

Margins likely to remain under pressure

CMP: INR 151

Rating: Accumulate

TP: INR 175

Stock Info

BSE	521016
NSE	ICIL
Bloomberg	ICNTIN
Reuters	ICNT
Sector	Textiles
Face Value (INR)	2
Equity Capital (INR Cr)	39
Mkt Cap (INR Cr)	3,079
52w H/L (INR)	315 / 118
Avg Yearly Vol (in 000')	940

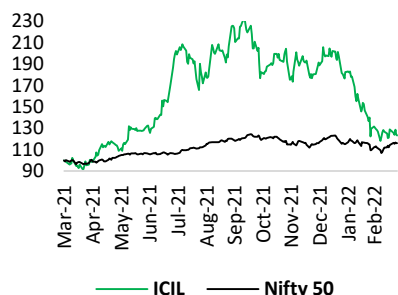
Shareholding Pattern %

(As on December, 2021)

Promoters	58.94
FII	9.68
DII	0.04
Public & Others	31.34

Stock Performance (%)	1m	3m	12m
ICIL	(10.9)	(36.5)	22.7
Nifty 50	2.1	(0.5)	18.2

ICIL Vs Nifty 50



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Recently, we attended the plant visit of Indo Count Industries Limited (ICIL) which is the leading home textile manufacturer and exporter in India. The company has 2 manufacturing and 1 stitching unit in Kolhapur. With the recent acquisition of the home textile division of GHCL, ICIL acquired 1 more manufacturing unit in Vapi. The total production capacity is 153 Mn meters. Indo Count specializes in Fashion/Utility/Institutional bedding, and its main market is the US and UK.

Industry Highlights and Rationale:

- Cotton prices are at an all-time high. The industry has been facing pressure at input prices which would impact margins in the near term. However, the company is optimistic about a recovery in the future.
- The current retail sentiment in the US toward home textiles is positive as the pandemic has encouraged spending time at home. The spending on home textiles has gone up. This has been aided by the china +1 strategy and the recent ban on Xinjiang cotton to the US. India stands to gain market share from China in the years to come. The home textile market in the US is expected to grow at a CAGR of 6.5% from 2021 to 2026.
- Bed Linen is 50% of the total Linen Market. ICIL has a market share of 4% in the EU bed linen market and 10-11% in the UK. The share of Bangladesh in the UK for the same is around 20%. In the US, India has a 60% market share in utility (simple) bedding. FTAs would be key for higher market share in the EU & UK markets.
- China mostly dominates the global fashion bedding market as it is more synthetically derived rather than cotton-based. It also requires a great deal of skill as it is more complex to make.
- Fashion bedding is a USD 5.5 Bn market. China had an 85% market share a decade ago, which is now 75%. India currently has a 10% market share in the space. Fashion bedding will grow at a rate of 9-11% annually.
- India is more dominant in the utility bedding industry. The production of 60, 80, and 100 thread count fabrics are prepared here. India also has a structural advantage in terms of domestic demand. Utility bedding also takes 2-3x less time to produce than fashion bedding.

Valuation & View: At CMP of INR 151, ICIL is trading at a PE of 11x/10.3x to its FY23E/24E EPS of INR 13.7/14.6. Margin pressures will continue to persist in the near term with no chance of softening at least for the next 6 months, container shortages continue to prevail, and the capacity utilization of the new GHCL acquisition is also low. Any recovery expected will be later on in FY23. We assign a TP of INR 175 valued at a P/E of 12x based on the FY24E EPS, and downgrade our rating from "Buy" to "Accumulate".

INR Cr	FY20	FY21	FY22E	FY23E	FY24E
Revenues	2,080	2,519	2,995	3,584	4,029
YoY growth (%)	7.5	21.1	18.9	19.6	12.4
Operating profit	183	377	515	566	657
OPM (%)	8.8	15.0	17.2	15.8	16.3
PAT	73	249	297	270	287
YoY growth (%)	22.3	241.5	19.4	(9.4)	6.6
EPS (Rs)	3.7	12.6	15.1	13.7	14.6
P/E (x)	40.7	11.9	10.0	11.0	10.3
Price/Book (x)	3.0	2.3	1.9	1.6	1.4
EV/EBITDA (x)	17.2	9.0	7.3	6.6	5.2
Debt/Equity (x)	0.3	0.4	0.5	0.4	0.3
RoE (%)	7.4	21.9	20.9	16.0	14.8

Source: Arihant Research, Company Filings

Business Highlights:

- The GHCL home textile integration would take 12-24 months and would lead to margin dilution in the near term till its completion.
- The company is holding a decent order book currently, set into the next FY.
- The company has various innovative products and patented technologies that have an advantage over competitors.
- Weaving and processing capacities at the main plant are now 108mn meters. With GHCL's capacities, weaving would be 25% of the active consumption.
- 3 types of cotton are used for yarn production- Egyptian, Supina, and Organic.
- GHCL has 192 spindle rooms for yarn to support captive consumption. There are 70,000 spindles. 70,000 more will be added in the next 1.5 years (by FY24), taking the total spindleage to 140,000. This will entail an INR 120 Cr CAPEX funded by internal accrual. The captive consumption is not expected to be sold, just to better the EBITDA Margin. The people who run mills charge benefits because some yarn can be only procured seasonally. It would be better to manufacture this in-house.
- Branded sales are about 10% across all segments. 40% of branded sales come from the "true grip" brand which has a patent. True grip allows the sheet to stick to the side of the mattress to stay in place.
- Indo Count has premiumized a large segment of its branded portfolio which has given it a competitive edge over other home textile manufacturers. They boast many patterns, sizes, thread counts, organic dyes, anti-allergenic, etc.
- The premium segment contributes 15-20% share on an overall basis.
- The company has designers from different countries on the payroll to identify trends in design and track them. A total of 6 designers in the US and UK.
- The company has been an integrated player in the home textile space and moving up in the value chain.
- 25% of yarn requirements are currently met in-house.

Other highlights:

- Management is confident of some recovery in margins from Q2FY23 onwards.
- The company owns 2 main units. The unit in Gokul Shirgaon focuses on fashion and utility bedding where most of the value addition takes place.
- Utility bedding mostly has sheet sets that contain: a fitted sheet, a flat sheet, and pillow covers. This is big for US consumption and they change bedsheets and styles of home décor frequently. This is still the basic product. Fashion bedding on the other hand is where most of the value addition takes place as it has more layers of bedding (duvets, mattress protectors, mattress pads, etc.) with different patterns.
- Mattresses have grown a lot in bedding as it is a huge market. People also have been buying many pillows. Walmart sells 2mn pillows a month. Mattress pads and covers are now being made with cotton to make them more breathable- which is a big part of utility bedding.
- The rate of replacement of bed linen and home textiles in the UK is marginally less than in the US.
- The institutional bedding market has been growing in the US and UK due to the growth of the desired "hotel look". Its presence is negligible in India but has been growing slowly over recent times.
- Since cotton has better tensile strength, it is better suited to the institutional business.
- 19% of the business comes from fashion, utility, and institutional bedding.
- Designs are provided by buyers and is produced accordingly.

Highlights of the manufacturing process:

- 70% of the bale of cotton is converted to fibers. Most of the volume loss takes place in the comber. Some of the waste is reused for mixing purposes.
- The spools of yarn are wrapped on a large beam (this process is standardized). The beams of yarn are then reinforced, resized as per the requirements of the fabric, and then woven by the 120 weaving machines.
- The woven fabric is then processed, dyed, and dried. This is a continuous process. One loom has an output of 250-300mn meters. It takes about 8-10 months to build these machines from scratch as per the company's requirements.
- After weaving, the loose fibers are burnt off by a process called singeing. The fabric is then desired which is a chemical cleaning process. It is also subsequently bleached to make it more vibrant. This process also adds luster.
- This 108mn meter pa weaving and processing capacity can do about 3 lakh meters per day. This capacity has been tripled over the past 10 years.
- The printing machines can print 10 colors at a time. Colors and designs are specified by the buyer. ICIL has the largest printing capacity in India. They have 4 machines, and most of the competitors keep just 1- these have a combined capacity of 120,000 m a day.
- All of the machines are steel structures and have scheduled maintenance once a week. All of them run on steam pressure. This is why the RO plant is critical to the production process.
- Cutting and stitching take place at the Gokul Shirgaon plant. Here is where the precision embroidery takes place. It gives a value addition of about INR 1 Cr from the machines used.
- Here, is the process of wadding and stitching. The industry is seeing a shift from polyester to cotton which is an opportunity for Indo Count. All of the processes are mostly automated to increase efficiency, quality and reduce time.
- They also have employees for manual stitching. All of the labor is on a contractual basis.
- All of the units have natural lighting to reduce their carbon footprint.
- Freshwater intake has been reduced by 50% since 50-60% of the water used is recycled and out back into the production process.
- The treatment process is biological. Bacteria decomposes the impurities in the water which is later filtered. 92% of the eater is made reusable which is good in case of water shortages. 8% of the sludge is transferred to the government and converted into bricks for landfills. This is a non-productive investment. Right now 50% of the company's freshwater requirements are met internally due to this process. They aim to make it 100%.

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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