

Acquisition to aid aspiration of market share gain....

About the stock: Indo Count is one of India's largest home textile manufacturer and exporter with an extensive product range which spans across bed sheets, quilts and bed linen. It has a presence in top 9 out of 10 top big box retailers in USA

- Indo Count is an integrated bedding solution provider, boasting capacity of 90 million meters p.a. of dyeing/processing and cutting /sewing.
- Company exports to nearly 54 countries with USA being the prime market (~75% of revenues and commanding ~20%+ market share in bed sheets)

Company event: Indo Count (ICIL) acquires home textile business of GHCL

- Approved acquisition of GHCL's home textile business (which includes manufacturing facilities and land in Vapi, Gujarat) by way of slump sale
- With addition of almost 50% (45 million meters) new capacity, Indo Count would become the largest Home Textile Bedding company, globally, with annual capacity ~153 million metres.
- Acquisition could incrementally add potential revenue of ₹1300-1500 crores over next two three years
- On an annualised basis, the valuation stands at ~ 6.0x FY22 PBT, which we believe is fairly reasonable (purchase consideration: ₹ 576 crore)

What should investors do? Since our initiation report, the stock price has appreciated by 53% (from ₹ 170 in June 2021 to ₹ 260 in December 2021).

- We maintain **BUY** recommendation on the stock with revised TP

Target Price and Valuation: We value ICIL at ₹ 360 i.e. 17x FY23E EPS

Key triggers for future price performance:

- With the acquisition ICIL would be able to add a whole new avenue of customer base which is untapped, thereby leading to gain in global market share. Currently GHCL services certain large big box retailers which are not overlapping with ICIL's clientele.
- It would de-risk the manufacturing facilities with twin state geographical diversity. The acquired land in Vapi has sufficient space to double the capacity.
- ICIL plans to cross sell its value added categories (fashion, institutional and utility categories) to the existing clientele of GHCL.
- Demand for home textile products in US markets to sustain owing to strong demand towards value added categories such as health and hygiene

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 ₹ 575



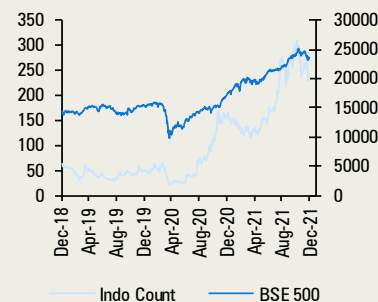
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,135.0
Total Debt (FY21) (₹ crore)	556.4
Cash (FY21) (₹ crore)	293.5
EV (₹ crore)	5,398.0
52 Week H / L	315 /113
Equity Capital (₹ crore)	39.5
Face Value (₹)	2.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	58.9	58.9	58.9	58.9	58.9
FII	8.6	9.4	9.8	10.0	9.8
DII	0.0	0.1	0.0	0.1	0.1
Others	32.5	31.6	31.3	31.0	31.2

Price Chart



Key risks

- (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	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%	3,093.4	4,191.8	29.0%
EBITDA	155.7	183.2	376.7		467.1	649.7	31.3%
Adjusted PAT	59.7	73.1	249.1		349.0	416.9	29.4%
P/E (x)	86.0	70.3	20.6		14.7	12.3	
EV/EBITDA (x)	34.6	29.1	14.3		12.4	8.7	
RoCE (%)	10.0	14.6	20.2		21.6	22.9	
RoE (%)	6.1	7.4	19.4		21.4	20.3	

Key takeaways of conference call highlights

- Indo count Industries (ICIL) acquired the home textile business of GHCL on a going concern basis. The acquisition includes the existing home textile manufacturing facility of GHCL at Vapi and specified assets (inventory and intellectual property) of its overseas subsidiary. The total cost of acquisition is ~ ₹ 576 crore (₹ 539 crore for Indian home textile business and ₹ 37 crore for GHCL's US subsidiary). Out of the total consideration, ₹ 340 crore is fixed consideration and the balance ₹ 199 crore is towards net realizable current assets.
- GHCL primarily has products in the bedding segment and has a processing capacity of 45 million meters, cutting and sew capacity of 30 million meters and a weaving capacity of ~ 12 million metres. Post the acquisition, ICIL's capacity (post its ongoing expansion of 18 million metres) will stand at 153 million metres. ICIL will increase the acquired cutting and sew capacity to 45 million metres by operating in two shifts as currently GHCL is operating in a single shift only.
- GHCL's home textile revenue for FY21 stood at ₹ 435 crore and for H1FY22 revenue was ₹ 386 crore. GHCL capacity was operating at 50% capacity utilisation level. ICIL management stated that they would target increasing the capacity utilisation level as demand from ICIL customers continued to remain strong and products from GHCL's home textile facility will be sold to ICIL customers. The management of ICIL indicated that the acquired capacity has a revenue potential of ₹1300 crore - ₹1500 crore over next two to three years.
- The management of ICIL stated that the product profile of GHCL is complementary to ICIL's product profile with 65% of revenues coming from USA. GHCL also has a presence in the Europe and Australian market. ICIL would benefit from addition of new customers through GHCL acquisition. ICIL management indicated they would target cross selling ICIL's products to the new customers acquired from GHCL. GHCL also has certain unique products which ICIL can sell to its existing customers thereby widening the product portfolio of ICIL.
- On funding of the acquisition, ICIL management has indicated that ₹ 350 crore would be utilised from internal accruals and the rest through debt.
- The management of ICIL stated that cross selling of value added products as per ICIL products standard would enable to improve the realisation and profitability from the acquired GHCL's customer base.
- Post the acquisition, the management is targeting to keep the debt equity ratio to below 0.6x.

We incorporate the GHCL acquisition and build in ~50% CU from the new acquisition and ~85% CU for the existing capacity in FY23E. Expect company to report negative FCF worth ₹ 375 crore (post the recent acquisition) which would be funded through cash balance worth ~ ₹ 225 crore and balance through increase in debt levels by ~27% YoY to ₹ 708 crore as on FY22E. With steady FCF generation and lower capex requirements, we expect debt levels to reduce to ₹ 565 crore in FY23E. With the recent acquisition, we believe ICIL is well placed to capitalise on the robust opportunities in the home textile export space which is fuelled by 'China+1 strategy' and recent talks on potential FTA agreement with Europe. Factoring in the acquisition, we model in earnings CAGR of 29% in FY21-23E with a healthy RoCE of ~23% in FY23E. Maintain BUY with a revised target price of ₹ 360 (17x FY23 EPS, previous TP: ₹ 350).

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	2,080.1	2,519.2	3,093.4	4,191.8
Growth (%)	11.9	21.1	22.8	35.5
Total Raw Material Cost	1,139.5	1,269.8	1,562.2	2,116.8
Gross Margins (%)	45.2	49.6	49.5	49.5
Employee Expenses	148.1	159.0	204.2	280.8
Other Expenses	609.4	713.6	860.0	1,144.4
Total Operating Expenditure	1,896.9	2,142.5	2,626.3	3,542.0
EBITDA	183.2	376.7	467.1	649.7
EBITDA Margin	8.8	15.0	15.1	15.5
Interest	39.2	28.1	38.6	56.6
Depreciation	43.5	43.2	52.1	71.8
Other Income	54.6	37.8	90.0	20.0
Exceptional Expense	(98.5)	(3.7)	-	-
PBT	56.7	339.6	466.4	541.4
Total Tax	(16.4)	90.5	117.4	124.5
Profit After Tax	73.1	249.1	349.0	416.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	73.1	249.1	349.0	416.9
Add: Depreciation	43.5	43.2	52.1	71.8
Net Increase in Current Assets	-12.0	-466.6	-267.4	-423.0
Net Increase in Current Liabilities	92.0	77.6	25.8	96.8
CF from operating activities	196.6	-96.7	159.5	162.4
(Inc)/dec in Investments	48.4	-166.8	132.1	10.0
(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	-402.2	-40.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	11.4	207.7	151.8	-142.6
Others	-107.6	65.4	0.7	0.8
CF from financing activities	-96.1	273.1	152.5	-141.9
Net Cash flow	117.0	-23.8	-90.2	-19.5
Opening Cash	33.4	150.5	126.5	36.3
Closing Cash	150.4	126.6	36.3	16.9

Source: Company, ICICI Direct Research

Exhibit 3: 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	1,594.1	2,011.0
Total Shareholders funds	986.0	1,284.6	1,633.6	2,050.5
Total Debt	348.7	556.4	708.2	565.6
Non Current Liabilities	78.3	94.3	95.0	95.8
Source of Funds	1,413.1	1,935.3	2,436.9	2,711.9
Gross block	1,011.2	1,040.9	1,580.9	1,630.9
Less: Accum depreciation	457.5	500.6	552.7	624.5
Net Fixed Assets	553.7	540.3	1,028.2	1,006.4
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	34.9	24.9
Inventory	523.7	718.0	889.9	1,148.4
Cash	150.4	126.5	36.3	16.9
Debtors	242.3	515.7	601.7	746.5
Loans & Advances & Other CA	192.3	191.2	200.7	220.5
Total Current Assets	1,108.7	1,551.5	1,728.7	2,132.3
Creditors	129.2	234.6	254.3	344.5
Provisions & Other CL	153.5	125.6	131.8	138.3
Total Current Liabilities	282.7	360.2	386.1	482.8
Net Current Assets	826.1	1,191.3	1,342.6	1,649.4
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	2,436.8	2,711.8

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	3.7	12.6	17.7	21.1
Cash EPS	5.9	14.8	20.3	24.7
BV	49.9	65.0	82.7	103.8
DPS	0.7	0.6	1.5	3.2
Cash Per Share	7.6	6.4	1.8	0.9
Operating Ratios (%)				
EBITDA margins	8.8	15.0	15.1	15.5
PBT margins	2.7	13.5	15.1	12.9
Net Profit margins	3.5	9.9	11.3	9.9
Inventory days	91.9	104.0	105.0	100.0
Debtor days	42.5	74.7	71.0	65.0
Creditor days	22.7	34.0	30.0	30.0
Return Ratios (%)				
RoE	7.4	19.4	21.4	20.3
RoCE	14.6	20.2	21.6	22.9
RoIC	16.5	24.1	22.2	23.2
Valuation Ratios (x)				
P/E	70.3	20.6	14.7	12.3
EV / EBITDA	29.1	14.3	12.4	8.7
EV / Sales	2.6	2.1	1.9	1.4
Market Cap / Revenues	2.5	2.0	1.7	1.2
Price to Book Value	5.2	4.0	3.1	2.5
Solvency Ratios				
Debt / Equity	0.4	0.4	0.4	0.3
Debt/EBITDA	1.9	1.5	1.5	0.9
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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Sell: <-15%



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