Indo Count (INDCOU)

ICICI direct Research

CMP: ₹ 135 | Target: ₹ 150 (11%) | Target Period: 12 months | HOLD

November 15, 2022

Maintains steady utilisation rate in tough scenario…

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

- Indo Count is an integrated bedding solution provider, boasting capacity of 108 million metre per annum of dyeing/processing and cutting /sewing
- ICIL exports to nearly 54 countries with the US being the prime market (~75% of revenues and commanding ~20%+ market share in bed sheets)

Q2FY23: Indo Count (ICIL) reported a resilient performance in Q2FY23 as it maintained decent level of capacity utilisation rates and EBITDA margins.

- Overall volumes for the quarter were at 20.5 million metre (up 7% QoQ). It also includes GHCL volumes, which were integrated in Q1FY23
- Sharp price hikes (up 11% QoQ) and enhanced product mix resulted in the company maintaining gross margins of 51% (average gross margins 52-54%) in Q2FY23. EBITDA margins were at ~14%, which is mere 100 bps lower than its average guided band of 15-18%
- EBITDA grew 3% YoY to ₹ 114.8 crore (down 6% QoQ). Resilient profitability is credible given the significant decline in EBITDA seen for peers in Q2FY23
- Increased finance cost (up 70% YoY) owing to higher debt and lower other income led to net profit declining by 21% YoY (16% QoQ) to ₹ 67 crore

What should investors do? The stock price witnessed a steep correction in the last one year (~45%). India's market share loss in US bed sheets (from 57% to 50%), volatile cotton prices, softening of US demand (lower housing sales) are some of the main factors weighing on the stock performance. NWC days had spiked significantly in FY22 while also higher capex has led to debt bloating to ₹ 1300 crore (D/E: 0.8x). Higher inventory at retailer's level could weigh on holiday season sales in Q3FY23. However, a gradual reduction in inventory could improve order trajectory in Q4

- We maintain **HOLD** rating on the stock

Target Price and Valuation: We value ICIL at ₹ 150 i.e. 7x FY24E EPS.

Key triggers for future price performance:

- FTAs with UK/Europe to improve Indian textiles global competiveness
- 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

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

- KPR Mills is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios

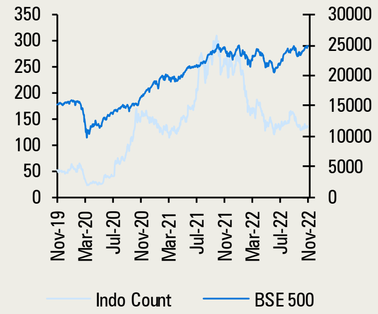
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,666.3
Total Debt (FY22) (₹ crore)	1,301.5
Cash (FY21) (₹ crore)	396.8
EV (₹ crore)	3,571.0
52 Week H / L	280 /120
Equity Capital (₹ crore)	39.5
Face Value (₹)	2.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	58.9	58.9	58.9	58.9	58.9
FII	9.8	9.7	9.4	9.3	9.3
DII	0.1	0.1	0.1	0.1	0.1
Others	31.2	31.3	31.6	31.7	31.7

Price Chart



Key risks

- **Key Risk:** (i) Higher than expected margins, (ii) Inability to maintain optimum utilisation levels

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	1,934.2	2,080.1	2,519.2	2,942.0	6.4%	3,096.1	3,895.0	15.1%
EBITDA	155.7	183.2	376.7	534.0	10.5%	442.7	654.4	10.7%
Adjusted PAT	59.7	73.1	249.1	358.5	9.1%	257.1	410.6	7.0%
P/E (x)	44.6	36.5	10.7	7.4		10.4	6.5	
EV/EBITDA (x)	18.8	15.6	7.8	6.7		8.5	5.5	
RoCE (%)	10.0	14.6	20.2	18.5		13.3	18.7	
RoE (%)	6.1	7.4	19.4	22.6		14.2	19.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

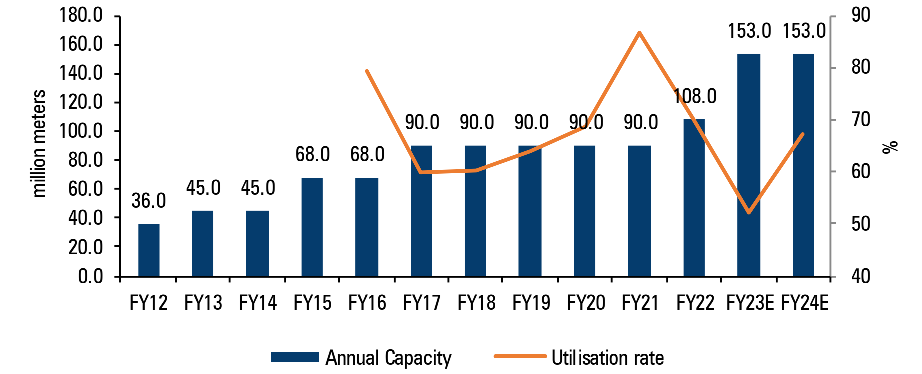
- The textile industry has been witnessing headwinds related to slowdown in key geographies like the US, UK and Europe that has led to inventory pile up at retailer's level. Also, India's competitiveness compared to global peers was hampered owing to significantly higher disparity between domestic and international cotton prices. Subsequently, overall share of India's bed sheet exports to the US has declined from 57% to 49% in YTDFY23
- Given an extremely challenging context, ICIL's Q2FY23 print appears healthy. On a YoY basis, volume grew 8% YoY to 20.5 million metre. Higher volumes were owing to acquisition of GHCL business in the previous quarter. As per our calculations, volumes for the base capacity de-grew 17% YoY and is operating at ~68% capacity utilisation rates (vs. peers 50-60%). Average realisations grew 5% YoY to ₹ 400/metre. Overall revenue grew 14% YoY to ₹ 844.1 crore. For H1FY23, the company clocked ~40 million metre volumes. The management indicated demand for global retailers remains weak as most of them are saddled with excess inventory. The company expects the offtake in ensuing holiday season to moderate inventory levels. They would look at replenishing the products in subsequent quarters, which would provide thrust to the order book of major home textile players
- Despite significant cost inflationary pressure, the company was able to nearly maintain its EBITDA margin guidance of 15-18% in Q2FY23 (clocked in 14%). The reasons for the same included, constant efforts towards enhancing share of value added products and better hedging of RM prices (the company invested OCF and undertook WC debt to invest in cotton). The benefit of declining cotton prices would be visible only from Q4FY23 onwards as the company continues to carry high cost inventory in December. We expect EBITDA margins in H2FY23 to be softer compared to H1FY23 (15.3%)
- The company has charted out capex worth ₹ 270 crore towards backward integration (addition of 68000 spindles by March 2023). The yarn would be mainly value added and would be utilised towards supporting recently acquired GHCL capacity (~192 new looms). The management expects share of backward integration to improve from current 10% to 25% over the next two to three years. The capex will be funded through mix of debt (₹ 275 crore) and internal accruals (₹ 95 crore). On its organic expansion, the management indicated the expansion of capacity from 90 million metre to 108 million metre would be operational by H2FY23 (capex: ~ ₹ 115 crore)
- On the balance sheet front, the company generated positive operating cash flow worth ₹ 324 crore owing to lower investments in working capital compared to previous year. ICIL incurred capex worth ₹ 165 crore in H1FY23, mainly funded through internal accruals. Net debt declined by ~₹ 44 crore to ₹ 860 crore. We expect debt to remain bloated owing to higher capex requirements and negative FCF in H2FY23. With no major capex requirements in FY24E, we expect the company to generate positive FCF and retire certain long term debt
- **With the latest acquisition of GHCL's home textile business (~45 million meters), Indo Count would become the largest home textile bedding company, globally, with annual capacity 153 million metre. In the near term it expects the GHCL plant to operate at ~50% utilisation levels. Excluding GHCL, we expect ICIL to clock 60 million metre volume, down 15% YoY (~65% CU) in FY23E. Overall volumes (including GHCL) may increase 6% YoY to 80 million metre. We expect utilisation levels to increase gradually in FY24E**

Q2FY23 Earnings conference call highlights:

- The management indicated it has acquired a new set of customers through GHCL acquisition. The management is exploring opportunities to cross sell ICIL products to GHCL customers while GHCL products have also been showcased to ICIL customers. The cross selling of widened product bouquet would enable ICIL to support its revenue growth in ensuing quarters
- On the immediate order book front, the company is hopeful of maintaining order book at previous year’s levels and protect its market share
- On the competitive positioning in the international home textile exports market, the management indicated that with Indian cotton being more expensive than global cotton, India’s competitiveness was negatively impacted. Pakistan gained market share as the retailer’s purchases shifted to lower priced products and with Pakistan having a significant presence in lower priced products benefitted from the same and gained market share during the period. The management is hopeful that India would regain its market share as the demand in global markets reverts back to value added products where India is better positioned and should gain market share post normalisation of inventories with global retailers
- The management indicated that they are striving to improve the margins of GHCL by engaging with customers and devising strategies to offer differentiated products to GHCL customers from the Indo Count product basket. Also, ICIL expects to be able to improve the capacity utilisation of GHCL, which would enable margin improvement through operating leverage
- On the logistics front, the management indicated that the logistic issues have been resolved and availability of containers for export has improved

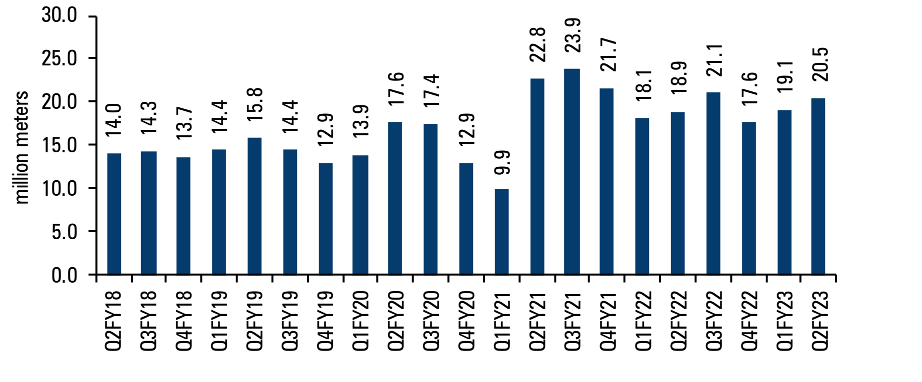
Financial story in charts

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



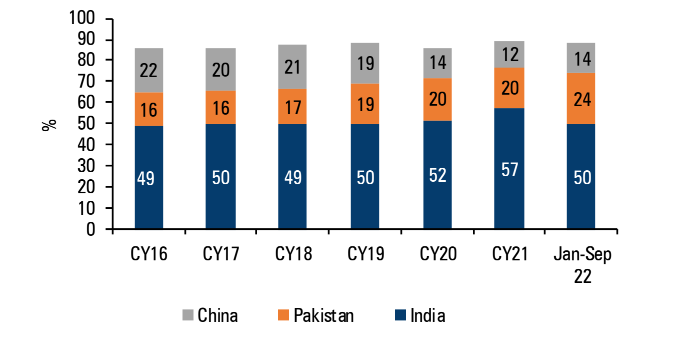
Source: Company, ICICI Direct Research

Exhibit 2: Volume trajectory quarterly trend (Q1/Q2FY23 includes GHCL volumes)



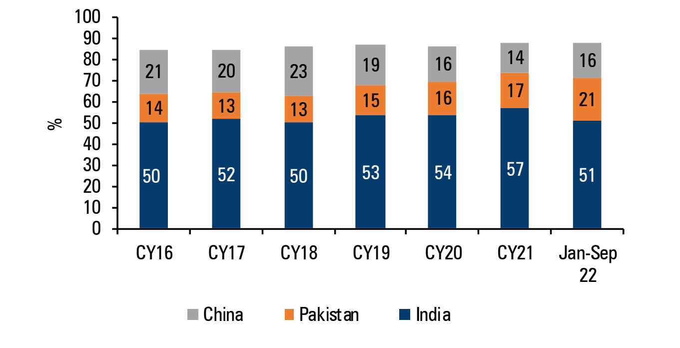
Source: Company, ICICI Direct Research

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



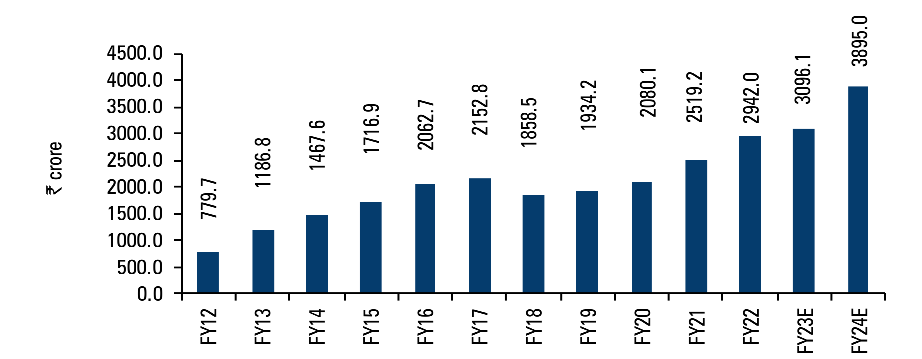
Source: Company, ICICI Direct Research

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



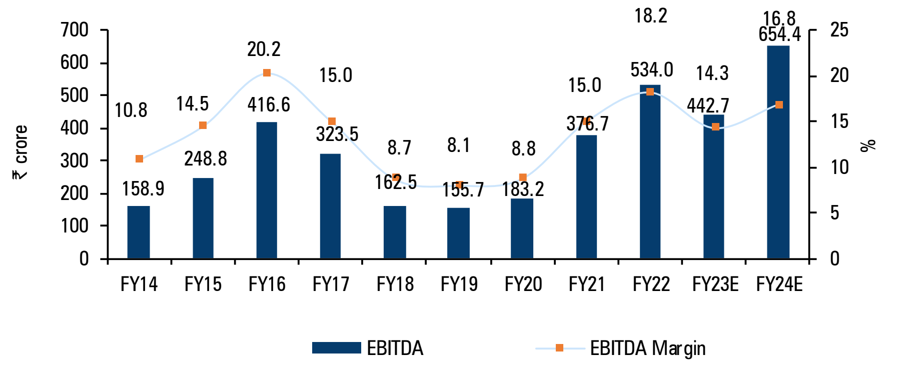
Source: Company, ICICI Direct Research

Exhibit 5: Revenue expected to grow at 15% CAGR (including acquisition) in FY22-24E



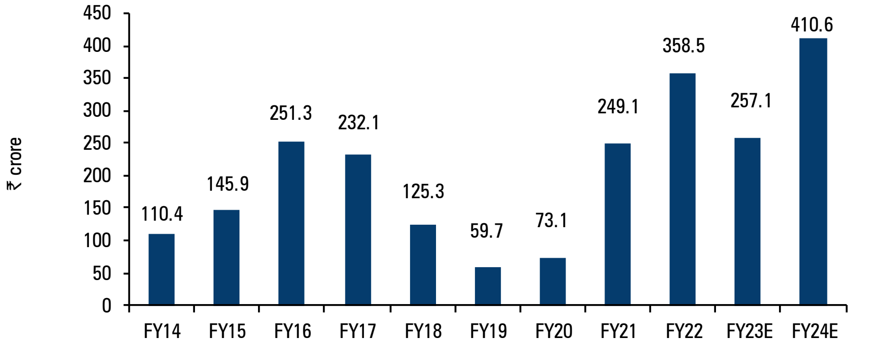
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



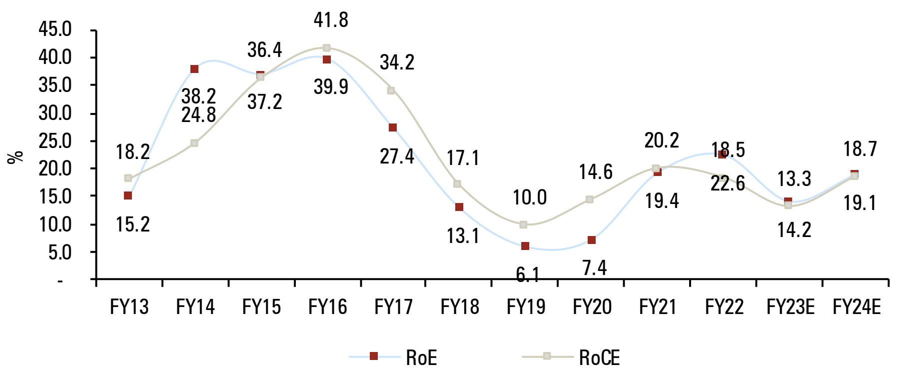
Source: Company, ICICI Direct Research

Exhibit 7: PAT expected to grow at CAGR of 7% in FY22-24E



Source: Company, ICICI Direct Research

Exhibit 8: Return ratio trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

(Year-end March)	FY21A	FY22E	FY23E	FY24E
Net Sales	2,519.2	2,942.0	3,096.1	3,895.0
Growth (%)	21.1	16.8	5.2	25.8
Total Raw Material Cost	1,269.8	1,353.0	1,439.7	1,791.7
Gross Margins (%)	49.6	54.0	53.5	54.0
Employee Expenses	159.0	191.2	287.9	311.6
Other Expenses	713.6	863.8	925.7	1,137.3
Total Operating Expenditure	2,142.5	2,408.0	2,653.4	3,240.7
EBITDA	376.7	534.0	442.7	654.4
EBITDA Margin	15.0	18.2	14.3	16.8
Interest	28.1	47.4	78.0	62.0
Depreciation	43.2	40.9	65.9	79.1
Other Income	37.8	40.2	35.0	20.0
Exceptional Expense	(3.7)	-	-	-
PBT	339.6	485.9	333.8	533.2
Total Tax	90.5	127.4	76.8	122.6
Profit After Tax	249.1	358.5	257.1	410.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

(Year-end March)	FY21A	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	249.1	358.5	257.1	410.6
Add: Depreciation	43.2	40.9	65.9	79.1
Net Increase in Current Assets	-466.6	-442.1	-96.9	-272.4
Net Increase in Current Liabilities	77.6	-74.6	45.4	87.3
CF from operating activities	**-96.7**	**-117.3**	**271.4**	**304.6**
(Inc)/dec in Investments	-166.8	165.4	-1.0	0.3
(Inc)/dec in Fixed Assets	-31.6	-464.9	-419.3	-62.0
Others	-1.8	0.0	0.0	0.0
CF from investing activities	**-200.2**	**-299.4**	**-420.3**	**-61.7**
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	207.7	745.0	-1.3	-266.0
Others	65.4	-59.7	-37.3	-60.3
CF from financing activities	**273.1**	**685.4**	**-38.6**	**-326.3**
Net Cash flow	-23.8	268.7	-187.5	-83.3
Opening Cash	150.5	126.5	395.2	207.8
Closing Cash	**126.6**	**395.2**	**207.7**	**124.4**

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet ₹ crore

(Year-end March)	FY21A	FY22E	FY23E	FY24E
Equity Capital	39.5	39.5	39.5	39.5
Reserve and Surplus	1,245.1	1,547.0	1,765.5	2,114.5
Total Shareholders funds	1,284.6	1,586.5	1,805.0	2,154.0
Total Debt	556.4	1,301.5	1,300.2	1,034.2
Non Current Liabilities	94.3	91.3	92.5	93.8
Source of Funds	**1,935.3**	**2,979.2**	**3,197.7**	**3,281.9**
Gross block	1,040.9	1,139.5	1,647.5	1,977.5
Less: Accum depreciation	500.6	541.5	607.4	686.5
Net Fixed Assets	540.3	598.0	1,040.1	1,291.0
Capital WIP	7.7	23.9	270.0	2.0
Intangible assets	2.7	2.9	2.9	2.9
Investments	166.9	1.5	2.5	2.2
Inventory	718.0	1,068.0	1,077.3	1,173.8
Cash	126.5	395.3	207.8	124.4
Debtors	515.7	494.2	551.4	693.6
Loans & Advances & Other CA	191.2	304.9	335.3	368.9
Total Current Assets	1,551.5	2,262.3	2,171.8	2,360.8
Creditors	234.6	148.0	186.6	266.8
Provisions & Other CL	125.6	137.6	144.4	151.6
Total Current Liabilities	360.2	285.7	331.1	418.4
Net Current Assets	1,191.3	1,976.7	1,840.7	1,942.4
LT L& A, Other Assets	26.5	376.3	41.5	41.5
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**1,935.3**	**2,979.2**	**3,197.7**	**3,282.0**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	12.6	18.2	13.0	20.8
Cash EPS	14.8	20.2	16.4	24.8
BV	65.0	80.3	91.4	109.1
DPS	0.6	1.5	2.0	3.1
Cash Per Share	6.4	20.0	10.5	6.3
Operating Ratios (%)				
EBITDA margins	15.0	18.2	14.3	16.8
PBT margins	13.5	16.5	10.8	13.7
Net Profit margins	9.9	12.2	8.3	10.5
Inventory days	104.0	132.5	127.0	110.0
Debtor days	74.7	61.3	65.0	65.0
Creditor days	34.0	18.4	22.0	25.0
Return Ratios (%)				
RoE	19.4	22.6	14.2	19.1
RoCE	20.2	18.5	13.3	18.7
RoIC	24.1	21.6	15.7	19.4
Valuation Ratios (x)				
P/E	10.7	7.4	10.4	6.5
EV / EBITDA	7.8	6.7	8.5	5.5
EV / Sales	1.2	1.2	1.2	0.9
Market Cap / Revenues	1.1	0.9	0.9	0.7
Price to Book Value	2.1	1.7	1.5	1.2
Solvency Ratios				
Debt / Equity	0.4	0.8	0.7	0.5
Debt/EBITDA	1.5	2.4	2.9	1.6
Current Ratio	4.0	6.5	5.9	5.3
Quick Ratio	2.0	2.8	2.7	2.5

Source: Company, ICICI Direct Research

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Sell: <-15%

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