textile and apparel imports.

The ranking of the top 10 exporters of textile and apparel products remained unchanged in 2016, with China (36%), India (5%) and Bangladesh (4%) in the first three positions. Top 10 suppliers accounted for 70% of the world exports of textile and apparel exports in 2016 (compared to 68% in 2015). Among the top 10 exporters only three saw an increase in value of their exports in 2016 i.e. Italy (1%), Spain (4%) and France (1%). Maximum decline was registered by China (-7%) and its share in global textile and apparel trade has also reduced from 39% in 2015 to 36% in 2016.

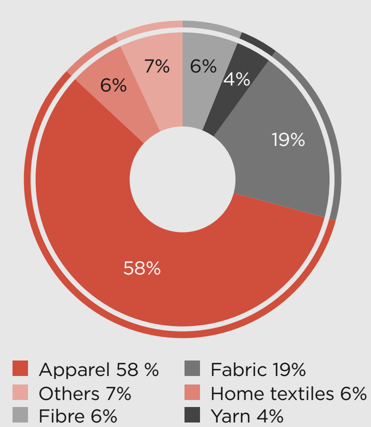
China has consistently led the global exports of apparels and textiles, but the trend has been declining. Chinese apparel exports increased more than 5 folds from US$ 54 bn to US$ 193 bn over 2001-14, aided by easy availability of labour, low manufacturing costs and large scale infrastructure. However, China itself is expecting a slower growth for the apparel and textile industry. In the 13th Five-Year Plan China's Ministry of Industry and Information Technology has lowered growth expectations for the sector at 6-7% in 2016-20 as compared to 8.5% witnessed in 2011-2015. Similarly,

Historical growth of global textile and apparel exports (in US$ bn)

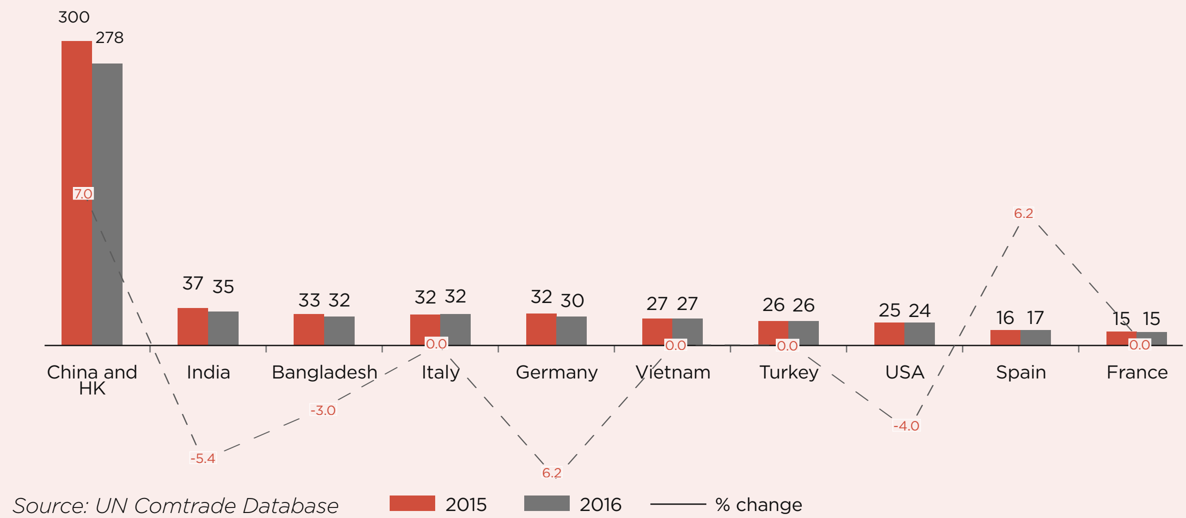


P represents projections
Source: UN Comtrade

Category-wise share in global trade (2016)



Top 10 suppliers of textile and apparel, 2016 (in US$ bn)



Source: UN Comtrade Database

fiber end-use ratio and annual labour productivity growth rate were set lower than previous plan. Exports of Chinese textile and apparel are decreasing notably and the plan did not set a fix growth rate, but said to maintain a stable market share in the world export market.

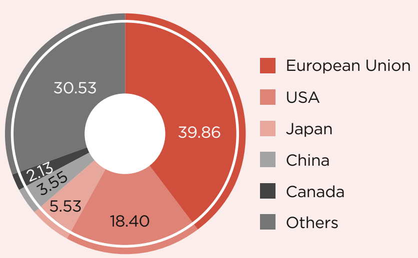
China is strategically moving towards more value added tech-intensive products in the sector with limited emphasis on the traditional market share. As China is undergoing an economic transformation, high-tech industries are springing up. The textile industry is also looking to transform by applying new technologies and business models that cover the whole industry chain. Chinese textile industry has committed to improve basic research and development projects with the objective to bolster technical innovations. With significant support from the central government, many Chinese producers in the industry are now seeking to produce high end and high value-added products. As China moves towards value added textile products, the traditional market space presents behemoth of opportunity for the Asian countries like India, Pakistan, Bangladesh, and Vietnam.

Indian Textile Industry and Trade

The Indian textile industry has a noteworthy presence in both the Indian economy and in the international textile economy. Its contribution to the Indian economy is corroborated in its contribution to industrial production, employment generation and foreign exchange earnings. Abundant availability of raw materials such as cotton, wool, silk and jute as well as skilled workforce have made the country as a sourcing hub. It is the world's second largest producer of textiles and garments. The fundamental strength of the textile industry in India is its strong production base of wide range of fibre / yarns from natural fibres like cotton, jute, silk and wool to synthetic / man-made fibres like polyester, viscose, nylon and acrylic.

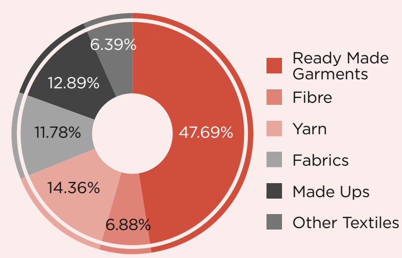
The Domestic Textile and Apparel Industry in India stood at US$ 150 bn in July 2017 and expected to reach US$ 200 bn by 2019. The industry has grown at

Textile and apparel importers (%)



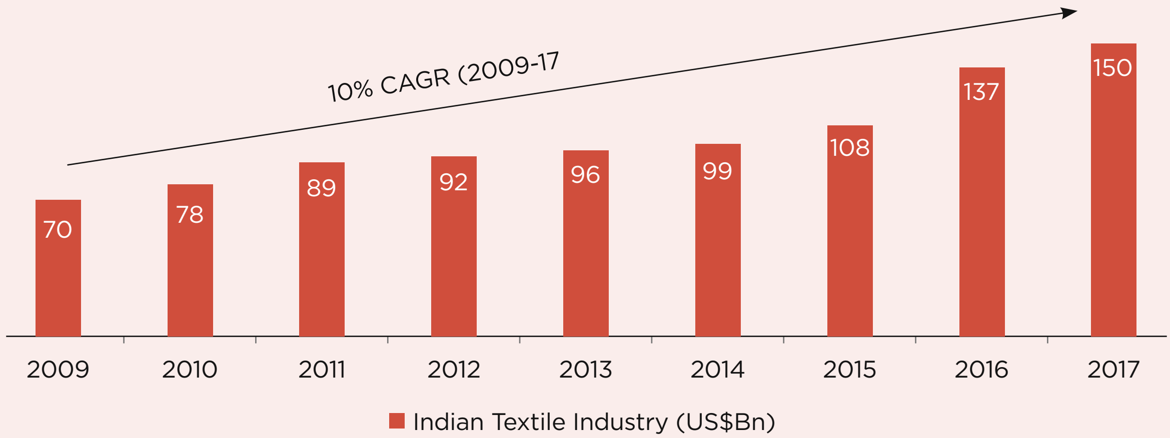
Source: WTO 2017 statistics for CY 2016

Shares in India's textile exports (FY17)



Source: IBEF

Indian textile industry has registered strong growth over the years



Source: IBEF

10% CAGR during 2009-17. Rising per capita income, favourable demographics and a shift in preference to branded products are major factors driving industry demand.

Exports have been a key component of growth in India's textiles and apparel sector. Exports have grown at 7% CAGR over FY2008-09 to FY2016-17 to reach at US$ 36.6bn, and expected to reach upto US$ 62bn by 2021. The textiles industry accounts for 15% of India's total exports. The central government is planning to finalise and launch the new textile policy which aims to achieve US$ 300bn worth of textile exports by FY2024-25 and create an additional 35 mn jobs. Ready-made garments had a share of 47.7% in these exports and reached US$ 17.5 bn in FY 2016-17. During the same period, fibre, yarn, fabric, and made ups (home textile) exports reached US$ 2.5 bn, US$ 5.3 bn, US$ 4.3 bn, and US$ 4.7 bn, respectively. India has a strong competitive advantage in textiles relative to key global peers with capacity built over the years, which has led to low cost of production per unit. Indian textile players have moved up the value chain from being just converters to vendor partners of global retail giants. This has aided outsourcing growth over the years.

Key Facts

- India's textiles industry contributes 10% to the manufacturing production of India
- It contributes 4% to the GDP of India and employs more than 45 mn people
- The sector contributes 15% to the export earnings of India
- With production of 6,106 mn kg, India was the largest producer of cotton in FY2016-17
- India is the 2nd largest producer of Manmade Fibre and Filament, globally, with production of around 211 mn kg in FY 2016-17

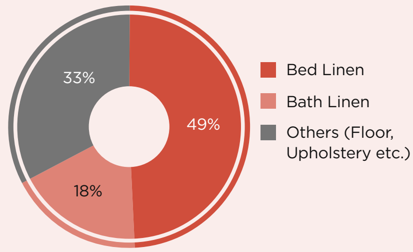
Source: IBEF

Indian Home Textile Industry – Growing Expectation

Home Textile comprises products such as bed sheets, pillow cases, blankets, terry towels, upholstery, table clothes, carpets and rugs. Superior product quality makes companies in India leaders in the USA and the UK, contributing two-third to their exports. Indian home textile products have gained significant market share in the global home textiles market in the last few years. However, India still accounts for only 7% of the global home textile trade, leaving a lot of headroom for growth, which will be driven by market share gains. Growth in domestic home textile would be supported by favourable demographics, increasing household income, rising population and growth in end use sectors like housing, hospitality, healthcare, etc.

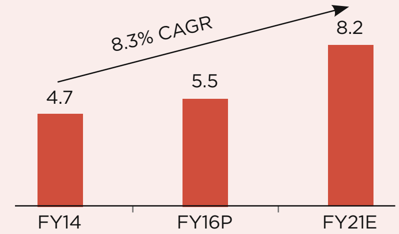
India's home textile industry stood at USD 4.7bn in 2014 and is expected to grow at 8.3% CAGR during 2014-21 to reach USD 8.2bn in 2021. India is the third largest home textile market in the Asia-Pacific region. Around 70% of the domestic home textile market is unorganised in nature.

Indian home textile industry mix (%)



Source: IBEF

Indian home textile industry (US$ bn)



Source: IBEF

Global Home Textiles

Global Home Textiles

The global home textile market was estimated at US$110bn in 2015 and it is expected to reach US$130bn by 2020, growing at a CAGR of 3.5%. China is the largest manufacturer and consumer of home textile valued at US$ 30bn, accounting for 27% of global home textile market in 2015. Bed linen and bed spread is the largest application segment in home textiles, representing 45% in 2015. This segment is expected to grow at highest 4.4% CAGR to reach US$ 60bn by 2020.

Asia-Pacific is the largest Home textile market in the world followed by Europe and US

China

- China is the largest manufacturer and consumer of home textile
- Accounts for ~27% of global home textile market (2015)
- Market size estimated at US$30bn
- Steady demand growth driven by burgeoning middle class

Asia-Pacific

- Asia Pacific is the largest home textile market in the world
- Accounts for ~44% of the global home textile market
- Market size estimated at US$48bn (2015)
- One of the most dominant producers and consumers of home textile

India

- Third largest home textile market in the Asia-Pacific region
- Expenditure on home textile estimated at US$4bn (2015)
- Projected to grow at a CAGR of 7.2% to reach US$5.6bn by 2020
- 70% of the domestic market is unorganised in nature

Europe

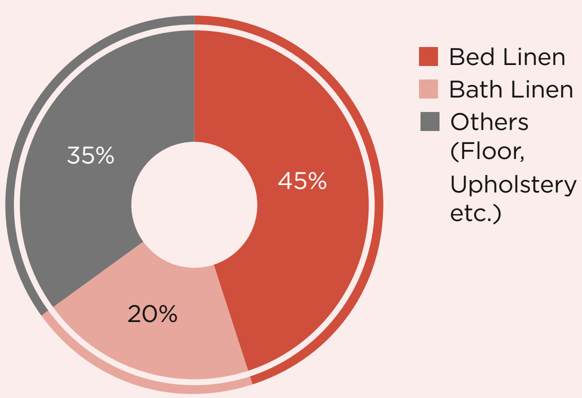
- Second largest home textile market globally
- Accounts for ~26.8% of the global home textile market
- Market size estimated at US$29bn (2015)
- Bed linen accounts for 32% share of the home textile market
- Bed and Bath linen to grow at a CAGR of 1.7% to US$17bn by 2020

US

- One of the world's largest home textile market
- Accounts for ~21.1% of the global home textile market
- Market size estimated at US$23bn (2015)
- Projected to grow at a CAGR of 3% to reach US$27bn by 2020

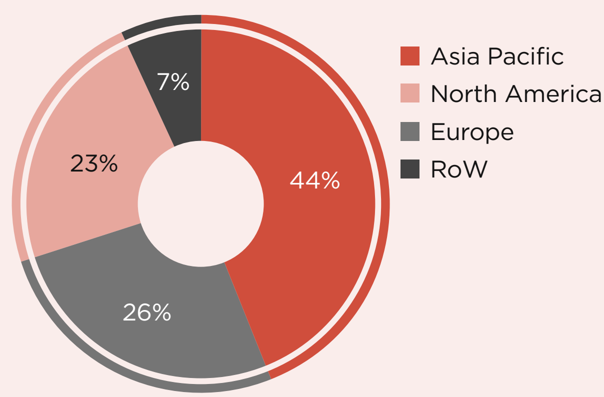
Source: Fibre2Fashion, Industry

Global home textile market composition



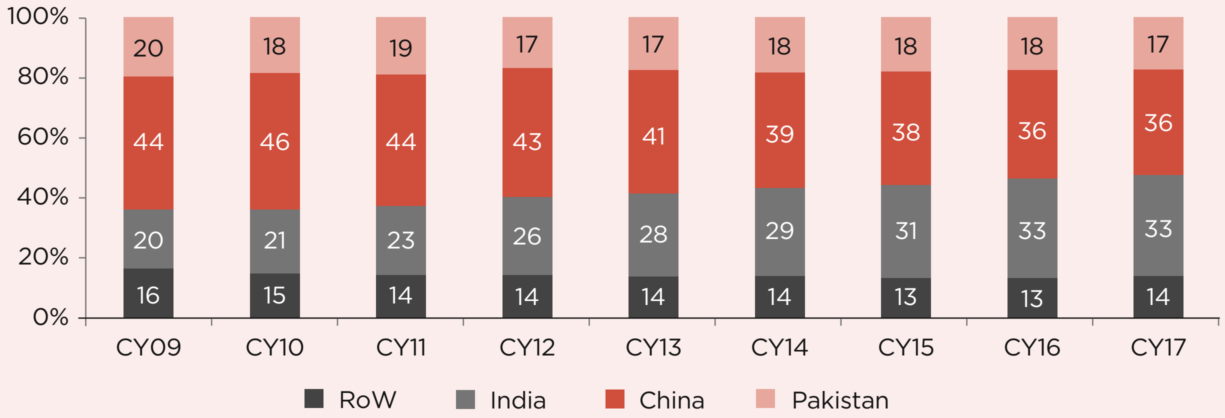
Source: IBEF

Global home textile market composition



Source: IBEF

Asia dominates cotton made-ups exports to US, India's share increasing steadily



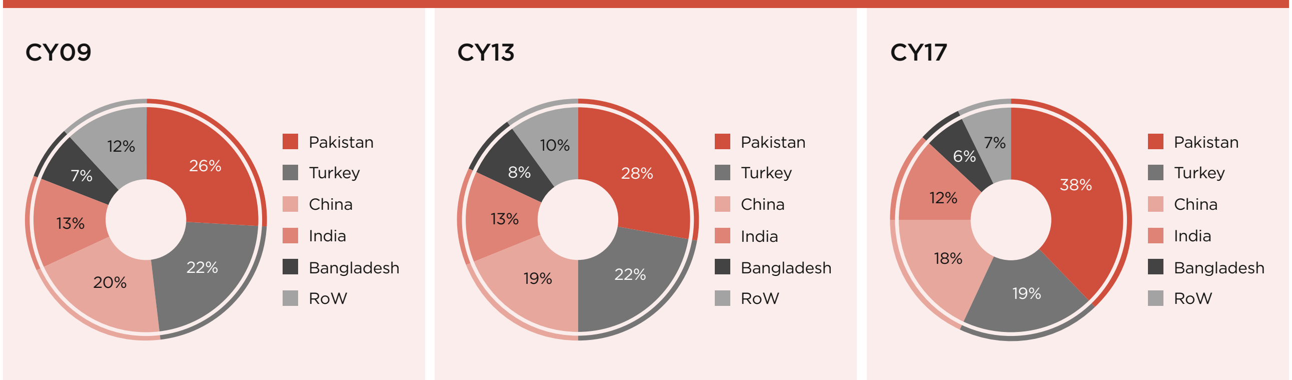
Source: Otexa

India's share in US Home Textile imports continues to rise

India is well poised to gain from the long-term growth prospects in the global home textiles market, as it leverages the twin benefits of lower cost of production and significant share of global installed capacity. USA has increased its sourcing of cotton made ups (bed and bath linen) from India over the years, making it one of the largest suppliers of home textiles to USA. India enjoys a dominant position with a market share of 50% in bed sheets and 39% in terry towels in total USA imports as of 2017. India has gained market share in bed sheets in USA imports from 26% in 2009 to 50% in 2017, while China's share fell from 29% to 20% and Pakistan's from 26% to 16%.

Though Indian companies have gained share in the US home textiles market over the last 5-7 years, their share in exports to EU has remained stagnant as Indian imports to EU attract 6-9% duties while Bangladesh and Pakistan have duty-free access to EU. EU's home textile imports dominated by Pakistan (38% share in 2017), followed by Turkey (19%) and China (18%). India stands fourth with a 12% share. EU and Turkey are linked by a Customs Union Agreement and EU is by far Turkey's No.1 import and export partner and exports from Turkey to EU are exempt from import duties.

Pakistan's share has increased significantly in EU home textile imports led by tariff benefits not available to India



Source: European Commission

India's advantage over China and Pakistan

India	China	Pakistan
World's largest cotton producer	Major importer of cotton and yarn	Cotton importer
25% surplus available for exports as cotton/yarn	Losing export competitiveness	Energy issues
Competitive costs	Wage inflation	Geopolitical issues
Favorable government policies	Increasing power costs	Compliance issues
Better environmental and labour law compliance	Increasing costs for environmental compliance	
Huge domestic market potential	Focus on domestic consumption	

Source- Company

GROWTH DRIVERS

Supply: In spite of a pick-up in demand in both domestic and global markets, there is still scope to supply more goods as most home textile units are still not operating at their full capacities. Further, investment in newer technologies and benchmarking these with global units will help the nation to keep pace with all the advancements happening world-wide and also cater to the growing needs of customers.

Demand: According to latest market trends, there is an increased inclination towards buying goods which are premium and branded. This trend has been observed more among millennial shoppers who have higher disposable income per capita and are impulse shoppers.

High entry barriers: This sector is highly capital intensive and new players entering this industry need inputs such as superior technology, abundant skilled and unskilled labour and a robust distribution network to be able to successfully set up their operations. Government assistance to get interest subsidies and capital subsidies payable under ATUFS has been discontinued. Hence existing players have a definite cost advantage over new players which would take time to consolidate themselves in the market.

Bargaining power of suppliers: There is an oversupply of lower value products in the unorganised market which leaves suppliers with a very limited bargaining power. However premium products and branded players have unique products which give them adequate bargaining power and garner higher margins.

Constant innovation and R&D: One major observable market trend is that designs and fashion is changing rapidly. Customers are also more confident and know exactly what they need. Hence companies that are able to cater to this rapidly changing consumer demands and supply innovative products would grow.

Changing retail trends: Nowadays retail buying is not limited to just shops and malls. The Indian e-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034. Rising internet penetration is expected to lead to growth in e-commerce and this sales channel is expected to be a major driver of industry growth.

Favourable Government schemes for Textiles

Huge investments are being made by Government under Scheme for Integrated Textile Parks (SITP)-(US$ 184.98 mn) and Technology Upgradation Fund Scheme (TUFS)-(US$ 216.25 mn released in 2017) to encourage more private equity and to train workforce.

Under Union Budget 2018-19

- Government of India allocated around ₹7,148 cr (US$ 1.1 bn) for the textile Industry.
- Allocation for the Technology Up-gradation Fund Scheme (TUFS) is ₹2,300 cr (US$ 355.27 mn).
- Allocation for Remission of State Levies (ROSL) is ₹2,163.85 cr (US$ 334.24 mn), which is expected to be beneficial for exporters of made-ups and apparels, as backlog will be cleared and working capital will be released.
- The government has also proposed to contribute 12% of the new employees' wages towards Employee Provident Fund (EPF) over the next three years, which is expected to boost hiring in the apparel segment and has also extended fixed-term employment to all sectors.
- The government has allocated ₹112.15 cr (US$ 17.32 mn) towards schemes for powerloom units.

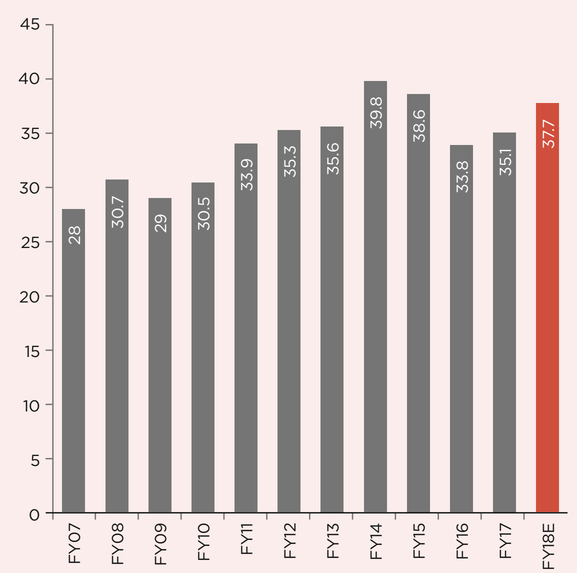
- The government has allocated ₹30 cr (US$ 4.63 mn) for the Scheme for Integrated Textile Parks, under which there are 47 ongoing projects.
- The handloom clusters under the National Handloom Development Programme will get ₹396 cr (US$ 91.17 mn) and the Integrated Processing Development Scheme will get ₹3.8 cr (US$ 0.59 mn).

Cotton Overview

Cotton is one of the most important commercial fibers produced and is one of the most important commodities imported and exported all over the world. Global cotton output is likely to rise 10% to 25.7mn tonnes in 2017-18 marketing year (October to September), on expected production increase in India and the US due to increased planted area rather than yields. Following the sharp drop in production in 2015-16 marketing year, production recovered by 7% to 23 mn tonnes in 2016-17 marketing year.

China, India and the US are the world's top three cotton producing countries. India remains the world's largest producer, with expected production of 6.2 mn tonnes in 2017-18. Cotton production in India has achieved 8.7% growth in the year 2017-18, despite yield losses due to pink bollworm infestation. After two years of declining trend, the planting area for growing cotton around the world is projected to rebound in the 2017-18 marketing year season. As per CRISIL Research report, the planted area under cotton increased 19% in FY2017-18 to 123 lakh hectares compared with 103 lakh hectares in FY2016-17. It is also 7% higher than the 5-year average of 115 lakh hectares.

Production of raw cotton (million base)



Source: The Cotton Corporation of India Ltd

Although global production is expected to outpace consumption (25.7 mn tonne vs. 25.4 mn tonne), strong textile demand in emerging markets is likely to benefit cotton prices. Consumption has steadily increased over the last three seasons and expected to continue rising, with increases of 3.6% and 4.4% in 2017-18 and 2018-19 marketing year respectively. Consumption growth is based on global economic expansion, an expected acceleration of consumer demand for textiles, manufacturing growth for cotton, rising production costs for synthetics and growing awareness of the environmental damage being caused by micro-fibre pollution. However, the threat of pests and inclement weather remain major concerns.

A higher-than-expected rise in cotton acreage at 19% and a consequent 11% increase in crop production in FY2017-18 are likely to moderate cotton prices in FY2018-19. Domestic cotton prices increased in the last few months due to the pink bollworm issue. The global stock-to-use ratio for cotton, excluding China, increased to 56% in FY2017-18 from 47% in FY2016-17, although Chinese inventory declined 17% in FY2017-18 as compared to the previous year.

(Source: https://www.indiaratings.co.in/PressRelease?pressReleaseID=30837&title=FY19-Textile-Outlook%3A-Lower-Cotton-Prices-and-Demand-Recovery-to-Support-Sector-Profitability)

Outlook

The Indian textile industry is set for strong growth, buoyed by both strong domestic consumption as well as export demand. The Domestic Textile and Apparel Industry in India stood at US$ 150 bn in July 2017, and expected to reach US$ 250 bn by 2019. Capacity built over years has led to low cost of production per unit in India's textile industry; this has lent a strong competitive advantage to the country's textile exporters relative to key global peers. Indian products have gained a significant market share in global home textiles in the past few years. Further, growth in the Indian home textiles would be supported by growing household income, increasing population and growth of end-use sectors like housing, hospitality, healthcare, etc.

Company Overview

Indo Count Industries Ltd (the Company) incorporated in 1988, is a leading player in global textiles & apparel industry, focusing on bedding products in the mid to high range. Its product range includes bed sheets, fashion bedding, utility bedding and institutional bedding. It is the largest manufacturer and exporter of bed sheets, bed linen, quilts from India and among top 3 bed sheet suppliers to the USA. The Company is the 11th largest global home textiles supplier to the USA, which is the largest market for it and contributes nearly 65%-70% of its export turnover. Further, its other key markets include developed countries of Europe, UK and Australia. To mitigate risk of over-dependence on USA, the company is venturing into different newer geographies like Japan, MENA , LATAM, etc. In next 3-4 years, the contribution from USA will come down and non-US markets will increase. As of now, the company exports to more than 54 countries spread across 5 continents.

ICIL sells products through top retailers like Walmart, JC Penney, Target, Macys, Carrefour, etc. In addition, its products are also sold online through retailers such as Amazon under the brand Colour Sense. The Company has an integrated manufacturing unit located at Kolhapur, Maharashtra with spinning, weaving, processing and stitching. The company has a capacity of 90mn meters per annum which co-relates to 22mn sheet sets. After second phase expansion, the weaving capacity will be 27mn meters per annum. In India, the Company's aspirational brand Boutique Living caters to the premium bedding segment with presence across 21 Indian States, achieving sales across 96 cities with 465 MBOs and 8 LFS stores.

Operational highlights FY 2017-18

- Texprocil awarded the GOLD TROPHY to the Company for "Highest Exports of Bed Linen/Bed Sheets/Quilts" in Category III for the year 2016-2017"
- The Company moved to leadership position in the home textiles bed linen segment
- Launched a new brand by the name of "Heirlooms of India", Atlas, Boutique Living Coastal, William Morris
- The aspirational brand 'Boutique Living' gained good traction and expanded store presence from 234 to 465 MBOs and 8 LFS across 21 states and 96 cities
- Second phase of capex has begun; land for the same has been finalized and is pending government notification. The project will come up in State of Maharashtra and is expected to get commercialized by the end of FY20
- Government has reduced duty drawback rates from 7.5% to 2% and Remission of State Levies (RoSL) rate from 3.9% to 2.2%.
- CARE Ratings upgraded the Company's credit rating for long-term debt to CARE AA (Double AA) from CARE AA- (Double AA minus) with negative outlook and reaffirmed the short-term credit rating at CARE A1+.
- Credit Rating Agency ICRA reaffirmed the Long-term rating as ICRA AA-(Double AA minus) and the Short-term rating of ICRA A1+. The Outlook on the long-term rating has been revised to Positive from Stable. The Board of Directors has recommended payment of final Dividend @20% i.e. ₹0.40 per equity share of Face Value of ₹2 each for the Year ended 31st March 2018 which together with Interim Dividend paid at 20% i.e. ₹0.40 per equity share aggregates to @40% i.e. ₹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 ₹2 each is subject to approval of Shareholders at the Annual General Meeting.

COMPANY PERFORMANCE- STANDALONE PERFORMANCE HIGHLIGHTS

₹ crores except EPS

Year	2017-18	2016-17
Revenue	1,958	2,258
EBIDTA	262	428
PBT	194	353
PAT	125	232
Cash Profit	176	323
EPS	6.38	11.76
Net Debt to Equity	0.38x	0.34x

Outlook

The Company has achieved sustainable growth momentum in the past years, as it has nurtured a strong corporate culture with the expertise to create quality products delivered with service and speed. The Company has always worked towards emerging as a lean and agile organisation. This has given it the flexibility and adaptability to respond in real time and right time. Innovation is embedded in the DNA of the organisation which has led to successful launches across the globe. Going forward, the Company is looking to focus on value-added products, innovation through R&D, expanding its institutional business with continued relentless focus on Bed Linen. The Company has ventured into the value added segment comprising of fashion, institutional and utility segment in the last two years and is continuously working towards strengthening this segment. ICIL expects the contribution from this segment to increase to around 30% in next three years from close to 13% currently.

We are committed to maintain the strong financial health led by product development and expansion to newer geographies. We are also working towards to maintain the net debt-to-equity ratio below one. ICIL has been a strong supporter of the Government's Make in India initiative and has invested in manufacturing facilities. Around ₹240 cr capex in Maharashtra will be completed by FY20 which will be funded by a mix of internal accruals and term loan under A TUFS Scheme and Textile Policy of Maharashtra State.

The Company is emphasising on enhancing domestic market presence through strong brand and distribution network. Also it is looking to tap the e-commerce space and to establish better connect with the millennial. Additionally, the company is embarking the journey of omni-channel to keep pace with evolving consumer needs.

ICIL believes the future of the Indian textile industry is quite promising, strengthened by both strong domestic consumption as well as a good export demand. Besides, it expects India's export share in the home textile market to increase over the next few years, with the twin benefits of lower cost of production and significant share of global installed capacity. The Company is adequately equipped to leverage India's sweet spot in the global textile industry.

SWOT ANALYSIS

Key Strengths

Strong brand equity: The marketing team creates a strong brand image to leave a long lasting impact on consumer mind. The Company ensures brand consistency and overall visual integrity for a clear brand recall.

End-to-end solution in bed linen: The Company offers a wide range of matching sheets, comforters, duvets, pillows, shams, quilts and any other bedding solutions, required for a comforting sleep experience.

Well-built product positioning: The Company has intricately woven its position in the niche bed linen category of the home textiles segment. It caters to the mid to high segment demand in fashion, utility and institutional space as well.

Premiumisation: ICIL has forayed into three new segments of fashion bedding, utility, and institutional bedding to premiumise its offerings. Similarly, in the domestic market Boutique Living caters to the mid to premium segment.

Strong clientele: The Company boasts of deeply embedded client relationships with marquee customers globally.

Emphasis on innovation: The Company's strong R&D team innovates the product pipeline to keep at pace with evolving consumer trends.

Business expansion: In addition to cementing its leadership position, the Company is prudently expanding its footprints in new geographies. We are also expanding into channels of the future by increasing e-commerce presence.

Customer centric approach: We constantly strive to serve customers with innovative products of the finest quality. The Company caters to all possible needs of a consumer be it impulsive or informed. The Company has one subsidiary each in Dubai and Germany, to provide better service to its clientele in Middle East and Europe.

State-of-the-art infrastructure: The Company has state-of-the-art manufacturing facility which is constantly strives to provide the best-in-class bed linen quality across categories.

Weaknesses

- The Company caters to a single business segment of mid-to-high bed linen.
- Currently, the US accounts for majority of the Company's revenues. Any change in import norms or any import restrictions by the US would adversely affect the Company's revenue.

- In the domestic business, the Company is looking to serve a niche segment limited to affluent class.

Opportunities

Favourable macro-economic factors: Rising urbanisation complemented by a young population and rise in female workforce acts as demand driver due to changing taste and preferences.

Evolving consumer needs: Bed linen is no more seen as a necessity but is a part of home decor leading to rise in purchase of bed linens. Fast evolving fashion changes adds to purchase frequency.

Exports spurt: Exports stood at US$36.6bn in FY2016-17 and have grown at 7% CAGR over FY2008-09 to FY2016-17. Exports are expected to increase to US$ 82 bn by 2021. The textiles industry accounts for 15% of India's total exports. The central government is planning to finalise and launch the new textile policy which aims to achieve US$ 300 bn worth of textile exports by FY2024-25 and create an additional 35 mn jobs.

Shift in growth from China's limited focus on textile exports: Since China is looking to shift focus to premium end of textile segment, it is likely that the current demand shift to India. This is already evident in reduction in China's market share in global textile exports and increase in India's share.

Growth in home textile: India's home textile industry stood at USD 4.7 bn in 2014 and is expected to grow at 8.3% CAGR during 2014-21 to reach USD 8.2 bn in 2021. Around 70% of the domestic home textile market is unorganised in nature. This portends a humungous growth opportunity for organised players.

Threats

The Company is exposed to threats like irrational increase in competition, absence of FTAs with major markets, raw material price volatility, and the threat of protectionism and anti-globalisation sentiments in the US and EU.

Risk Management

Nature of Risk	Definition and impact	Mitigating factors
Currency Volatility	As the company deals in the international market, we are exposed to the currency volatility which poses surprise element in our financials.	Currency risks are managed by continuously monitoring exposures and limiting the same in view of applicable margins under the relevant market segments. Also, a sufficient portion of the foreign currency is hedged to mitigate any adverse movements in currency valuations.
Raw Material Price Risk	Cotton is the major raw material used by the Company. Volatility in prices impacts the overall cost of production. Such a scenario might impact our margins.	The Company has been in the textile space for more than 2 decades during which it has forged strong business alliance with cotton growers and traders. This ensures adequate cotton supplies. Besides, being a significantly large buyer, the Company is able to negotiate prices with cotton vendors. We follow a prudent raw material policy. As the business is completely 'Made to Order' which gives us visibility to raw materials better. From time to time we hedge our raw-material against order book.
Global Economic Risk	The Company's global presence makes it vulnerable to an economic slowdown in across regions of its presence - it could impact business flow from these regions.	The Company's revenue is prudently balanced between the domestic and international nations. Besides, its global presence its spread across a number of developed and developing nations. This ensures that there is no over dependence on a single nation for its revenue.

Nature of Risk	Definition and impact	Mitigating factors
International Competition Risk	There are many emerging countries where production costs are relatively lower than that of India. This might lead the foreign brands to move to those countries.	Global-scale capacities in bed linen have ensured that Indo Count enjoys economies of scale. Moreover, investment in cutting-edge technology and process automation have optimised people requirement – resulting in cost-effective operations. Further, the Company superior product quality has created strong business relations with global retail and institutional brands.
Environmental and other regulatory risk	In order to save our environment, every industry must focus on achieving sustainable growth and application of process leaving minimal impact on the mother earth. Further, utmost care need to be taken to ensure compliance of the applicable environmental laws as well as other statutes applicable to the Company.	• Adherence to current norms is being ensured • Technology/equipment upgradation is being planned proactively • Continuous monitoring of regulatory changes to ensure compliance with all applicable regulations • Internal Audit Programme ensures effective checks on compliance management

Internal Control System

The Company's resilience and focus is driven to a large extent by its strong internal control systems for financial reporting. Keeping in mind the nature, size and complexity of business operations the well formulated control framework covers various aspects of governance, compliance, audit, control and reporting. Stringent procedures ensure high accuracy in recording and providing reliable financial & operational information, meeting statutory compliances.

The Company's internal team and Audit Committee keep a close eye on business operations and any deviations are promptly brought to the notice of the leadership. These findings provide input for risk identification and assessment. Timely and adequate measures are undertaken to ensure undisrupted functioning of the business. A host of strategies are devised as a follow-up measure to safeguard the Company.

Human Capital

The Company believes that human resources are the most critical element responsible for growth. We strive towards attracting, retaining, and developing the best talent required for the business to grow. The employees are regularly provided with training and development programmes to enhance their skills and focus on career progression. We nurture a work culture that leads to employee satisfaction, unflagging motivation, and high retention rate.

Our HR policies ensure working together with the employees for their personal and professional development and at the same time aligning their goals with that of the Company to create a win-win situation. Our focus on ensuring transparent, safe, healthy, progressive and engaging work environment is aimed at creating leaders of the future. Employees have a sense of belongingness and feel empowered in driving business profitability.

Cautionary Statement

Statements in this document/discussion relating to future status, events, or circumstances, including but not limited to statements describing the Company's objectives, projections, estimates and expectations maybe 'forward looking statements' within the meaning of applicable laws and regulations. Such statements are subject to numerous risks and uncertainties and are not necessarily predictive of future results. Actual results may differ materially from those either expressed or implied in the statements. Important factors that could make a difference to your Company's operations include economic conditions affecting demand/supply and price conditions in the market in which the company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.