

Deleveraging of b/s to start, 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 153 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)

Q4FY23: Indo Count Industries (ICIL) reported a healthy improvement in operational performance in Q4FY23. Gross margins expanded significantly by 381 bps YoY to 56%, which came in as a positive surprise.

- Volume (including GHCL unit) grew 16% YoY to 20.4 MT. Average realisations grew 6% YoY to ₹ 387/meter. Subsequently, revenue grew 23% YoY to ₹ 807.1 crore
- Gross margins expanded significantly by 381 bps YoY to 56%. Consequently, EBITDA margin increased 324 bps YoY to 17.9% (higher end of the guidance)
- Lower other income and higher depreciation curtailed PAT growth. Ensuing PAT grew 11% YoY to ₹ 94.7 crore (up 2.5x QoQ)

What should investors do? The stock price witnessed a healthy recovery since our last result update (up 30%) in anticipation of gradual restocking by global retailers (home textile was the worst impacted) and India's market share gain in US bedsheets (from ~50% in CY22 to 57% in Q1CY23). Furthermore, the company has been able to prune its debt (from ₹ 1300 crore in FY22 to ₹ 840.9 crore) through reduction in working capital days. With majority of the capex behind us (capex in FY23: ₹ 385 crore, FY24-25E: ₹ 130 crore), we expect b/s deleveraging to accelerate even further. Order book momentum is expected to improve in the ensuing quarters

- Despite the recent run-up, ICIL continues to trade at reasonable valuations. Hence, we reiterate **BUY** rating on the stock

Target Price and Valuation: We value ICIL at ₹ 210 i.e. 10x FY25E EPS.

Key triggers for future price performance:

- We bake in revenue CAGR of 13%, driven by volume CAGR of 16% in FY23-25E. Expect EBITDA margins of 15.5-16% in FY24-25E
- 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: Besides ICIL, in our textile coverage we like Gokaldas Exports

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23	4 Year CAGR (FY19-23)	FY24E	FY25E	2 Year CAGR (FY22-24E)
Net Sales	1,934.2	2,080.1	2,519.2	2,952.4	3,024.6	11.8%	3,350.5	3,859.6	13.0%
EBITDA	155.7	183.2	376.7	544.4	467.3	31.6%	519.3	629.1	16.0%
Adjusted PAT	59.7	73.1	249.1	358.5	276.8	46.7%	327.9	421.4	23.4%
P/E (x)	57.2	46.7	13.7	9.5	12.3		10.4	8.1	
EV/EBITDA (x)	23.6	19.7	9.8	7.9	8.6		7.4	5.8	
RoCE (%)	10.0	14.6	20.2	18.5	16.0		17.7	20.3	
RoE (%)	6.1	7.4	19.4	22.6	15.4		15.8	17.3	

Source: Company, ICICI Direct Research



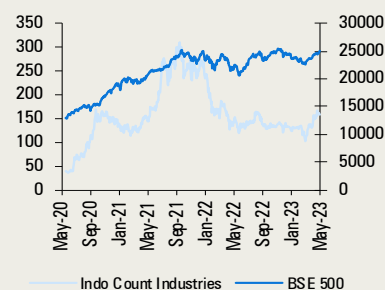
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	3,416.8
Total Debt (FY23) (₹ crore)	-
Cash (FY23) (₹ crore)	251.5
EV (₹ crore)	3,165.3
52 Week H / L	177 / 101
Equity Capital (₹ crore)	39.5
Face Value (₹)	2.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	58.9	58.9	58.9	58.7	58.7
FII	9.4	9.3	9.3	9.3	9.3
DII	0.1	0.1	0.1	0.0	0.0
Others	31.6	31.7	31.7	31.9	31.9

Price Chart



Key risks

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

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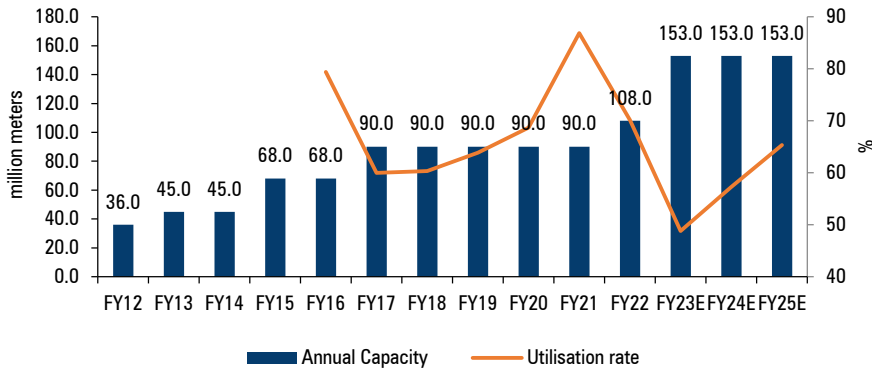
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Key takeaways of recent quarter & conference call highlights

- **The company has provided a volume guidance of 85-90 million metre, which implies a volume growth of 15-20% in FY24. The company is getting traction in order book and currently has visibility of six months, which should support the revenue growth in FY24.** The management highlighted that the export demand scenario was gradually improving as global retailers have been able to liquidate stocks and reduce the inventory levels with them. On the domestic front also, the company expects demand to improve and is planning to better tap the domestic market
- Share of value-added products in the export segment was at 19% of revenues in FY23. The company is aiming to increase the same to ~30% over the next two three years. For enhancing the value-added share, the company has invested in building a manufacturing plant for its fashion utility products
- On the gross margin front, the company said it has been able to enhance the gross margins in Q4FY23 as a result of its investment in supply chain management (building up inventory). Also, the company has taken reasonable price hike for its products, which has aided the improvement in gross margin. Further, it is looking to enhance share of value-added products, which should support the company's endeavour to maintain gross margins at Q4FY23 levels
- On the capex front, the management indicated that it has completed all majority capex and in FY24 it would have a capex of ~ ₹ 65 crore (₹ 23 crore for the spinning plant and 40+ crore for normal maintenance capex)
- The company is looking to diversify its geographical mix by having a higher presence in UK and EU and Australia. The company expects the signing of FTA to enable Indian textile players to increase their global market share and large players like ICIL to be able to garner higher market share owing to their strong product portfolio and supply chain management capabilities
- The management said it is planning to utilise the expanded capacity over next three years, which should support the volume growth over the period. The average selling price is expected to be lower in FY24 and growth would mainly be driven by volumes
- The company currently has two licensed brands tie ups (Jasper Conran and Gaiam) and is planning to add two more in future and is in discussions with prospective brands
- **On the balance sheet front, company generated healthy operating cashflow of ₹ 750 crore driven by reduction in working capital days from 175 days in FY22 to 130 days in FY23 (owing to normalisation of global supply chain). Subsequently, despite higher capex requirements (₹ 385 crore in FY23), the company generated FCF of ₹ 365 crore. The company reduced debt by around ₹ 300 crore in FY23 (D/E: 0.5x in FY23 vs. 0.8x in FY22). With minimal maintenance capex over the next two years (~₹ 50-60 crore) and steady cashflow generation (~₹ 550 crore in FY24-25), we expect debt levels to further reduce by ₹ 420 crore in FY25E (D/E: 0.2x)**

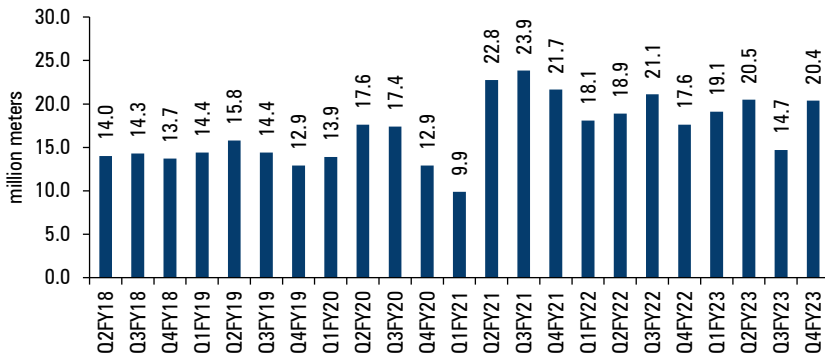
Financial story in charts

Exhibit 1: Capacity, utilisation rate (including GHCL capacity). Expect utilisation rate to improve to 65% by FY25E (49% in FY23)



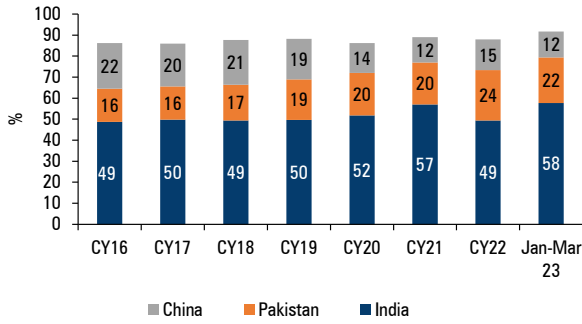
Source: Company, ICICI Direct Research

Exhibit 2: Volume trajectory quarterly trend (Q1FY23, Q2FY23, Q3FY23, Q4FY23 includes GHCL volumes.. Healthy growth on sequential basis)



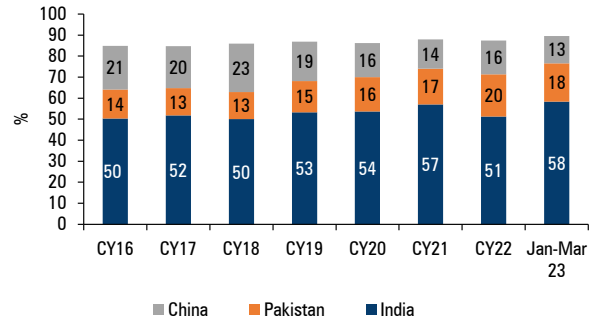
Source: Company, ICICI Direct Research

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



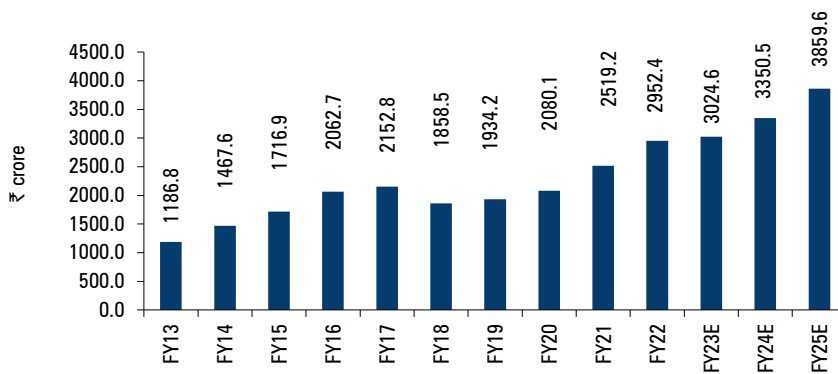
Source: Company, ICICI Direct Research

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



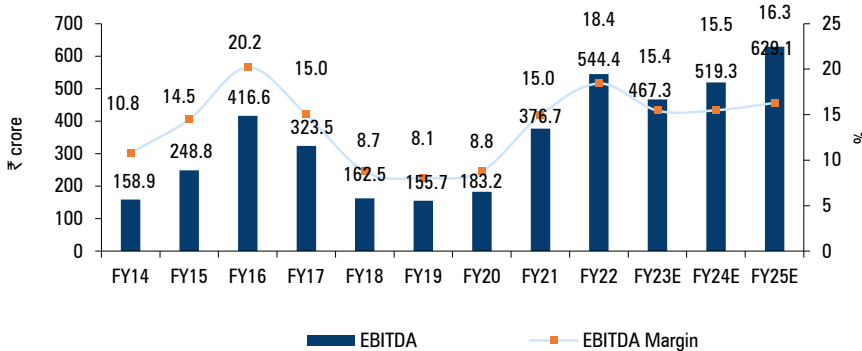
Source: Company, ICICI Direct Research

Exhibit 5: Revenue expected to grow at 13% CAGR (including acquisition) in FY23-25E



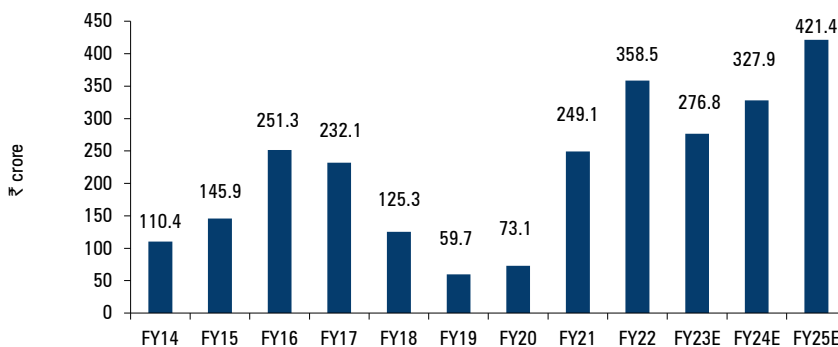
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



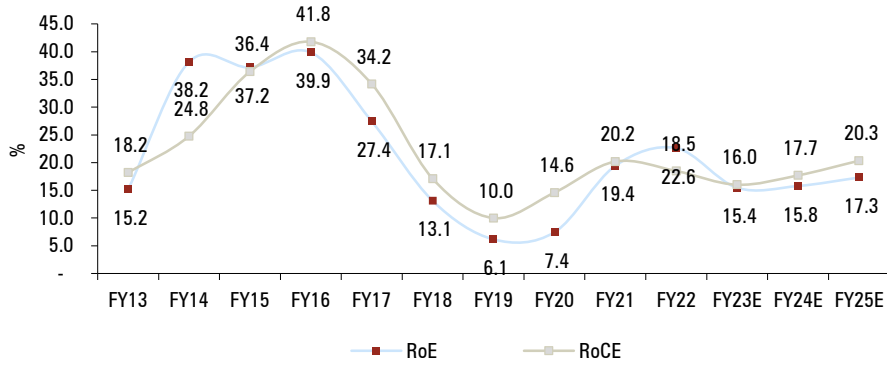
Source: Company, ICICI Direct Research

Exhibit 7: PAT expected to grow at CAGR of 24% in FY23-25E



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	FY23	FY24E	FY25E
Net Sales	2,952.4	3,024.6	3,350.5	3,859.6
Growth (%)	41.9	2.4	10.8	15.2
Total Raw Material Cost	1,353.0	1,360.7	1,531.2	1,752.3
Gross Margins (%)	54.2	55.0	54.3	54.6
Employee Expenses	191.2	267.8	301.5	339.6
Other Expenses	863.8	928.8	998.5	1,138.6
Total Operating Expenditure	2,408.0	2,557.3	2,831.2	3,230.5
EBITDA	544.4	467.3	519.3	629.1
EBITDA Margin	18.4	15.4	15.5	16.3
Interest	47.4	62.4	48.1	33.7
Depreciation	40.9	64.7	75.4	78.2
Other Income	29.8	18.4	30.0	30.0
Exceptional Expense	-	-	-	-
PBT	485.9	358.6	425.8	547.2
Total Tax	127.4	81.8	97.9	125.9
Profit After Tax	358.5	276.8	327.9	421.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit/(Loss) after taxation	358.5	276.8	327.9	421.4
Add: Depreciation	40.9	64.7	75.4	78.2
Net Increase in Current Assets	-442.1	380.4	-201.8	-224.9
Net Increase in Current Liabilities	-74.6	27.7	36.1	32.8
CF from operating activities	-117.3	749.6	237.6	307.4
(Inc)/dec in Investments	165.4	-142.0	41.6	30.1
(Inc)/dec in Fixed Assets	-464.9	-385.2	-62.4	-70.0
Others	0.0	0.0	16.0	0.0
CF from investing activities	-299.4	-527.2	-4.9	-39.9
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	745.0	-460.6	-239.4	-180.4
Others	-59.7	-49.1	-37.3	-60.9
CF from financing activities	685.4	-509.7	-276.7	-241.4
Net Cash flow	268.7	-287.3	-44.0	26.2
Opening Cash	126.5	395.2	108.0	63.9
Closing Cash	395.2	107.9	63.9	90.1

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	39.5	39.5	39.5	39.5
Reserve and Surplus	1,547.0	1,753.0	2,041.3	2,399.5
Total Shareholders funds	1,586.5	1,792.5	2,080.8	2,439.0
Total Debt	1,301.5	840.9	601.5	421.0
Non Current Liabilities	91.3	112.9	115.1	117.4
Source of Funds	2,979.2	2,746.3	2,797.4	2,977.4
Gross block	1,139.5	1,645.6	1,885.6	1,955.6
Less: Accum depreciation	541.5	606.3	681.7	759.9
Net Fixed Assets	598.0	1,039.3	1,203.9	1,195.7
Capital WIP	23.9	179.6	2.0	2.0
Intangible assets	2.9	17.4	17.4	17.4
Investments	1.5	143.5	101.9	71.8
Inventory	1,068.0	894.7	1,009.7	1,142.0
Cash	395.3	108.0	63.9	90.1
Debtors	494.2	408.9	477.3	549.9
Loans & Advances & Other CA	304.9	183.1	201.4	221.6
Total Current Assets	2,262.3	1,594.7	1,752.4	2,003.6
Creditors	148.0	225.0	257.0	285.5
Provisions & Other CL	137.6	88.5	92.5	96.8
Total Current Liabilities	285.7	313.4	349.6	382.3
Net Current Assets	1,976.7	1,281.3	1,402.9	1,621.2
LT L& A, Other Assets	376.3	85.2	69.3	69.3
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	2,979.2	2,746.3	2,797.4	2,977.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	18.2	14.0	16.6	21.3
Cash EPS	20.2	17.3	20.4	25.3
BV	80.3	90.8	105.4	123.5
DPS	1.5	2.0	2.0	3.2
Cash Per Share	20.0	5.5	3.2	4.6
Operating Ratios (%)				
EBITDA margins	18.4	15.4	15.5	16.3
PBT margins	16.5	11.9	12.7	14.2
Net Profit margins	12.1	9.2	9.8	10.9
Inventory days	132.0	108.0	110.0	108.0
Debtor days	61.1	49.3	52.0	52.0
Creditor days	18.3	27.1	28.0	27.0
Return Ratios (%)				
RoE	22.6	15.4	15.8	17.3
RoCE	18.5	16.0	17.7	20.3
RoIC	21.6	19.1	18.8	21.5
Valuation Ratios (x)				
P/E	9.5	12.3	10.4	8.1
EV / EBITDA	7.9	8.6	7.4	5.8
EV / Sales	1.5	1.3	1.2	1.0
Market Cap / Revenues	1.2	1.1	1.0	0.9
Price to Book Value	2.2	1.9	1.6	1.4
Solvency Ratios				
Debt / Equity	0.8	0.5	0.3	0.2
Debt/EBITDA	2.4	1.8	1.2	0.7
Current Ratio	6.5	4.7	4.8	5.0
Quick Ratio	2.8	1.9	1.9	2.0

Source: Company, ICICI Direct Research

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Sell: < -15%



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