# Indo Count (INDCOU)

ICICI direct Research

| CMP: ₹ 130 | Target: ₹ 155 (19%) | Target Period: 12 months | BUY |
|---|---|---|---|

February 10, 2023

Result Update

## Performance set to improve, going forward

**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, commanding ~20%+ market share in bed sheets)

**Q3FY23 Results:** Indo Count (ICIL) reported a subdued operational performance amid a challenging demand scenario in key export markets due to uncertain global economic backdrop and cautious consumer spending in international markets.

- Volumes declined materially by 30% YoY to 14.7 million metre. However, spike in average realisations by ~ 20%+ YoY led to overall revenue decline being restricted to 13% YoY to ₹ 657 crore
- The company has been able to maintain gross margins at ~50% levels in Q3FY23. However, owing to negative operating leverage EBITDA margins contracted by 420 bps YoY to 11.2%
- Absolute EBITDA de-grew 37% YoY to ₹ 73.4 crore. Consequently, PAT de-grew 47% YoY to ₹ 37.7 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 higher capex also led to debt getting bloated to ₹ 1300 crore (D/E: 0.7x). Gradual liquidation of inventory held by global retailers will be key monitorable with order book momentum expected to improve in the ensuing quarters.

- We change our rating on the stock from HOLD to **BUY**

**Target Price and Valuation:** We value ICIL at ₹ 155 i.e. 7x FY25E EPS.

**Key triggers for future price performance:**

- FTAs with UK/Europe to improve Indian textiles global competitiveness
- 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 Mills.

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

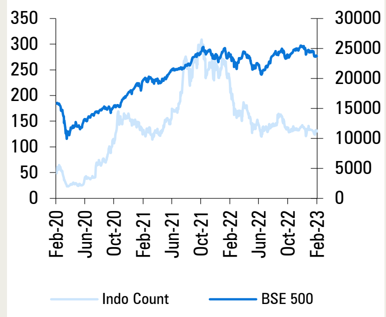
### Particulars

| Particulars | Amount |
|---|---|
| Market Capitalisation (₹ crore) | 2,666.3 |
| Total Debt (FY22) (₹ crore) | 1,301.5 |
| Cash (FY22) (₹ crore) | 396.8 |
| EV (₹ crore) | 3,571.0 |
| 52 Week H / L | 219 /120 |
| Equity Capital (₹ crore) | 39.5 |
| Face Value (₹) | 2.0 |

### Shareholding pattern

| | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|---|---|---|---|---|---|
| Promoter | 58.9 | 58.9 | 58.9 | 58.9 | 58.7 |
| FII | 9.7 | 9.4 | 9.3 | 9.3 | 9.3 |
| DII | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Others | 31.3 | 31.6 | 31.7 | 31.7 | 31.9 |

### Price Chart




### Key risks

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

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### Key Financial Summary

| Financials | FY19 | FY20 | FY21 | FY22 | 5 Year CAGR (FY17-22) | FY23E | FY24E | FY25E | 2 Year CAGR (FY22-24E) |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,934.2 | 2,080.1 | 2,519.2 | 2,942.0 | 6.4% | 2,960.2 | 3,441.7 | 3,975.1 | 10.6% |
| EBITDA | 155.7 | 183.2 | 376.7 | 534.0 | 10.5% | 423.3 | 523.1 | 640.0 | 6.2% |
| Adjusted PAT | 59.7 | 73.1 | 249.1 | 358.5 | 9.1% | 242.1 | 317.2 | 418.7 | 5.3% |
| P/E (x) | 44.6 | 36.5 | 10.7 | 7.4 | | 11.0 | 8.4 | 6.4 | |
| EV/EBITDA (x) | 18.8 | 15.6 | 7.8 | 6.7 | | 8.6 | 6.7 | 5.2 | |
| RoCE (%) | 10.0 | 14.6 | 20.2 | 18.5 | | 12.7 | 15.3 | 18.3 | |
| RoE (%) | 6.1 | 7.4 | 19.4 | 22.6 | | 13.5 | 15.4 | 17.3 | |

*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 the 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 (January-November 2022)
- Overall revenue remained flattish YoY for 9MFY23 to ₹ 2204 crore. For 9MFY23, the company clocked ~54.3 million metre volumes vs. 58.1 million metre in 9MFY22. The management indicated that demand for global retailers remains weak as most of them are saddled with excess inventory. The company expects the easing of inflation and decline in raw material (cotton prices) and gradual decline in inventory held by global retailers to aid in improving the order book momentum for the company in ensuing quarters
- Decline in volumes led to lower EBITDA margin owing to under-absorption of operating expenses. The company has guided volumes of 73-75 million metre for FY23 entailing volumes in the range of 19-21 million metre in Q4FY23 signifying improved momentum in the order book
- The management expects the EBITDA margin for FY23 to be in the range of 14-15% (similar to FY21 EBITDA margin)
- 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 end of Q4FY23 (capex: ~ ₹ 115 crore)
- **With the latest acquisition of GHCL's home textile business (~45 million meters), ICIL has 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. We expect ICIL to clock 75 million metre volume, down 1% YoY (~65% capacity utilisation) in FY23E. With an improvement in the economic and business scenario in key exports markets, we are factoring volumes to increase to 90 million metre in FY24E and 102 million metre in FY25E**

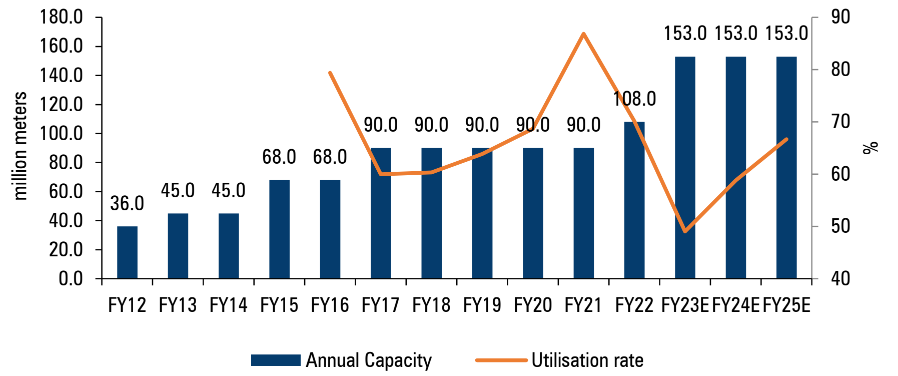
**Q3FY23 Earnings conference call highlights:**

- On the demand front, the management highlighted that demand for lower price products has been negatively impacted by high inflation in key exports markets. With inflation expected to be lower, going ahead, the company is hopeful of the business normalising in ensuing quarters
- The management indicated that it has acquired a new set of customers through the 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

- The company has been able to maintain its fashion and utility business revenue share at 19% of total revenues. It has been less impacted compared to the mass segment. ICIL is focusing on increasing the share of fashion and utility business over the next few years, which would enable the company to maintain a positive margin profile bias
- 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. Along with this, with Pakistan having a significant presence in lower priced products, it 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. The integration of GHCL is progressing well and the product range is also good. The customers are feeling more secured now since they are now being serviced by a focused home textile player
- On the cotton inventory sourcing front, the company is gradually buying good quality cotton and would increase its cotton sourcing in Q4FY23. The management indicated that the average cost of cotton was ~ ₹ 85000 per candy in Q3FY23 (Q2FY23: 75000 per candy). They are expecting cotton prices to decline over the next few months. The company indicated that it would be able to maintain gross margins in the range of 50-54%
- On the logistics front, the management indicated that logistics issues have been resolved and availability of containers for export has improved
- The company believes the free trade agreements (FTAs) signed with Australia and UAE would be beneficial for Indian home textile players like Indo Count. Further, the likely signing of FTA with UK would be a bigger opportunity and the company has the capacity and the product bouquet to penetrate the market. The per capita home textile consumption in the UK and Australia is ~20-25 kg per person, which provides a huge growth opportunity for the company

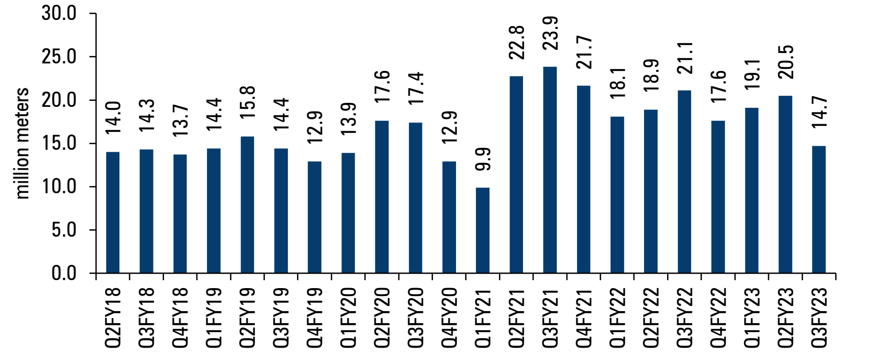
## Financial story in charts

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



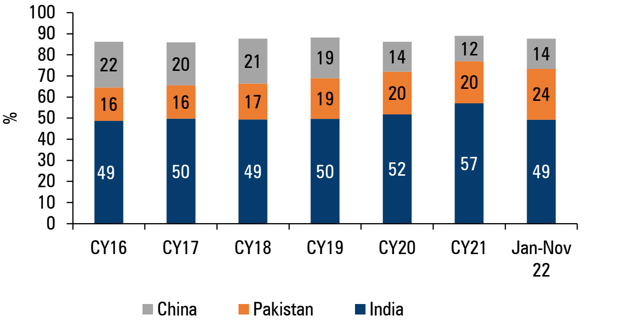

*Source: Company, ICICI Direct Research*

Exhibit 2: Volume trajectory quarterly trend (Q1FY23, Q2FY23, Q3FY23 includes GHCL volumes)



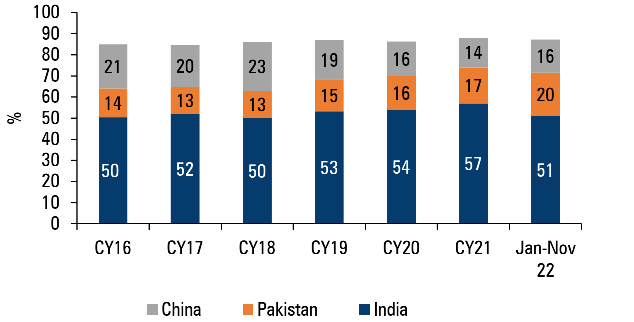

*Source: Company, ICICI Direct Research*

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



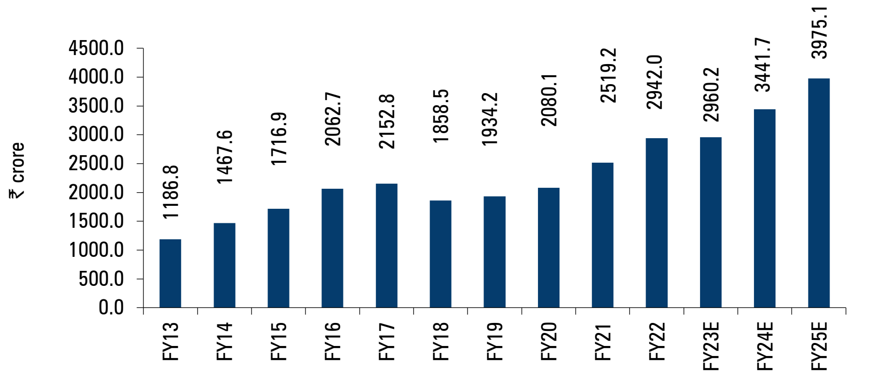

Source: Company, ICICI Direct Research

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



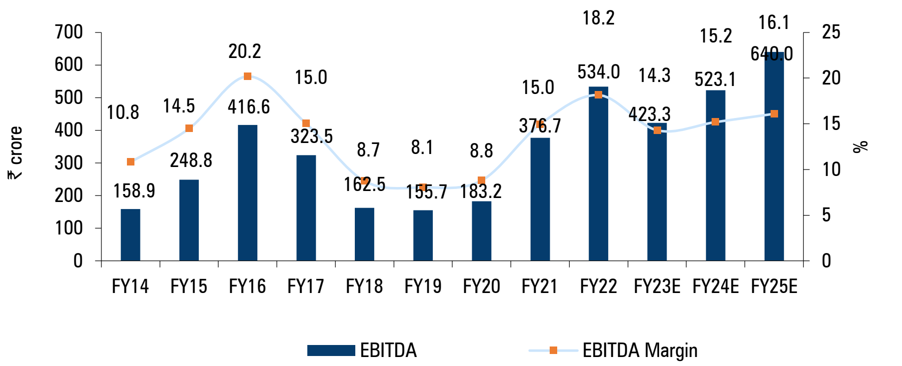

Source: Company, ICICI Direct Research

## Exhibit 5: Revenue expected to grow at 11% CAGR (including acquisition) in FY22-25E



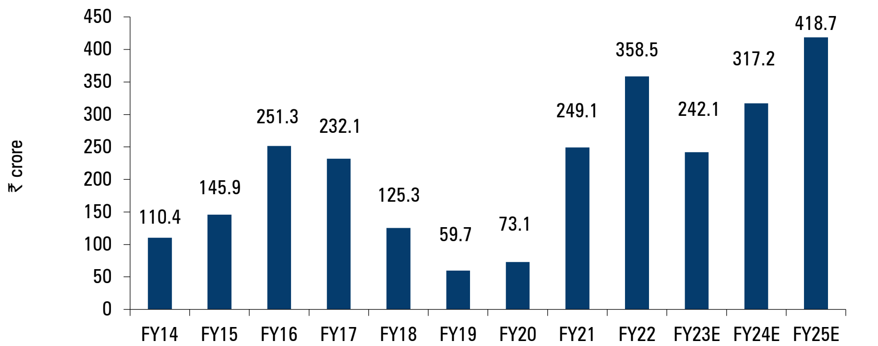

Source: Company, ICICI Direct Research

## Exhibit 6: EBITDA and EBITDA margin trend



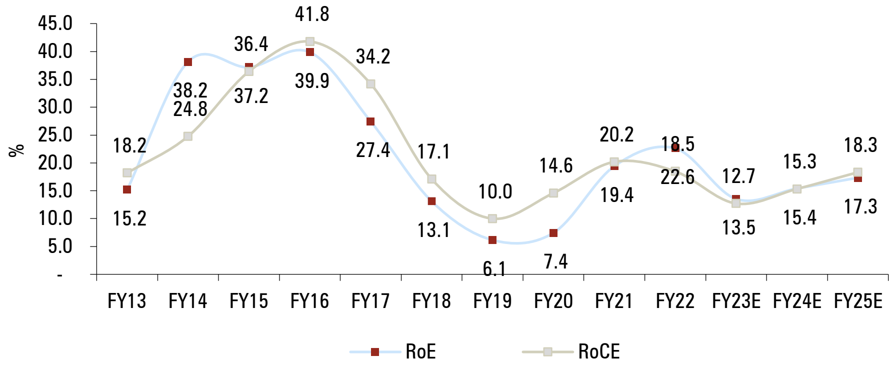

Source: Company, ICICI Direct Research

## Exhibit 7: PAT expected to grow at CAGR of 5% in FY22-25E




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) | FY22 | FY23E | FY24E | FY25E |
| **Net Sales** | 2,942.0 | 2,960.2 | 3,441.7 | 3,975.1 |
| Growth (%) | 41.4 | 0.6 | 16.3 | 15.5 |
| Total Raw Material Cost | 1,353.0 | 1,373.5 | 1,583.2 | 1,828.5 |
| Gross Margins (%) | 54.0 | 53.6 | 54.0 | 54.0 |
| Employee Expenses | 191.2 | 266.4 | 309.8 | 333.9 |
| Other Expenses | 863.8 | 896.9 | 1,025.6 | 1,172.7 |
| Total Operating Expenditure | 2,408.0 | 2,536.9 | 2,918.6 | 3,335.1 |
| **EBITDA** | 534.0 | 423.3 | 523.1 | 640.0 |
| EBITDA Margin | 18.2 | 14.3 | 15.2 | 16.1 |
| Interest | 47.4 | 78.0 | 62.0 | 49.4 |
| Depreciation | 40.9 | 65.9 | 79.1 | 81.9 |
| Other Income | 40.2 | 35.0 | 30.0 | 35.0 |
| Exceptional Expense | - | - | - | - |
| PBT | 485.9 | 314.4 | 412.0 | 543.7 |
| Total Tax | 127.4 | 72.3 | 94.8 | 125.1 |
| **Profit After Tax** | 358.5 | 242.1 | 317.2 | 418.7 |

*Source: Company, ICICI Direct Research*

| Exhibit 10: Cash flow statement | | | | ₹ crore |
|---|---|---|---|---|
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| Profit/(Loss) after taxation | 358.5 | 242.1 | 317.2 | 418.7 |
| Add: Depreciation | 40.9 | 65.9 | 79.1 | 81.9 |
| Net Increase in Current Assets | -442.1 | 31.4 | -183.3 | -238.2 |
| Net Increase in Current Liabilitie: | -74.6 | 37.2 | 64.5 | 44.0 |
| **CF from operating activitie** | **-117.3** | **376.5** | **277.5** | **306.4** |
| (Inc)/dec in Investments | 165.4 | -1.0 | 0.3 | 0.2 |
| (Inc)/dec in Fixed Assets | -464.9 | -419.3 | -62.0 | -70.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| **CF from investing activitie** | **-299.4** | **-420.3** | **-61.7** | **-69.8** |
| Inc / (Dec) in Equity Capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc / (Dec) in Loan | 745.0 | -1.3 | -266.0 | -211.0 |
| Others | -59.7 | -35.1 | -46.3 | -61.4 |
| **CF from financing activitie** | **685.4** | **-36.4** | **-312.3** | **-272.4** |
| Net Cash flow | 268.7 | -80.1 | -96.5 | -35.8 |
| Opening Cash | 126.5 | 395.2 | 315.1 | 218.6 |
| **Closing Cash** | **395.2** | **315.1** | **218.6** | **182.8** |

*Source: Company, ICICI Direct Research*

| Exhibit 11: Balance Sheet | | | | ₹ crore |
|---|---|---|---|---|
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| Equity Capital | 39.5 | 39.5 | 39.5 | 39.5 |
| Reserve and Surplus | 1,547.0 | 1,752.8 | 2,022.4 | 2,378.3 |
| Total Shareholders funds | 1,586.5 | 1,792.3 | 2,061.9 | 2,417.8 |
| Total Debt | 1,301.5 | 1,300.2 | 1,034.2 | 823.1 |
| Non Current Liabilities | 91.3 | 92.5 | 93.8 | 95.2 |
| **Source of Funds** | **2,979.2** | **3,184.9** | **3,189.9** | **3,336.1** |
| | | | | |
| Gross block | 1,139.5 | 1,647.5 | 1,977.5 | 2,047.5 |
| Less: Accum depreciation | 541.5 | 607.4 | 686.5 | 768.4 |
| Net Fixed Assets | 598.0 | 1,040.1 | 1,291.0 | 1,279.1 |
| Capital WIP | 23.9 | 270.0 | 2.0 | 2.0 |
| Intangible assets | 2.9 | 2.9 | 2.9 | 2.9 |
| Investments | 1.5 | 2.5 | 2.2 | 2.0 |
| Inventory | 1,068.0 | 973.2 | 1,037.2 | 1,143.5 |
| Cash | 395.3 | 315.1 | 218.6 | 182.8 |
| Debtors | 494.2 | 527.2 | 612.9 | 707.9 |
| Loans & Advances & Other CA | 304.9 | 335.3 | 368.9 | 405.8 |
| Total Current Assets | 2,262.3 | 2,150.8 | 2,237.6 | 2,440.0 |
| Creditors | 148.0 | 178.4 | 235.7 | 272.3 |
| Provisions & Other CL | 137.6 | 144.4 | 151.6 | 159.1 |
| Total Current Liabilities | 285.7 | 322.9 | 387.3 | 431.4 |
| Net Current Assets | 1,976.7 | 1,828.0 | 1,850.3 | 2,008.6 |
| LT L& A, Other Assets | 376.3 | 41.5 | 41.5 | 41.5 |
| Other Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| **Application of Funds** | **2,979.2** | **3,185.0** | **3,189.9** | **3,336.1** |

*Source: Company, ICICI Direct Research*

| Exhibit 12: Key ratios | | | | |
|---|---|---|---|---|
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| **Per share data (₹)** | | | | |
| EPS | 18.2 | 12.3 | 16.1 | 21.2 |
| Cash EPS | 20.2 | 15.6 | 20.1 | 25.3 |
| BV | 80.3 | 90.7 | 104.4 | 122.4 |
| DPS | 1.5 | 1.8 | 2.4 | 3.2 |
| Cash Per Share | 20.0 | 16.0 | 11.1 | 9.3 |
| **Operating Ratios (%)** | | | | |
| EBITDA margins | 18.2 | 14.3 | 15.2 | 16.1 |
| PBT margins | 16.5 | 10.6 | 12.0 | 13.7 |
| Net Profit margins | 12.2 | 8.2 | 9.2 | 10.5 |
| Inventory days | 132.5 | 120.0 | 110.0 | 105.0 |
| Debtor days | 61.3 | 65.0 | 65.0 | 65.0 |
| Creditor days | 18.4 | 22.0 | 25.0 | 25.0 |
| **Return Ratios (%)** | | | | |
| RoE | 22.6 | 13.5 | 15.4 | 17.3 |
| RoCE | 18.5 | 12.7 | 15.3 | 18.3 |
| RoIC | 21.6 | 15.7 | 16.5 | 19.4 |
| **Valuation Ratios (x)** | | | | |
| P/E | 7.4 | 11.0 | 8.4 | 6.4 |
| EV / EBITDA | 6.7 | 8.6 | 6.7 | 5.2 |
| EV / Sales | 1.2 | 1.2 | 1.0 | 0.8 |
| Market Cap / Revenues | 0.9 | 0.9 | 0.8 | 0.7 |
| Price to Book Value | 1.7 | 1.5 | 1.3 | 1.1 |
| **Solvency Ratios** | | | | |
| Debt / Equity | 0.8 | 0.7 | 0.5 | 0.3 |
| Debt/EBITDA | 2.4 | 3.1 | 2.0 | 1.3 |
| Current Ratio | 6.5 | 5.7 | 5.2 | 5.2 |
| Quick Ratio | 2.8 | 2.7 | 2.5 | 2.6 |

*Source: Company, ICICI Direct Research*

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Reduce: -15% to -5%;

Sell: <-15%

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