

Indo Count Industries

BSE SENSEX	S&P CNX
30,583	9,512
Bloomberg	ICNT IN
Equity Shares (m)	197
M.Cap.(INRb)/(USDb)	35.9 / 0.5
52-Week Range (INR)	210 / 135
1, 6, 12 Rel. Per (%)	-1/24/-12
Avg Val, INRm	149
Free float (%)	41.1

CMP: INR194
TP: INR229(+18%)
Buy

Muted quarter; one-offs hurt margins

- Results below expectations:** ICNT reported revenue of INR5,129m (est. of INR5,460m) in 4QFY17, marking flattish YoY growth. EBITDA declined 26% from INR1,224m in 4QFY16 to INR901m (est. of INR1,174m) in 4QFY17. EBITDA margin contracted 630bp to 17.6% (est. of 21.5%) from 23.8% in 4QFY16, despite gross margin improvement (+410bp YoY to 52.2%), due to higher other expenses (+910bp to 28.6% v/s 19.5% in 4QFY16). Consequently, PAT declined 28.1% from INR679m in 4QFY16 to INR488m (est. of INR669m) in the quarter. For FY17, revenue grew 7% to INR22.6b, EBITDA margin shrunk 300bp to 19% and PAT declined 11% to INR2,567m. ICNT ended FY17 with volumes of 56m mtrs v/s 54m mtrs in FY16 (+3.7%).
- One-offs lead to EBITDA margin contraction:** EBITDA margin shrunk due to: 1) pre-operative expenses in case of newly commissioned capex to the tune of INR80-100m, which is passed through P&L under Ind-AS, 2) devaluation of inventory in international subsidiary, which due to product strategy change by client had to be written down and sold at lower realization (total hit of ~INR200m), 3) higher employee expenses on upfront investment to support future growth and 4) higher job work charges. As per management, EBITDA margin would have been higher by 225bp in the absence of these one-offs.
- Processing capacity expanded; guides for 11% volume growth:** ICNT raised processing capacity from 68m mtrs to 90m mtrs during the quarter, and estimates to scale it up over next three years. Management guided for 62-63m mtrs for FY18 (+11%), with EBITDA margin in northwards of 20%.
- Valuation and view:** In view of subdued performance in FY17 and lowered guidance for FY18, we cut earnings by 17%/17% for FY18/FY19E. With a foray into products like fashion, institutional linens and utility bedding, and launch of Indo Count Retail Ventures under the brand Boutique Living in India market (Oct-16), we expect 10% revenue CAGR and 16% PAT CAGR over FY17-19E. Maintain **Buy** with TP of INR229 (13x FY19E EPS).

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	22.6	24.9	27.5
EBITDA	4.3	5.1	5.8
PAT	2.6	2.9	3.5
EPS (INR)	13.0	14.6	17.6
Gr. (%)	-10.7	11.9	21.0
BV/Sh (INR)	42.9	58.4	77.3
RoE (%)	34.8	28.8	25.9
RoCE (%)	26.5	25.0	25.0
P/E (x)	14.9	13.3	11.0
P/BV (x)	4.5	3.3	2.5

Estimate change

TP change

Rating change


Standalone - Quarterly Earning Model

Y/E March	FY16				FY17				FY17	FY17	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Net Sales	4,579	5,765	5,009	5,134	4,926	5,763	5,029	5,129	22,578	5,460	-6
YoY Change (%)	44.9	20.4	16.9	12.4	7.6	0.0	0.4	-0.1	7.0	4.0	
Total Expenditure	3,567	4,713	3,858	3,910	3,824	4,599	4,009	4,228	18,294	4,286	
EBITDA	1,012	1,052	1,151	1,224	1,103	1,164	1,020	901	4,285	1,174	-23
Margins (%)	22.1	18.2	23.0	23.8	22.4	20.2	20.3	17.6	19.0	21.5	
Depreciation	67	69	72	81	80	73	79	79	331	80	
Interest	146	156	94	121	98	116	91	89	421	80	
Other Income	0	0	0	0	0	0	0	0	0	0	
PBT	798	828	985	1,022	924	975	849	733	3,532	1,014	-28
Tax	277	311	213	343	321	348	287	245	965	345	
Rate (%)	34.6	37.6	21.6	33.6	34.8	35.7	33.8	33.4	27.3	34.0	
Reported PAT	522	516	773	679	603	627	562	488	2,567	669	-27
Adj PAT	522	516	773	679	603	627	562	488	2,567	669	-27
YoY Change (%)	109.4	21.5	77.1	48.6	15.6	21.5	-27.3	-28.1	-10.7	1.4	
Margins (%)	11.4	9.0	15.4	13.2	12.2	10.9	11.2	9.5	11.4	12.3	

E: MOSL Estimates

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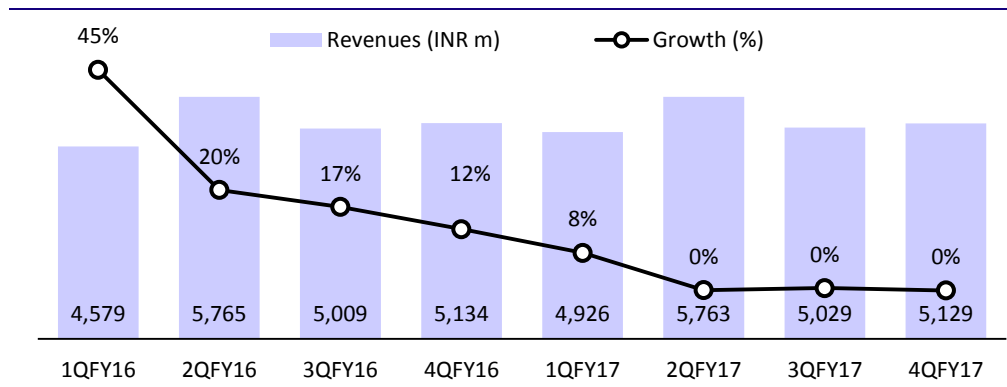
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Results below estimates

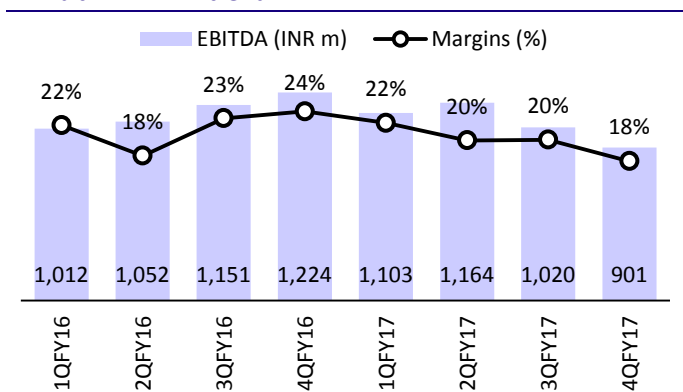
- ICNT reported revenue of INR5,129m (est. INR5,460m) in 4QFY17 marking a flattish YoY revenue.
- EBITDA de-grew 26% YoY from INR1,224m in 4QFY16 to INR901m (est. INR1,174m) in 4QFY17. EBITDA margins saw a decline of 630bp from 23.8% in 4QFY16 to 17.6% (est. 21.5%) in 4QFY17.
- Despite gross margins improving by 410bp yoy to 52.2% higher other expenses by 910bp at 28.6% vs 19.5% in 4QFY16 led to EBITDA margin decline.
- Consequently, PAT de-grew by 28.1% from INR679m in 4QFY16 to INR488m (est. INR669m) in 4QFY17.

Exhibit 1: Revenue trend



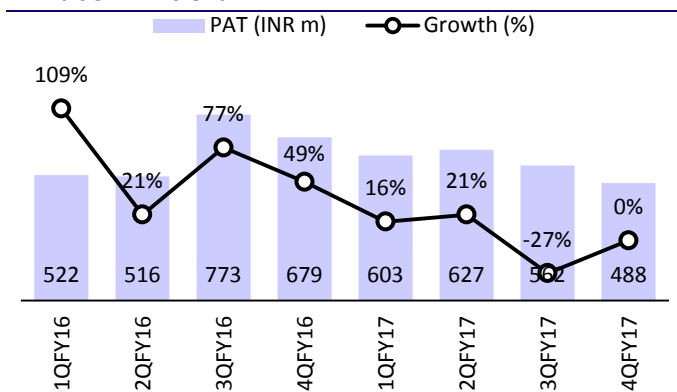
Source: MOSL, Company

Exhibit 2: EBITDA trend



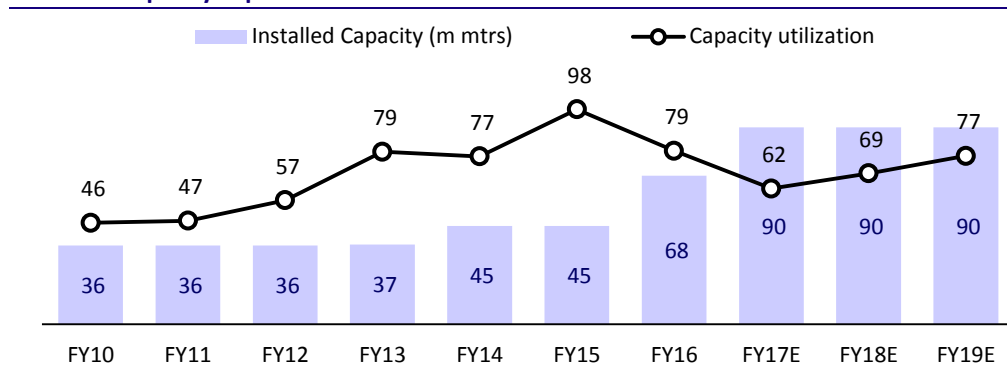
Source: MOSL, Company

Exhibit 3: PAT trend



Source: MOSL, Company

Exhibit 4: Capacity expansion and utilization



Source: MOSL, Company

Update on the Capex

Phase I Capex of INR1.75b: Capacity has increased from 68mn meters to 90mn meters at Kagal Plant. The enhanced capacity is expected to be utilized in the next 3 years. The company will also undertake modernization of spinning capacity

Phase II Capex of INR3b is currently under progress: It is increasing the weaving capacity. The company has finalized land and is awaiting revised textile policy from Maharashtra government.

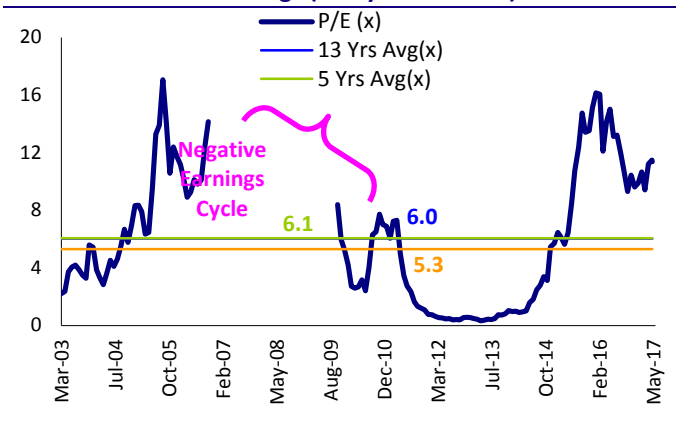
Update on the Domestic Venture:

Indo Count Retail Ventures under the brand ‘Boutique Living’ commenced domestic operations from October 2016. Presently Boutique Living is sold across 57 cities and 234 stores in India through Multi Brand Outlets (MBOs), Large Format Stores (LFS) and E-Commerce.

Valuation and view

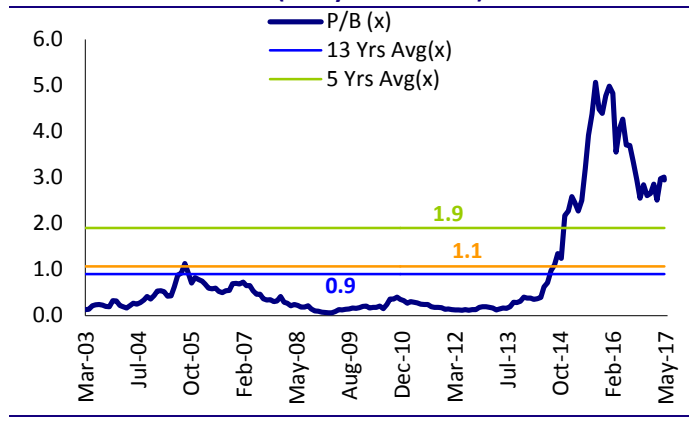
- With a unique asset-light business model, ICNT enjoys robust and best in class capital efficiency.
- With aggressive capacity expansion plans, foray into newer products like fashion, institutional linens and utility bedding, we believe ICNT has strong room for growth.
- In view of subdued performance during the year and the management lowering its guidance to 62-63m mtrs for FY18, we cut our earnings estimates by 17%/17% for FY18/ FY19 respectively. With foray into products like fashion, institutional linens and utility bedding, and launch of Indo Count Retail Ventures under the brand Boutique Living in India market (October 2016), we expect ICNT to post 10% revenue CAGR and 16% PAT CAGR over FY17-19E. Maintain Buy with a TP of INR229 (13x FY19E EPS).

Exhibit 5: Price to earnings (one year forward)



Source: MOSL, Company

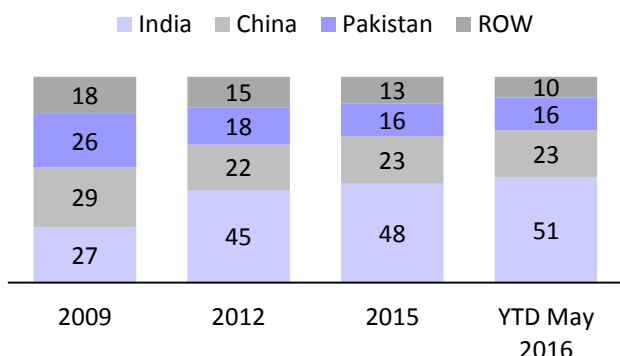
Exhibit 6: Price to book (one year forward)



Source: MOSL, Company

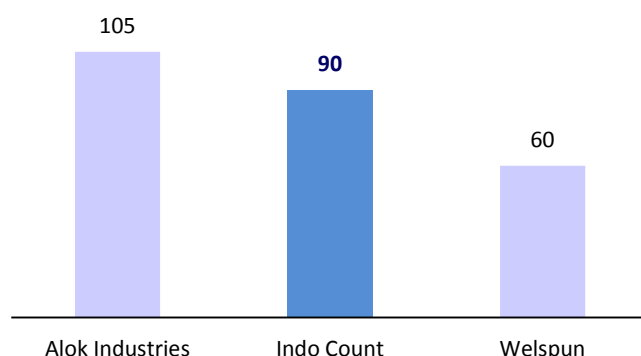
Story in charts

Exhibit 7: India's share in home textiles increasing



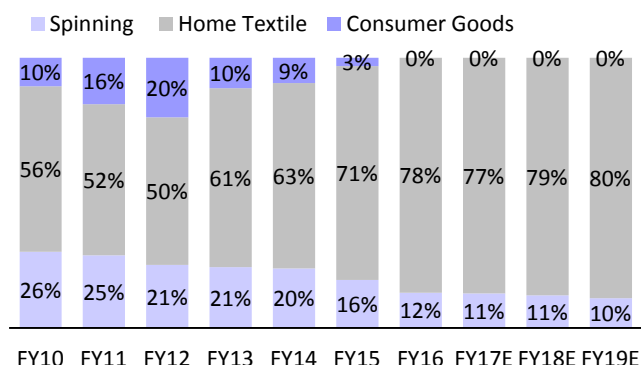
Source: MOSL, Company

Exhibit 8: ICNT capacity increased from 68 to 90m mtrs



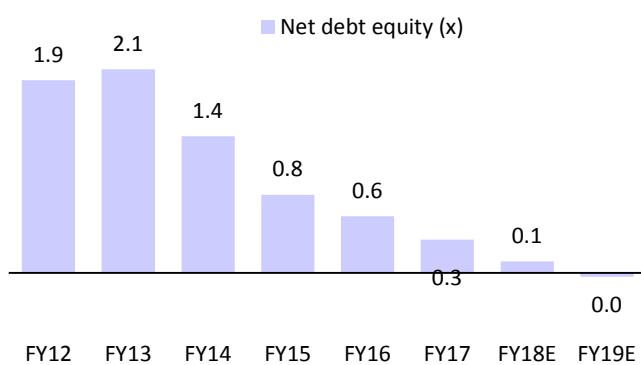
Source: MOSL, Company

Exhibit 9: Share from home textiles on an uptrend



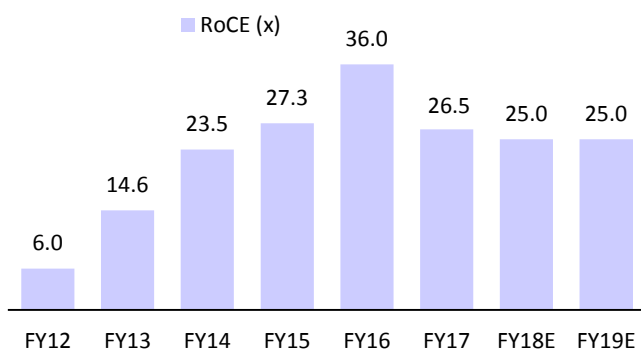
Source: MOSL, Company

Exhibit 10: Net debt free by FY18



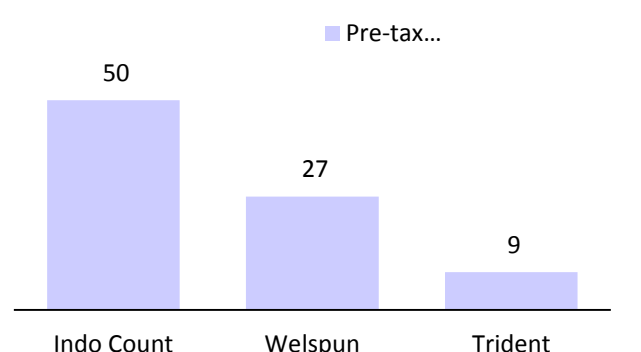
Source: MOSL, Company

Exhibit 11: Robust RoCEs



Source: MOSL, Company

Exhibit 12: Highest pre-tax RoCE among peers due to asset light model – FY16



Source: MOSL, Company

Assumptions	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Installed Capacity (in mn mtrs)								
Spinning (MT)	8,003	9,983	10,346	10,556	10,556	10,556	10,556	10,556
Processing - Home textiles (m mtrs)	36	37	45	45	68	90	90	90
Capacity utilisation (%)								
Spinning (MT)	78	92	96	96	95	95	96	96
Processing - Home textiles (m mtrs)	57	79	77	98	79	62	69	77

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Income from Operations	14,979	17,818	21,106	22,578	24,905	27,505
Change (%)	23.1	19.0	18.5	7.0	10.3	10.4
EBITDA	1,892	3,136	4,645	4,285	5,056	5,831
Margin (%)	12.6	17.6	22.0	19.0	20.3	21.2
Depreciation	196	160	301	331	395	471
EBIT	1,696	2,977	4,344	3,953	4,661	5,360
Int. and Finance Charges	499	650	551	421	297	100
Other Income	0	0	0	0	10	30
PBT bef. EO Exp.	1,197	2,326	3,793	3,532	4,374	5,290
EO Items	0	-257	0	0	0	0
PBT after EO Exp.	1,197	2,069	3,793	3,532	4,374	5,290
Current Tax	12	506	847	651	1,500	1,815
Tax Rate (%)	7.8	29.5	24.2	27.3	34.3	34.3
Reported PAT	1,100	1,456	2,876	2,567	2,874	3,476
Adjusted PAT	1,100	1,638	2,876	2,567	2,874	3,476
Change (%)	161.0	49.0	75.6	-10.7	11.9	21.0
Margin (%)	7.3	9.2	13.6	11.4	11.5	12.6

Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	355	395	395	395	395	395
Preference Capital	25	25	0	0	0	0
Total Reserves	2,537	3,819	5,909	8,068	11,131	14,869
Net Worth	2,917	4,239	6,304	8,462	11,526	15,263
Minority Interest	55	57	83	81	81	81
Deferred Liabilities	368	432	868	1,175	1,175	1,175
Total Loans	4,341	3,859	3,914	3,035	1,535	0
Capital Employed	7,680	8,587	11,169	12,754	14,318	16,520
Gross Block	6,422	7,065	8,318	9,142	11,642	13,142
Less: Accum. Deprn.	2,958	3,181	3,483	3,814	4,209	4,680
Net Fixed Assets	3,464	3,884	4,836	5,328	7,433	8,462
Capital WIP	3	146	107	122	134	148
Curr. Assets, Loans&Adv.	6,511	8,389	8,976	9,789	10,744	12,371
Inventory	3,457	3,830	4,564	4,719	5,170	5,688
Account Receivables	1,087	1,270	2,431	3,112	3,275	3,542
Cash and Bank Balance	313	508	294	186	172	590
Loans and Advances	1,654	2,781	1,687	1,772	2,126	2,552
Curr. Liability & Prov.	2,797	3,894	2,748	2,485	3,993	4,462
Account Payables	2,514	3,163	2,734	2,445	2,969	3,267
Provisions	283	731	15	40	1,024	1,195
Net Current Assets	3,714	4,495	6,227	7,304	6,750	7,909
Deferred Tax assets	500	62	0	0	0	0
Appl. of Funds	7,680	8,587	11,169	12,754	14,318	16,520

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Basic (INR)						
EPS	6.2	8.3	14.6	13.0	14.6	17.6
Cash EPS	7.3	9.1	16.1	14.7	16.6	20.0
BV/Share	16.4	21.5	31.9	42.9	58.4	77.3
DPS	0.0	0.0	0.0	0.4	0.8	1.1
Payout (%)	0.0	0.0	0.0	3.7	6.6	7.5
Valuation (x)						
P/E	31.3	23.4	13.3	14.9	13.3	11.0
Cash P/E	26.6	21.3	12.1	13.2	11.7	9.7
P/BV	11.8	9.0	6.1	4.5	3.3	2.5
EV/Sales	2.8	2.3	2.0	1.8	1.6	1.4
EV/EBITDA	22.5	13.3	9.1	9.6	7.9	6.5
Dividend Yield (%)	0.0	0.0	0.0	0.2	0.4	0.6
Return Ratios (%)						
RoE	45.1	45.8	54.6	34.8	28.8	25.9
RoCE	23.5	27.3	36.0	26.5	25.0	25.0
RoIC	22.8	27.4	35.2	24.8	23.1	23.6
Working Capital Ratios						
Asset Turnover (x)	2.0	2.1	1.9	1.8	1.7	1.7
Inventory (Days)	84	78	79	76	76	75
Debtor (Days)	26	26	42	50	48	47
Creditor (Days)	103	122	95	77	85	85
Leverage Ratio (x)						
Debt/Equity	1.5	0.9	0.6	0.4	0.1	0.0

Cash Flow Statement

(INR Million)

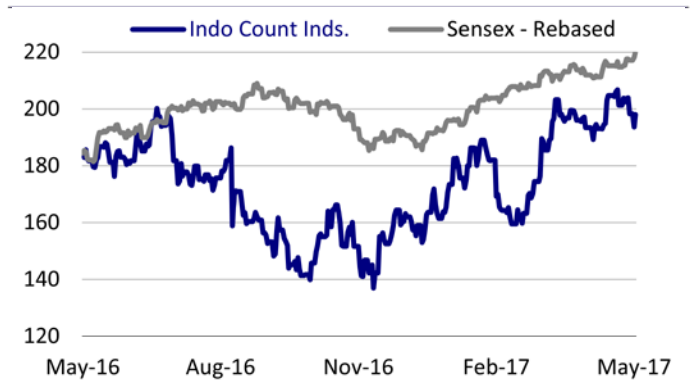
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
OP/(Loss) before Tax	1,174	2,025	3,889	3,532	4,374	5,290
Depreciation	196	160	188	331	395	471
Interest & Finance Charges	498	649	546	421	297	100
Direct Taxes Paid	-231	-487	-838	-651	-1,500	-1,815
(Inc)/Dec in WC	-1,096	-158	-2,116	-1,185	540	-741
CF from Operations	540	2,188	1,669	2,448	4,105	3,306
Others	-198	174	-2	-509	0	0
CF from Operating incl EO	342	2,362	1,668	1,939	4,105	3,306
(inc)/dec in FA	13	-853	-1,220	-839	-2,513	-1,514
Free Cash Flow	354	1,510	448	1,100	1,593	1,792
(Pur)/Sale of Investments	-22	0	0	0	0	0
Others	27	-175	17	-2	0	0
CF from Investments	18	-1,028	-1,203	-841	-2,513	-1,514
Issue of Shares	0	40	0	0	0	0
(Inc)/Dec in Debt	314	-528	-9	-879	-1,500	-1,535
Interest Paid	-499	-650	-549	-421	-297	-100
Dividend Paid	-1	-1	-96	95	190	261
Others	54	-1	-25	0	0	0
CF from Fin. Activity	-133	-1,139	-679	-1,205	-1,607	-1,373
Inc/Dec of Cash	227	195	-214	-107	-14	418
Opening Balance	86	313	508	294	186	172
Closing Balance	313	508	294	186	172	591

Corporate profile

Company description

Indo Count Industries Ltd (ICNT) is focused player on bedding—a niche segment of home textile market, which formed 81% of revenues in FY15. It's other two segments spinning and consumer goods contributed 16% and 3% respectively. In terms of EBITDA, home textiles contributed 95% of total EBITDA in FY15. With a unique asset-light business model, ICNT enjoys robust and best in class capital efficiency (40% RoCE). Entry in newer products expands opportunity by 3x to USD13b.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	58.9	58.9	59.0
DII	3.9	3.3	1.7
FII	17.2	14.0	13.3
Others	20.0	23.7	26.1

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Elm Park Fund Limited	6.0
Lazard Emerging Markets Small Cap Equity Trust	2.8
Morgan Stanley Mauritius Company Limited	2.1
Uniworth Finance And Securities Pvt Ltd	1.5
Dsp Blackrock Small And Mid Cap Fund	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Anil Kumar Jain	Executive Chairman
Mohit Kumar Jain	Managing Director
K R Lalpuria	Executive Director
Amruta Avasare	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Dilip J Thakkar	P N Shah
Prem Malik	R Anand
Sushil Kumar Jiwarajka	Vaijayanti Pandit
Kamal Mitra	

*Independent

Exhibit 6: Auditors

Name	Type
B K Shroff & Co	Statutory
S Anantha & Co	Secretarial Audit
Suresh Kumar Mittal & Co	Internal

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	14.6	16.7	-12.6
FY19	17.6	18.7	-6.0

Source: Bloomberg

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