

Indo Count Industries | BUY

Dismal performance in 9MFY18; volume off take – a key monitorable

Indo Count Industries (ICNT) reported a weak set of numbers for 9MFY18, driven by a) decline in the volume of bed sheets exported to the US, b) INR appreciation and c) higher costs. Margins for 9MFY18 compressed 604bps YoY to multi-year lows. 9M PAT declined 42% YoY to INR 1bn, below our estimates of INR 1.1bn. The company has completed phase-I capex to augment capacity from 68mn mtrs to 90mn mtrs. Management maintained FY18 volume guidance at 56mn mtrs. Cotton price movement and the off take in volume going forward remains the key monitorable. The Board has declared an Interim Dividend of INR 0.4/share (20% payout ratio). We downward revise our FY18E/FY19E earnings in tandem with the recent performance and roll forward to FY20E to arrive at our revised fair value of INR 140/share. Maintain BUY.

- Multi-year low margins driven by lower volumes and higher costs:** The company's 9MFY18 revenue declined 14.4% to INR 13bn, driven by lower volumes, INR appreciation and higher captive yarn consumption. In 9MFY18, bed sheet volume declined 6.7% YoY to 40.6mn mtrs, led by slower-than-expected off takes. EBITDA came in at INR 2.1bn; power and fuel costs increased 19.5% YoY, while other expenses decreased 3.8% YoY. Margins declined significantly – by 604bps YoY – to 14.9% in 9MFY18, driven by the appreciating INR, lower volumes, higher costs. PAT stood at INR 1bn in 9MFY18 (-41.8% YoY).
- Expansion plans on track:** The company completed phase-I capex to augment its capacity from 68mn mtrs to 90mn mtrs. A phase-II green-field capex of INR 3bn (over 3 years) for further augmentation of capacity is on track and expected to be completed by Mar'19. The phase-II capex plan involves backward integration into spinning, weaving and equipment for ICNT's value-added fashion products. The company expects to execute the phase-II capex project with a debt-equity ratio of 1:1.
- Cotton price movement and volume off take a key monitorable:** ICNT reported a weak set of numbers for 9MFY18, driven by a decline in the volume of bed sheets exported to the US. Margins compressed in 9MFY18, driven by a) INR appreciation, b) lower volumes and c) higher costs, resulting in a 41.8% YoY PAT decline. The company has completed phase-I capex to augment capacity from 68mn mtrs to 90mn mtrs. Management maintained FY18 volume guidance at 56mn mtrs. Cotton price movement and the off take in volume going forward remains the key monitorable. The Board has declared an Interim Dividend of INR 0.4/share (20% payout ratio). We downward revise our FY18E/FY19E earnings in tandem with the recent performance and roll forward to FY20E to arrive at our revised fair value of INR 140/share. Maintain BUY.



Ashutosh Somani

ashutosh.somani@jmfl.com | Tel: (91 22) 66303083

Nitin Agarwala

nitin.agarwala@jmfl.com | Tel: (91 22) 66303125

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	140
Upside/(Downside)	42.9%
Previous Price Target	145
Change	-3.4%

Key Data – ICNT IN

Current Market Price	INR98
Market cap (bn)	INR19.3/US\$0.3
Free Float	41%
Shares in issue (mn)	197.4
Diluted share (mn)	197.4
3-mon avg daily val (mn)	INR283.5/US\$4.4
52-week range	210/92
Sensex/Nifty	34,011/10,452
INR/US\$	64.2

Price Performance

%	1M	6M	12M
Absolute	-18.9	-16.5	-40.3
Relative*	-17.1	-22.0	-50.3

* To the BSE Sensex

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Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	21,106	22,578	22,181	24,874	25,764
Sales Growth (%)	18.5	7.0	-1.8	12.1	3.6
EBITDA	4,645	4,284	2,994	3,776	3,887
EBITDA Margin (%)	22.0	19.0	13.5	15.2	15.1
Adjusted Net Profit	2,513	2,321	1,532	2,151	2,287
Diluted EPS (INR)	12.7	11.8	7.8	10.9	11.6
Diluted EPS Growth (%)	46.6	-7.7	-34.0	40.4	6.3
ROIC (%)	32.1	24.0	15.1	18.5	17.2
ROE (%)	49.1	31.4	16.7	19.7	17.6
P/E (x)	7.7	8.3	12.6	9.0	8.5
P/B (x)	3.1	2.3	2.0	1.6	1.4
EV/EBITDA (x)	5.0	5.2	7.1	5.4	5.0
Dividend Yield (%)	0.3	0.8	0.4	0.5	0.6

Source: Company data, JM Financial. Note: Valuations as of 16/Feb/2018

Exhibit 1. Financial performance (Standalone)**(INR mn)**

	3QFY18	3QFY18E	Var (%)	3QFY17	YoY %	2QFY18	QoQ %	9MY18	9MY17	YoY%
Net Sales	4,510	4,743	(5)	4,925	-8.4	4,528	-0.4	13,032	15,221	-14.4
Other op. income	91	250		104		399		813	498	
Total income from operations	4,600	4,993	(8)	5,029	-8.5	4,928	-6.6	13,846	15,719	-11.9
Expenditure	3,907	4,223	(7)	4,009	-2.6	4,216	-7.3	11,788	12,433	-5.2
Raw materials	2,554	2,751	(7)	2,479	3.0	2,766	-7.6	7,485	8,112	(7.7)
Staff cost	271	280	(3)	282	-3.9	276	-2.0	828	824	0.5
Power & Fuel	178	192	(7)	171	4.5	185	-3.7	563	471	19.5
Other manuf. Expenses	904	1,000	(10)	1,078	-16.2	989	-8.7	2,912	3,026	(3.8)
EBITDA	693	770	(10)	1,020	-32.0	711	-2.5	2,058	3,286	-37.4
EBITDA margin (incl. other op. inc.) (%)	15.1	15.4		20.3		14.4		14.9	20.9	
Other income	-	-		-		-		-	-	
Depreciation	77	75	3	79	-2.3	76	1.6	228	233	-2.0
EBIT	616	695	(11)	940	-34.5	635	-3.0	1,830	3,054	-40.1
Interest	58	85	(31)	91	-36.2	88	-33.4	228	305	-25.3
PBT	558	610	(8)	849	-34.3	548	1.8	1,602	2,748	-41.7
Tax	194	201		287		189		559	956	-41.5
Eff. Tax rate (%)	34.7	33.0		33.8		34.5		34.9	34.8	
XO items	-	-		-		-		-	-	
PAT- Reported	364	408	(11)	562	-35.2	359	1.4	1,043	1,792	-41.8
PAT- Adjusted	364	408	(11)	562	-35.2	359	1.4	1,043	1,792	-41.8
Diluted EPS (NR)	1.8	2.1	(10.8)	2.8	-35.2	1.8	1.4	5.3	9.1	-41.8

Source: JM Financial, Company

Exhibit 2. Operational analysis

	3QFY18	3QFY18E	Var (bps)/%	3QFY17	YoY bps/%	2QFY18	QoQ bps/%	9MY18	9MY17	YoY bps/%
Volume of bed linen (mn mtr)	14.3	15.0	(4.7)	13.9	2.9	14.5	(1.1)	40.6	43.5	(6.7)
Gross margin (incl. other op. inc.) (%)	44.5	44.9	(42)	50.7	(622)	43.9	60	45.9	48.4	(245)
Gross margin (excl. other op. inc.) (%)	43.4	42.0	137	49.7	(630)	38.9	443	42.6	46.7	(414)
Staff cost as % of rev. (%)	5.9	5.6	28	5.6	28	5.6	28	6.0	5.2	74
Power and fuel as % of rev. (%)	3.9	3.8	3	3.4	48	3.8	12	4.1	3.0	107
Other exp. as % of rev. (%)	19.6	20.0	(39)	21.4	(179)	20.1	(43)	21.0	19.2	178
EBITDA margin (excl. other op. inc.) (%)	13.4	11.0	241	18.6	(523)	6.9	648	9.5	18.3	(877)
	64.7	64.7	-	67.4	(4)	64.3	1	64.5	67.1	(4)

Source: JM Financial, Company

Exhibit 3. Target price

	FY20E
FY20E EPS (INR)	11.6
P/E multiple	12.0
Fair value (INR/share)	140

Source: JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	21,106	22,578	22,181	24,874	25,764
Sales Growth	18.5%	7.0%	-1.8%	12.1%	3.6%
Other Operating Income	0	0	0	0	0
Total Revenue	21,106	22,578	22,181	24,874	25,764
Cost of Goods Sold/Op. Exp	10,475	10,565	11,713	12,845	13,237
Personnel Cost	968	1,131	1,096	1,210	1,251
Other Expenses	5,018	6,597	6,378	7,043	7,389
EBITDA	4,645	4,284	2,994	3,776	3,887
EBITDA Margin	22.0%	19.0%	13.5%	15.2%	15.1%
EBITDA Growth	48.1%	-7.8%	-30.1%	26.1%	2.9%
Depn. & Amort.	301	331	324	354	391
EBIT	4,344	3,953	2,670	3,422	3,495
Other Income	0	0	0	0	0
Finance Cost	551	421	350	212	82
PBT before Excep. & Forex	3,793	3,532	2,320	3,210	3,413
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,793	3,532	2,320	3,210	3,413
Taxes	1,280	1,211	788	1,059	1,126
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	2,513	2,321	1,532	2,151	2,287
Adjusted Net Profit	2,513	2,321	1,532	2,151	2,287
Net Margin	11.9%	10.3%	6.9%	8.6%	8.9%
Diluted Share Cap. (mn)	197.4	197.4	197.4	197.4	197.4
Diluted EPS (INR)	12.7	11.8	7.8	10.9	11.6
Diluted EPS Growth	46.6%	-7.7%	-34.0%	40.4%	6.3%
Total Dividend + Tax	79	189	90	127	135
Dividend Per Share (INR)	0.3	0.8	0.4	0.5	0.6

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	6,304	8,462	9,904	11,928	14,081
Share Capital	395	395	395	395	395
Reserves & Surplus	5,909	8,067	9,509	11,534	13,686
Preference Share Capital	0	0	0	0	0
Minority Interest	83	81	81	81	81
Total Loans	4,092	3,109	2,109	609	609
Def. Tax Liab. / Assets (-)	868	1,176	1,176	1,176	1,176
Total - Equity & Liab.	11,347	12,828	13,270	13,794	15,946
Net Fixed Assets	4,942	5,450	5,976	6,472	7,381
Gross Fixed Assets	8,270	9,094	9,944	10,794	12,094
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,435	3,766	4,090	4,444	4,835
Capital WIP	106	122	122	122	122
Investments	0	0	0	0	0
Current Assets	8,975	9,789	9,875	10,059	11,367
Inventories	4,564	4,719	4,671	4,946	5,092
Sundry Debtors	2,431	3,112	3,214	3,568	3,727
Cash & Bank Balances	294	186	279	-386	544
Loans & Advances	1,687	1,772	1,710	1,931	2,004
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	2,571	2,412	2,581	2,738	2,802
Current Liabilities	1,301	1,343	1,512	1,669	1,733
Provisions & Others	1,269	1,069	1,069	1,069	1,069
Net Current Assets	6,405	7,378	7,294	7,322	8,565
Total - Assets	11,347	12,828	13,270	13,794	15,946

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	3,793	3,532	2,320	3,210	3,413
Depn. & Amort.	301	331	324	354	391
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,588	-1,081	177	-693	-314
Others	0	0	0	0	0
Taxes Paid	-1,280	-1,211	-788	-1,059	-1,126
Operating Cash Flow	1,227	1,571	2,033	1,812	2,364
Capex	-1,172	-839	-850	-850	-1,300
Free Cash Flow	55	732	1,183	962	1,064
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-29	334	0	0	0
Investing Cash Flow	-1,200	-505	-850	-850	-1,300
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-79	-190	-90	-127	-135
Inc / Dec (-) in Loans	-161	-983	-1,000	-1,500	0
Others	0	0	0	0	0
Financing Cash Flow	-240	-1,174	-1,090	-1,627	-135
Inc / Dec (-) in Cash	-213	-108	93	-665	930
Opening Cash Balance	507	294	186	279	-386
Closing Cash Balance	294	186	279	-386	544

Source: Company, JM Financial

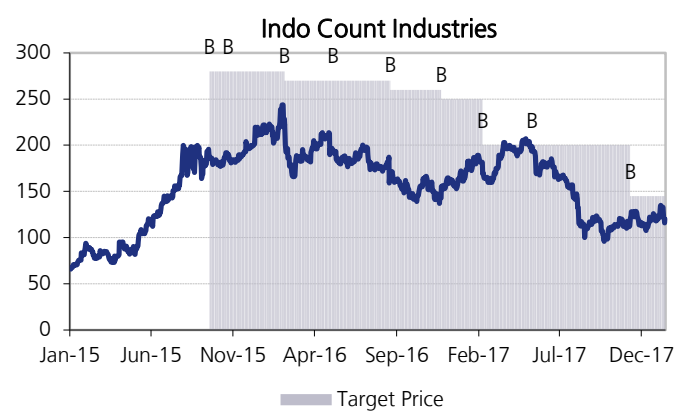
Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	11.9%	10.3%	6.9%	8.6%	8.9%
Asset Turnover (x)	2.1	1.9	1.7	1.8	1.7
Leverage Factor (x)	2.0	1.6	1.4	1.2	1.1
RoE	49.1%	31.4%	16.7%	19.7%	17.6%
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	31.9	42.9	50.2	60.4	71.3
ROIC	32.1%	24.0%	15.1%	18.5%	17.2%
ROE	49.1%	31.4%	16.7%	19.7%	17.6%
Net Debt/Equity (x)	0.6	0.3	0.2	0.1	0.0
P/E (x)	7.7	8.3	12.6	9.0	8.5
P/B (x)	3.1	2.3	2.0	1.6	1.4
EV/EBITDA (x)	5.0	5.2	7.1	5.4	5.0
EV/Sales (x)	1.1	1.0	1.0	0.8	0.8
Debtor days	42	50	53	52	53
Inventory days	79	76	77	73	72
Creditor days	29	27	29	29	29

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
23-Sep-15	20.3				280	
28-Oct-15	19.5	-4.2			280	0.0
10-Feb-16	18.5	-4.8			270	-3.6
10-May-16	18.1	-1.8			270	0.0
25-Aug-16	17.5	-3.5			260	-3.7
28-Nov-16	16.6	-4.8	17.3		250	-3.8
13-Feb-17	15.0	-9.6	16.5	-4.6	200	-20.0
16-May-17	14.3	-4.7	16.5	0.0	200	0.0
15-Nov-17	11.8	-17.5	9.9	-40.0	145	-27.5

Recommendation History



APPENDIX I

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(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: –Stock Broker - INZ000163434, Research Analyst – INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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