Indo Count (INDCOU)

ICICI direct Research

CMP: ₹ 270 | Target: ₹ 350 (30%) | Target Period: 12 months | **BUY**

August 4, 2021

Strong demand trends to spur revenue growth…

About the stock: Indo Count (ICIL) is one of India's largest home textile manufacturer, exporters with 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 a 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)

Q1FY22 Results: ICIL reported a resilient performance amid a challenging scenario.

- In a seasonally weak quarter, ICIL reported volumes of 18.1 mn pieces (down 16% QoQ), higher than its average run-rate (14-15 mn pieces)
- Recognised RoSCTL incentive worth ₹ 90 crore during quarter, of which ₹ 50 crore pertains to Q4FY21
- Revenue grew 3% QoQ to ₹ 714 crore (adjusted growth: (-)8%). Higher other income (~3x QoQ) resulted in PAT growth of 2x QoQ to ₹ 117 crore

What should investors do? Since our initiation report, the stock price has appreciated by 62% (from ₹ 170 in June 2021 to ₹ 270 in August 2021).

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

Target Price and Valuation: We value ICIL at ₹ 350 i.e. 18x FY23E EPS.

Key triggers for future price performance:

- Extension of RoSCTL rates (8.2%) till FY24 would be structurally positive in enhancing the global competitiveness of home textile players like ICIL
- 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)
- Demand for home textile products in US markets to sustain owing to strong demand in value added categories such as health and hygiene
- Maintained healthy volume guidance of 85-90 million (mn) metre in FY22E owing to a strong order book
- Brownfield capex worth ₹ 200 crore (enhancing capacity by 20% to 108 mn metre) to fuel revenue growth (potential revenue: ₹ 600 crore)
- Asset light nature of the business (2.5x asset turn) and strong EBITDA margins would translate into RoCE of 23% in FY23E

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

- KPR Mills is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios
- BUY with a target price of ₹ 2310

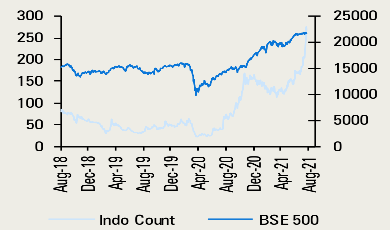
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,332.5
Total Debt (FY21) (₹ crore)	556.4
Cash (FY21) (₹ crore)	293.5
EV (₹ crore)	5,595.5
52 Week H / L	285 /62
Equity Capital (₹ crore)	39.5
Face Value (₹)	2.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	58.9	58.9	58.9	58.9	58.9
FII	7.3	8.6	9.4	9.8	10.0
DII	0.1	0.0	0.1	0.0	0.1
Others	33.7	32.4	31.6	31.2	31.1

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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Key Financial Summary

Financials	FY19	FY20	FY21A	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%	3,022.6	3,389.3	16.0%
EBITDA	155.7	183.2	376.7		474.5	549.1	20.7%
Adjusted PAT	59.7	73.1	249.1		345.4	384.4	24.2%
P/E (x)	89.3	73.0	21.4		15.4	13.9	
EV/EBITDA (x)	35.9	30.2	14.9		11.4	9.3	
RoCE (%)	10.0	14.6	20.2		24.4	22.5	
RoE (%)	6.1	7.4	19.4		21.2	19.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

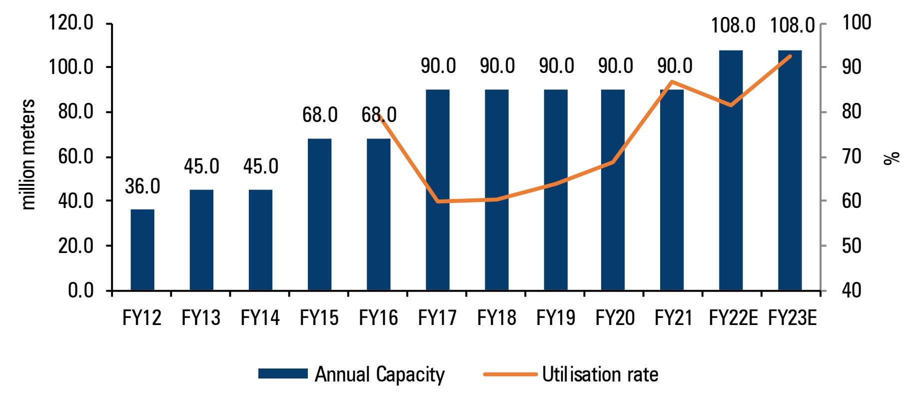
- Owing to stringent lockdown measures in Maharashtra, manufacturing operations were disrupted in Q1FY22 (May 15-23). Revenue for the quarter grew 3% QoQ to ₹ 714 crore (up 115% YoY). During the quarter, the company has recognised rebate of state and central taxes and levies (RoSCTL) incentives worth ₹ 90 crore, out of which ₹ 50 crore pertains to Q4FY21. Other income grew 3.4x QoQ to ₹ 45 crore of which ₹ 30 crore pertains to foreign exchange gain (that is considered to be operational in nature). Adjusting for the previous quarter's incentives in both quarters (Q4FY21 & Q1FY22), adjusted revenue de-grew 8% QoQ. Decline in volumes was partially offset by higher blended realisations (up 12% QoQ), owing to improved product mix and adequate pass on of higher RM prices
- Reported gross margins expanded 610 bps QoQ to 57% owing to inclusion of RoSCTL benefit of the previous quarter. Adjusting for the same, gross margins remained flattish QoQ. Owing to higher other expenses, EBITDA margins declined 290 bps QoQ to 16.2% (including foreign exchange gains). Reported EBITDA margins were at ~22%
- The company has maintained its volume guidance of 85-90 mn metre in FY22E. A significant improvement in order book visibility has led ICIL to incur brownfield capex of ₹ 150 crore to enhance its capacity by 20% to 108 million metre along with ₹ 50 crore capex for modernising its yarn manufacturing units to enhance captive consumption (currently 30%). With a total capex of ₹ 200 crore, the company is expecting to generate ₹ 600 crore of incremental revenues (asset turnover of 3x), which would fuel its revenue growth, going ahead
- During the quarter, the company announced a new partnership with a licensed brand, Jasper Conran OBE for an exclusive bed and bath collection, to be launched in Spring 2022. The range will be sold and marketed internationally under the Jasper Conran London brand, exclusively through Indo Count. The partnership would further strengthen its branded business (currently ~10%) and also enable it to tap the UK market opportunities wherein it is currently underpenetrated

Q1FY22 Earnings conference call highlights:

- The demand prospects for Indian home textiles appear robust owing to China +1 strategy due to supply chain diversification strategy of global brands. Also, tensions in US-China trade relations and issues with usage of Chinese cotton from the Xinjiang region provide opportunities for Indian home textile players to achieve sustained growth
- ICIL has been able to improve the product realisation due to a better product mix as the focus on health and hygiene products has increased the demand for value added products
- On the gross margin front, the company expects to maintain gross margins at FY21 level and is reasonably confident of passing on majority of the input cost hike to its customers owing to it being a reliable and dependent business partner for major global brands
- The company is planning to double its revenue over the next three to four years with strong demand growth in both export and domestic markets
- The new capacity of around 18 million metre is expected to be operational by Q4FY22
- On the global competitiveness, the management indicated that Indian home textile exporters were better placed owing to the abundant availability of cotton and finer count of cotton yarn in India compared to other countries like Bangladesh and Vietnam that do not have raw material availability in their country and are mainly dependent on imported cotton and cotton yarn, which inhibits their competitiveness in the global home textile market

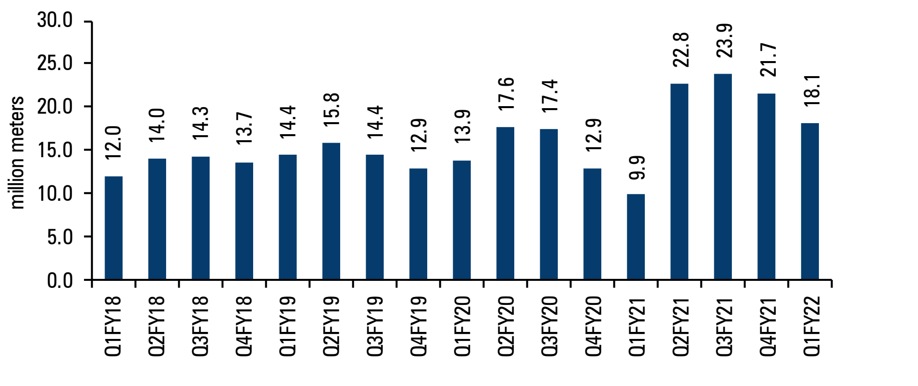
Financial story in charts

Exhibit 1: Capacity & utilisation rate



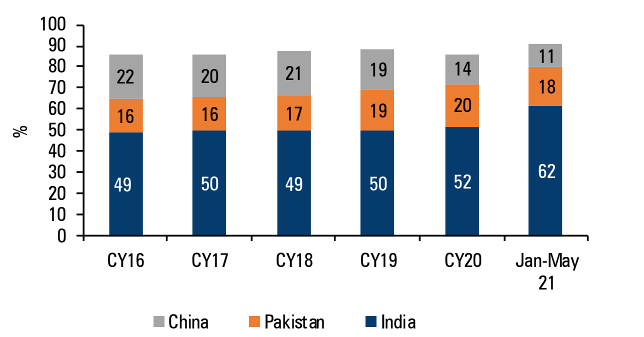
Source: Company, ICICI Direct Research

Exhibit 2: Volume trajectory accelerates significantly from Q2FY21 onwards



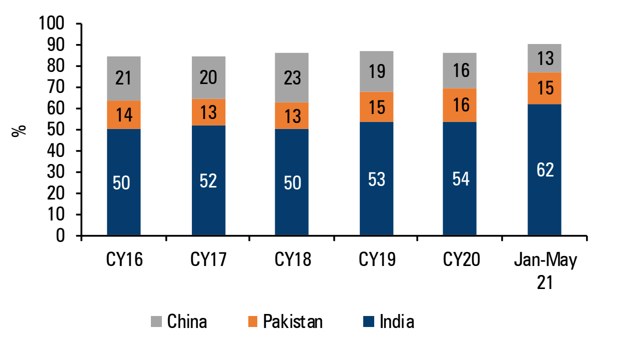
Source: Company, ICICI Direct Research

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



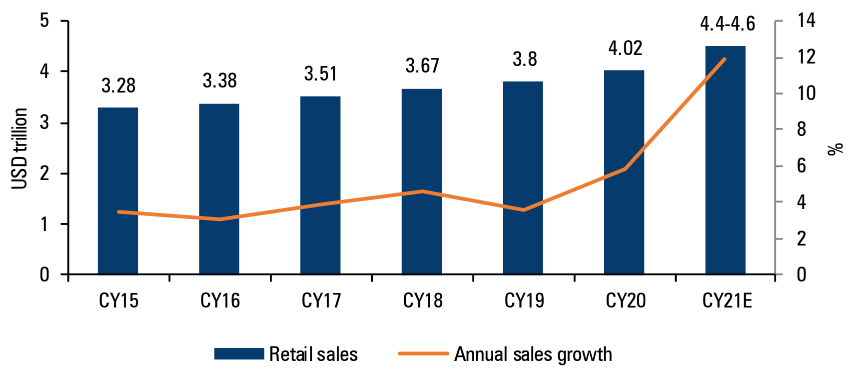
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

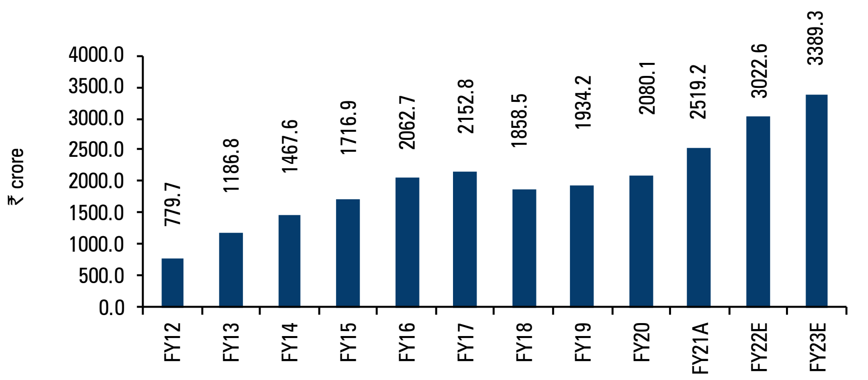
Exhibit 5: Historical US retail sales



Source: Company, ICICI Direct Research

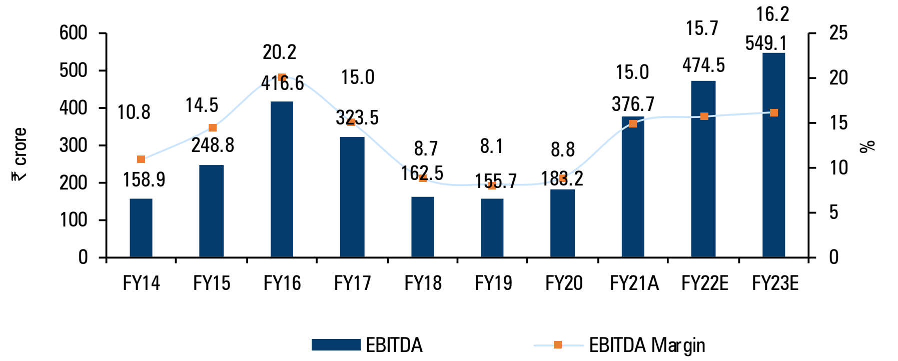
National Retail Federation (NRF) has raised its outlook for US retail sales growth in CY21 to 10.5-13.5%, vs. earlier estimated 6.5-8.2% (the fastest growth since 1984)

Exhibit 6: Revenue expected to grow at CAGR of 16% in FY21-23E



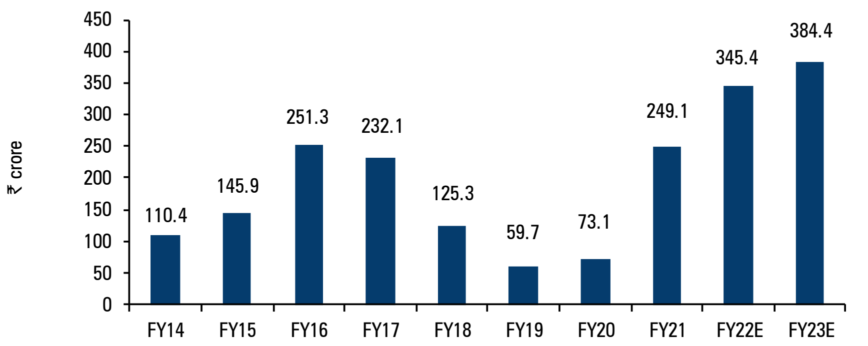
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



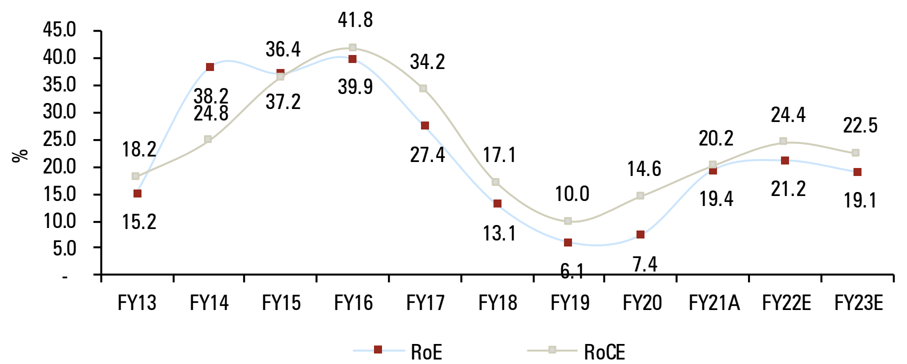
Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at CAGR of 24% 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	3,022.6	3,389.3
Growth (%)	11.9	21.1	20.0	12.1
Total Raw Material Cost	1,139.5	1,269.8	1,526.4	1,694.7
Gross Margins (%)	45.2	49.6	49.5	50.0
Employee Expenses	148.1	159.0	199.5	230.5
Other Expenses	609.4	713.6	822.1	915.1
Total Operating Expenditure	1,896.9	2,142.5	2,548.0	2,840.3
EBITDA	183.2	376.7	474.5	549.1
EBITDA Margin	8.8	15.0	15.7	16.2
Interest	39.2	28.1	30.9	23.1
Depreciation	43.5	43.2	52.1	56.8
Other Income	54.6	37.8	70.0	30.0
Exceptional Expense	(98.5)	(3.7)	-	-
PBT	56.7	339.6	461.6	499.2
Total Tax	(16.4)	90.5	116.2	114.8
Profit After Tax	73.1	249.1	345.4	384.4

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	345.4	384.4
Add: Depreciation	43.5	43.2	52.1	56.8
Net Increase in Current Assets	-12.0	-466.6	-34.5	-135.3
Net Increase in Current Liabilities	92.0	77.6	20.0	36.7
CF from operating activities	**196.6**	**-96.7**	**383.0**	**342.5**
(Inc)/dec in Investments	48.4	-166.8	-1.5	-16.7
(Inc)/dec in Fixed Assets	-14.8	-31.6	-194.3	-50.0
Others	-17.0	-1.8	0.0	0.0
CF from investing activities	**16.5**	**-200.2**	**-195.8**	**-66.7**
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	11.4	207.7	-170.5	-78.2
Others	-107.6	65.4	0.7	0.8
CF from financing activities	**-96.1**	**273.1**	**-169.7**	**-77.4**
Net Cash flow	117.0	-23.8	17.5	198.4
Opening Cash	33.4	150.5	126.5	144.0
Closing Cash	**150.4**	**126.6**	**144.0**	**342.4**

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	1,590.5	1,974.8
Total Shareholders funds	986.0	1,284.6	1,630.0	2,014.3
Total Debt	348.7	556.4	386.0	307.8
Non Current Liabilities	78.3	94.3	95.0	95.8
Source of Funds	**1,413.1**	**1,935.3**	**2,111.0**	**2,417.9**
Gross block	1,011.2	1,040.9	1,240.9	1,290.9
Less: Accum depreciation	457.5	500.6	552.7	609.5
Net Fixed Assets	553.7	540.3	688.1	681.3
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	168.4	185.1
Inventory	523.7	718.0	745.3	835.7
Cash	150.4	126.5	144.0	342.4
Debtors	242.3	515.7	513.4	538.6
Loans & Advances & Other CA	192.3	191.2	200.7	220.5
Total Current Assets	1,108.7	1,551.5	1,603.5	1,937.2
Creditors	129.2	234.6	248.4	278.6
Provisions & Other CL	153.5	125.6	131.8	138.3
Total Current Liabilities	282.7	360.2	380.2	416.9
Net Current Assets	826.1	1,191.3	1,223.2	1,520.3
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**	**2,110.9**	**2,417.9**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	3.7	12.6	17.5	19.5
Cash EPS	5.9	14.8	20.1	22.3
BV	49.9	65.0	82.5	102.0
DPS	0.7	0.6	1.5	2.9
Cash Per Share	7.6	6.4	7.3	17.3
Operating Ratios (%)				
EBITDA margins	8.8	15.0	15.7	16.2
PBT margins	2.7	13.5	15.3	14.7
Net Profit margins	3.5	9.9	11.4	11.3
Inventory days	91.9	104.0	90.0	90.0
Debtor days	42.5	74.7	62.0	58.0
Creditor days	22.7	34.0	30.0	30.0
Return Ratios (%)				
RoE	7.4	19.4	21.2	19.1
RoCE	14.6	20.2	24.4	22.5
RoIC	16.5	24.1	28.9	29.1
Valuation Ratios (x)				
P/E	73.0	21.4	15.4	13.9
EV / EBITDA	30.2	14.9	11.4	9.3
EV / Sales	2.7	2.2	1.8	1.5
Market Cap / Revenues	2.6	2.1	1.8	1.6
Price to Book Value	5.4	4.2	3.3	2.6
Solvency Ratios				
Debt / Equity	0.4	0.4	0.2	0.2
Debt/EBITDA	1.9	1.5	0.8	0.6
Current Ratio	3.4	4.0	3.8	3.8
Quick Ratio	1.5	2.0	1.9	1.8

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Textile)

Sector / Company	CMP			M Cap	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
KPR Mill	1,987	2,310	Buy	13,675	4.3	4.0	3.4	2.8	36.3	26.5	25.0	18.1	23.0	16.9	15.4	11.8	19.6	24.0	21.4	26.8	20.2	21.9	19.6	23.3
Gokaldas Exports	212	280	Buy	909	0.8	0.9	0.7	0.6	29.9	34.3	19.0	11.3	16.6	10.6	8.1	5.7	7.7	9.3	12.3	16.7	13.4	9.1	14.2	19.2
Filatex India	100	125	Buy	2,197	1.0	1.2	0.9	0.7	18.1	13.3	7.4	5.8	13.0	7.9	5.3	4.1	14.0	22.3	29.1	31.7	20.4	21.7	28.5	27.2
Vardhman Textiles	1,900	2,240	Buy	10,754	1.9	2.0	1.5	1.3	18.6	26.2	9.2	8.5	13.3	15.2	6.7	6.1	7.7	5.5	16.4	15.6	9.5	6.3	15.3	14.5
Indo Count	270	350	Buy	5,333	2.7	2.2	1.8	1.5	73.0	21.4	15.4	13.9	30.2	14.9	11.4	9.3	14.6	20.2	24.4	22.5	7.4	19.4	21.2	19.1
Siyaram Silk	430	350	Buy	2,015	1.4	2.0	1.3	1.2	29.1	563.0	16.8	13.4	14.4	39.6	10.3	8.6	8.1	-0.8	14.6	17.6	9.1	0.5	14.7	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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