Indo Count (INDCOU)

CMP: ₹ 215 | Target: ₹ 300 (40%) | Target Period: 12 months | **BUY**

February 8, 2022

Result Update

Near term headwinds; long term story remains intact

About the stock: Indo Count (ICIL) is one of India's largest home textile manufacturer, exporter with an extensive product range spanning across bed sheets, quilts & bed linen. It has a presence in top nine out of 10 top big box retailers in US.

- ICIL is an integrated bedding solution provider, boasting capacity of 90 million metre per annum of dyeing/processing and cutting /sewing
- It exports to nearly 54 countries with US being the prime market (~75% of revenues and commanding ~20%+ market share in bed sheets)

Q3FY22 Results: Weighed down by various headwinds, reported soft performance.

- Volumes declined 12% YoY to 21.1 million metre on account of unprecedented supply chain challenges and lower demand in key geographies on account of third wave of pandemic. Judicious price hikes and better product mix translated into average realisations increasing by 9% YoY to ₹ 344/metre. Revenue de-grew 3% YoY to ₹ 756.4 crore
- Conscious effort to sell value added products has allowed the company to combat inflationary pressure and maintain 50%+ gross margins (up 380 bps YoY). EBITDA margins declined 176 bps YoY to 15.3%
- PAT declined 23% YoY to ₹ 71.2 crore on the back of exceptional expense worth ₹ 21 crore

What should investors do? Since our initiation report, the stock price has appreciated by 26% (from ₹ 170 in June 2021 to ₹ 215 in February 2022).

- We maintain **BUY** recommendation on the stock

Target Price and Valuation: We value ICIL at ₹ 300 i.e. 15x FY23E EPS

Key triggers for future price performance:

- Recent bill passed by the US Senate to ban imports of cotton products from China's Xinjiang region is expected to further fuel *'China+1'* strategy (80%+ of Chinese cotton is produced in that region)
- With the latest acquisition of GHCL, it would be able to add a whole new avenue of customer base, which is untapped, thereby leading to gain in global market share. ICIL plans to cross sell its value added categories (fashion, institutional and utility categories) to the existing clientele of GHCL
- Focus on increasing share of B2C and D2C segment through its branded portfolio (owned and licenced). This would aid margins, going forward
- Asset light nature of the business (2.5x asset turn) and strong EBITDA margins (~15-16%) would translate into RoCE of 22% in FY23E

Alternate Stock Idea: Apart from ICIL, in our textile coverage we also like KPR Mill.

- KPR Mills is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios
- BUY with target price of ₹ 820

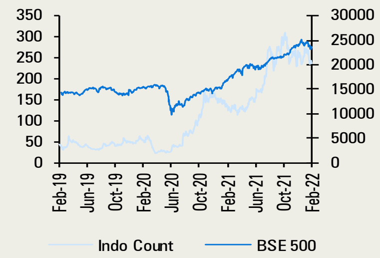
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	4,246.3
Total Debt (FY21) (₹ crore)	556.4
Cash (FY21) (₹ crore)	293.5
EV (₹ crore)	4,509.2
52 Week H / L	315 /113
Equity Capital (₹ crore)	39.5
Face Value (₹)	2.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	58.9	58.9	58.9	58.9	58.9
FII	9.4	9.8	10.0	9.8	9.7
DII	0.1	0.0	0.1	0.1	0.1
Others	31.6	31.3	31.0	31.2	31.3

Price Chart



Recent event & key risks

- Blended realisations higher owing to better product mix
- **Key Risk:**(i) Inability to pass on higher RM costs (ii) inability to maintain optimum utilisation levels

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ICICI Securities – Retail Equity Research

Key Financial Summary

Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	1,934.2	2,080.1	2,519.2	4.1%	2,854.1	4,060.5	27.0%
EBITDA	155.7	183.2	376.7		428.1	621.3	28.4%
Adjusted PAT	59.7	73.1	249.1		316.0	391.4	25.3%
P/E (x)	71.1	58.1	17.0		13.4	10.9	
EV/EBITDA (x)	28.9	24.3	12.0		11.3	7.7	
RoCE (%)	10.0	14.6	20.2		20.5	21.5	
RoE (%)	6.1	7.4	19.4		19.7	19.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

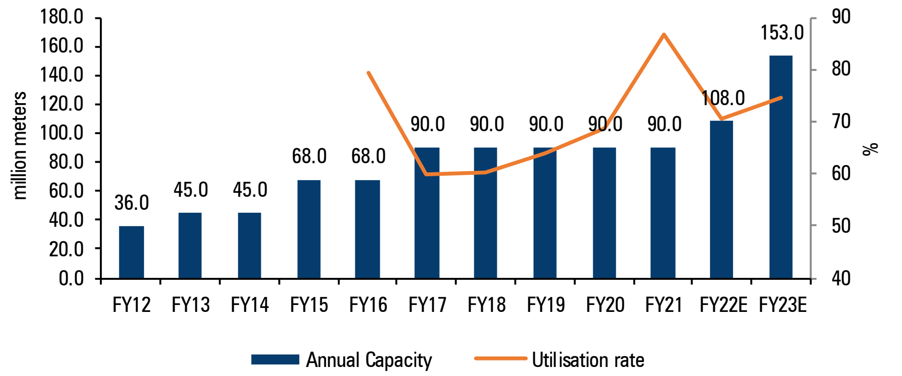
- For 9MFY22, ICIL clocked 58 mn metre with ASP of ₹ 365/metre. Despite significant cost inflationary pressure, the company has been able to maintain its EBITDA margin guidance of 15-18%. The reasons for the same included, constant efforts towards enhancing share of value added products and gradual price hikes. Share of branded business has improved 400 bps to 14% in YTDFY22 while share of fashion/utility/institutional segment improved 400 bps to 19%. This has resulted in the company recording one of its highest gross margins of ~53% in 9MFY22
- The industry has been witnessing headwinds related to shortages and unavailability of shipping containers, increase in freight costs and longer transit duration. Furthermore, demand trajectory has slowed down in key geographies such as US, UK and Europe with the recurrence of third wave of pandemic. The intensity in the current month continues. which is reflected in the demand projections shared by its customer
- Subsequently, the company has revised its volume guidance downwards from 85-90 mn metre to 75+ in FY22E. This implies ICIL may clock ~18 million metre volume in Q4FY22 (down 17% YoY)
- **With the latest acquisition of GHCL's home textile business (~45 million metre), Indo Count would become the largest home textile bedding company, globally, with annual capacity ~153 million metre. While near term challenges may persist, we like ICIL as a structural long term story to play the home textile export space. We expect capacity utilisation from the existing plant to improve from 70% in FY22 to 85% in FY23E and factor in 50% capacity utilisation from the new acquisition taking the overall volumes to 110+ mn metre in FY23E. We model in earnings CAGR of 25% in FY21-23E with healthy RoCE of 22% in FY23E.**

Q3FY22 Earnings conference call highlights:

- On the demand side, the management indicated that the slowdown appeared temporary (owing to Omicron) and the long term prospects for Indian home textile players remained intact. The management indicated that its expects the trend in average realisation to remain positive, going ahead, owing to higher proportion of value added products. Also, ICIL has taken price hikes and is constantly engaging with customers to pass on any input cost inflation
- The company is positive on utilising its expanded capacities. It believes that India's focus on entering into free trade agreements with the EU, US, UK, Canada and Australia will provide a level playing field to Indian home textile companies and enable them to garner market share from these geographies
- In a tough operating environment, the company has been able to report good margins. The management indicated that initiatives like raw material and forex hedging, rationalisation of expenses, improved value added product mix aided the margin profile
- On the GHCL acquisition, the company is planning to fund the acquisition cost of ₹ 575 crore through internal accruals and debt. It is planning to take debt of ₹ 200 crore to fund the acquisition. GHCL's capacity utilisation is around 50% and the company is aiming to enhance the same. The management indicated that there was no customer overlap due to acquisition and GHCL's product basket could be marketed to ICIL customers also and vice versa, which would be beneficial for ICIL

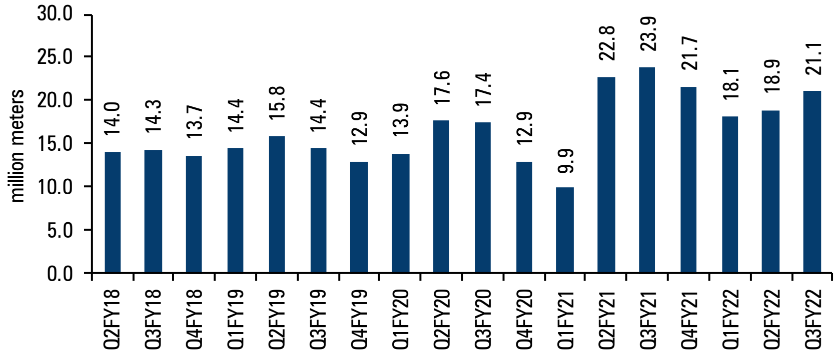
Financial story in charts

Exhibit 1: Capacity & utilisation rate (including GHCL capacity)



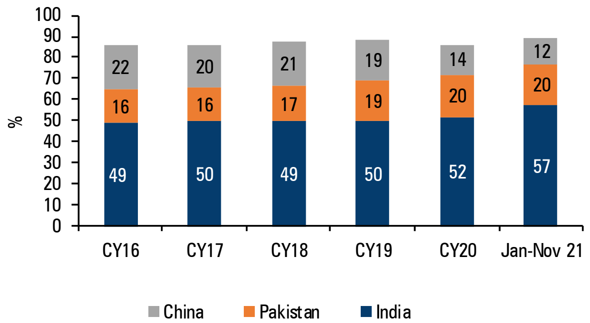
Source: Company, ICICI Direct Research

Exhibit 2: Volume trajectory quarterly trend



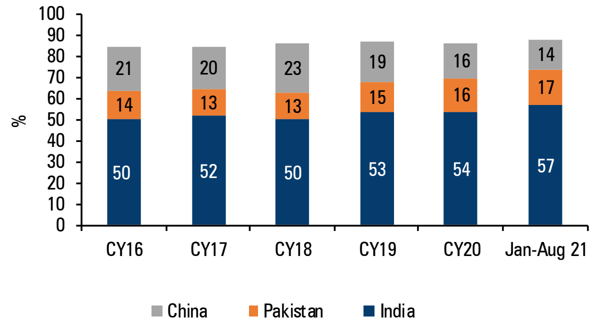
Source: Company, ICICI Direct Research

Exhibit 3: India's share in cotton bed sheet exports to US



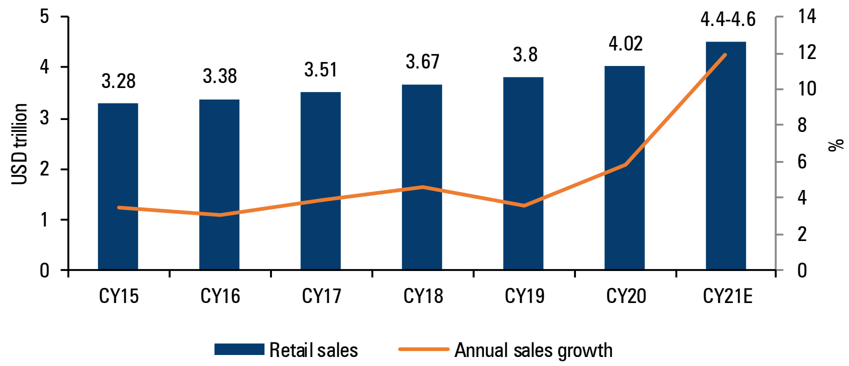
Source: Company, ICICI Direct Research

Exhibit 4: India's share in cotton pillow case exports to US



Source: Company, ICICI Direct Research

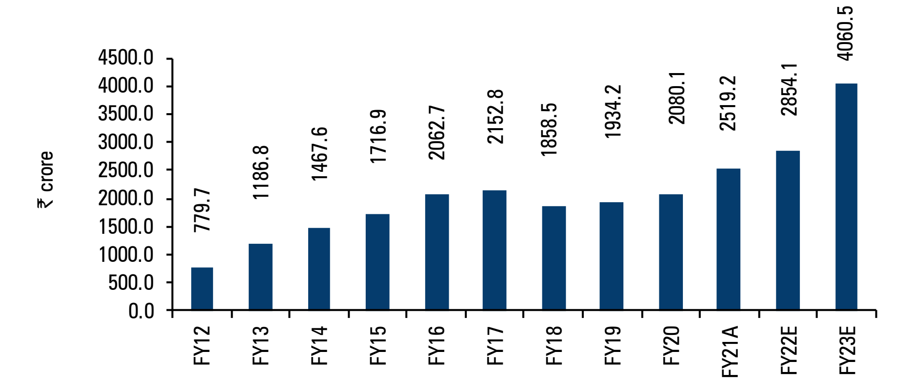
Exhibit 5: Historical US retail sales



Source: Company, ICICI Direct Research

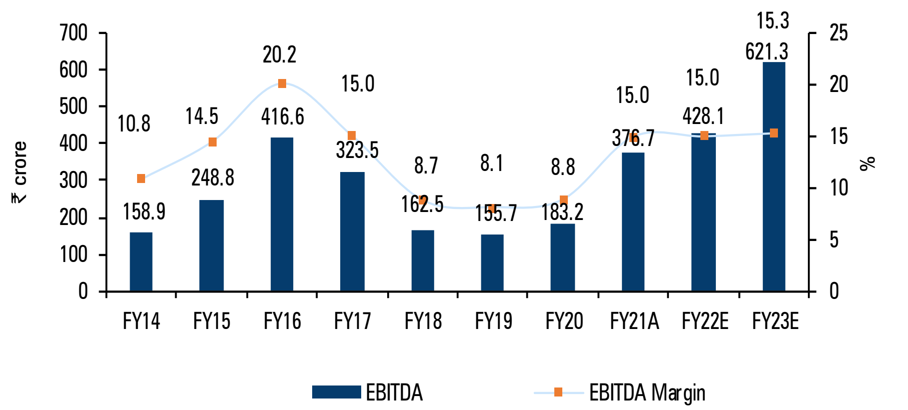
National retail federation (NRF) has raised its outlook for US retail sales growth in CY21 to 10.5%-13.5%, vs. earlier estimated 6.5-8.2% (the fastest growth since 1984)

Exhibit 6: Revenue expected to grow at CAGR of 27% (including acquisition) in FY21-23E



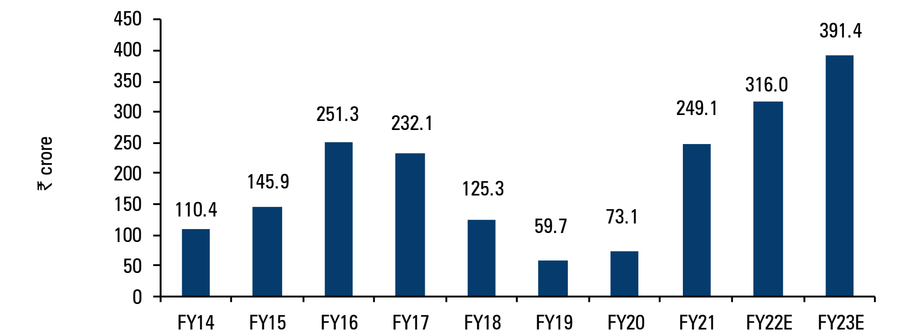
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



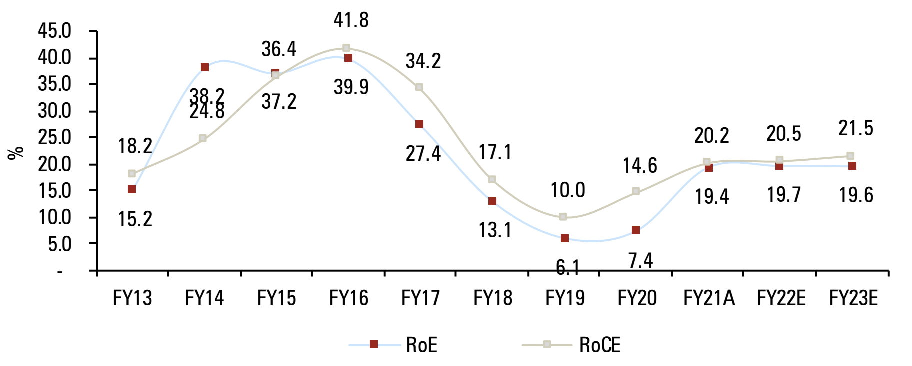
Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at CAGR of 25% in FY21-23E



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement — ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	2,080.1	2,519.2	2,854.1	4,060.5
Growth (%)	11.9	21.1	13.3	42.3
Total Raw Material Cost	1,139.5	1,269.8	1,355.7	2,030.2
Gross Margins (%)	45.2	49.6	52.5	50.0
Employee Expenses	148.1	159.0	194.1	268.0
Other Expenses	609.4	713.6	876.2	1,141.0
Total Operating Expenditure	1,896.9	2,142.5	2,426.0	3,439.2
EBITDA	183.2	376.7	428.1	621.3
EBITDA Margin	8.8	15.0	15.0	15.3
Interest	39.2	28.1	53.0	61.2
Depreciation	43.5	43.2	47.0	71.8
Other Income	54.6	37.8	115.0	20.0
Exceptional Expense	(98.5)	(3.7)	(20.9)	-
PBT	56.7	339.6	422.3	508.3
Total Tax	(16.4)	90.5	106.3	116.9
Profit After Tax	73.1	249.1	316.0	391.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement — ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	73.1	249.1	316.0	391.4
Add: Depreciation	43.5	43.2	47.0	71.8
Net Increase in Current Assets	-12.0	-466.6	-175.5	-455.6
Net Increase in Current Liabilities	92.0	77.6	6.2	105.7
CF from operating activities	**196.6**	**-96.7**	**193.6**	**113.2**
(Inc)/dec in Investments	48.4	-166.8	65.3	30.0
(Inc)/dec in Fixed Assets	-14.8	-31.6	-534.3	-50.0
Others	-17.0	-1.8	0.0	0.0
CF from investing activities	**16.5**	**-200.2**	**-469.0**	**-20.0**
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	11.4	207.7	259.2	-164.1
Others	-107.6	65.4	0.7	0.8
CF from financing activities	**-96.1**	**273.1**	**259.9**	**-163.4**
Net Cash flow	117.0	-23.8	-15.4	-70.2
Opening Cash	33.4	150.5	126.5	111.1
Closing Cash	**150.4**	**126.6**	**111.1**	**40.9**

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet — ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Equity Capital	39.5	39.5	39.5	39.5
Reserve and Surplus	946.5	1,245.1	1,561.1	1,952.4
Total Shareholders funds	986.0	1,284.6	1,600.6	1,991.9
Total Debt	348.7	556.4	815.6	651.5
Non Current Liabilities	78.3	94.3	95.0	95.8
Source of Funds	**1,413.1**	**1,935.3**	**2,511.2**	**2,739.2**
Gross block	1,011.2	1,040.9	1,580.9	1,630.9
Less: Accum depreciation	457.5	500.6	547.6	619.4
Net Fixed Assets	553.7	540.3	1,033.3	1,011.5
Capital WIP	5.9	7.7	2.0	2.0
Intangible assets	2.6	2.7	2.7	2.7
Investments	0.1	166.9	101.6	71.6
Inventory	523.7	718.0	836.7	1,112.5
Cash	150.4	126.5	111.1	40.9
Debtors	242.3	515.7	563.0	723.1
Loans & Advances & Other CA	192.3	191.2	200.7	220.5
Total Current Assets	1,108.7	1,551.5	1,711.5	2,097.0
Creditors	129.2	234.6	234.6	333.7
Provisions & Other CL	153.5	125.6	131.8	138.3
Total Current Liabilities	282.7	360.2	366.4	472.0
Net Current Assets	826.1	1,191.3	1,345.2	1,625.0
LT L& A, Other Assets	24.7	26.5	26.5	26.5
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**1,413.0**	**1,935.3**	**2,511.2**	**2,739.2**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	3.7	12.6	16.0	19.8
Cash EPS	5.9	14.8	18.4	23.4
BV	49.9	65.0	81.0	100.9
DPS	0.7	0.6	1.5	3.0
Cash Per Share	7.6	6.4	5.6	2.1
Operating Ratios (%)				
EBITDA margins	8.8	15.0	15.0	15.3
PBT margins	2.7	13.5	14.8	12.5
Net Profit margins	3.5	9.9	11.1	9.6
Inventory days	91.9	104.0	107.0	100.0
Debtor days	42.5	74.7	72.0	65.0
Creditor days	22.7	34.0	30.0	30.0
Return Ratios (%)				
RoE	7.4	19.4	19.7	19.6
RoCE	14.6	20.2	20.5	21.5
RoIC	16.5	24.1	22.5	22.5
Valuation Ratios (x)				
P/E	58.1	17.0	13.4	10.9
EV / EBITDA	24.3	12.0	11.3	7.7
EV / Sales	2.1	1.8	1.7	1.2
Market Cap / Revenues	2.0	1.7	1.5	1.0
Price to Book Value	4.3	3.3	2.7	2.1
Solvency Ratios				
Debt / Equity	0.4	0.4	0.5	0.3
Debt/EBITDA	1.9	1.5	1.9	1.0
Current Ratio	3.4	4.0	4.4	4.4
Quick Ratio	1.5	2.0	2.1	2.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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