

CMP: INR 272

Rating: BUY

Target Price: INR 314

Stock Info

BSE	521016
NSE	ICIL
Bloomberg	ICNTIN
Reuters	ICNT
Sector	Textiles
Face Value (INR)	2
Equity Capital (INR cr)	39
Mkt Cap (INR cr)	5,376
52w H/L (INR)	285 / 63
Avg Yearly Volume (in 000')	5

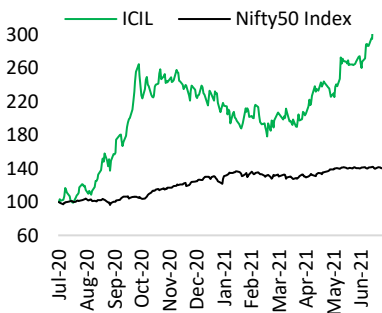
Shareholding Pattern %

(As on June, 2021)

Promoters	58.9
FII	10.0
DII	0.1
Public & Others	31.0

Stock Performance (%)	3m	6m	12m
ICIL	100	89	313
Nifty 50	6	16	42

ICIL Vs Nifty



Indo Count Industries (ICIL) reported revenue of INR759cr (over a low base registering a growth of 126% YoY), 9% higher than our estimate of INR696cr. Strong growth was aided by a V-shaped recovery in the US retail activity, increased spending on Home Improvement products and RoSCTL benefit of INR50cr of Q4FY21. Normalized Revenue came in at INR709cr (excluding the RoSCTL benefit). The revenue also includes a forex gain of INR30cr, which company treats as a part of business income.

The company did a volume of 18.1mn metres, below our estimate of 19.12mn metres due to Covid induced lockdown resulting in shutdown of manufacturing activities from 15th May'21 to 23rd May'21 and logistical challenges faced by exporters in addition to the second wave of the Covid pandemic.

Gross Margin came in at 57.4%, an increase of 643bps YoY, mainly due to inclusion of RoSCTL benefits pertaining to Q4FY21 (INR50cr) in the revenue, adequate pass on of cotton price increase to its clients (Realization per metre increased by ~9% YoY) and better product mix. In addition, management also highlighted that the company is covered in cotton RM till October '21 until new cotton crop comes into the market, cushioning from the RM volatility.

In addition, the company reported 374bps decline in Employee cost and 168bps decline in Other overheads. As a result of a healthy YoY top-line growth, EBITDA margin came in at 23.4% (adjusting for RoSCTL benefits, normalized EBITDA margin is at 18%). EBITDA stood at INR178cr against INR39cr of Q1FY21. The Normalized EBITDA came at INR128cr. PAT came in at INR117cr, beating our estimate of INR62cr.

Guidance for FY22E: The management has guided to maintain its volume run rate of 85-90mn metres (in a normal course of business) and with the RoSCTL benefit coming into the picture, the EBITDA margin has been revised to 18-20% from 15-17% earlier.

Valuation & Outlook: ICIL is a focused player on bedding—a niche segment of home textile market. With A) Brownfield Capacity expansion of 18mn at capex of INR200cr and will be operational by Q4FY22E. The new capacity will generate revenue of INR600cr over 2 years. B) ICIL has increased focus into new segments like fashion bedding, institutional linens and utility bedding which expands its opportunity size by 3x to US\$ 14b. C) Rising usage of home décor due to Work from Home (WFH) scenario. D) Increased adoption of 'China Plus One' strategy by many western countries. E) US trade war with China. F) The US Senate passed a bill to ban complete ban of Xinjiang cotton plus boycott from other western countries will ensure that ICIL will continue to witness heightened demand and gain share in the US bed linen exports. G) Better Product mix (higher margin product will improve the overall margin). H) Additions of newer clients to ensure future growth visibility. I) Asset light business model. J) Strong FCF generation of INR404cr over FY22E-FY23E. K) Improving return ratios. L) RoSCTL being continued up to 2024 at current rates will ensure that it remains competitive in the US. M) EU is in the process of reviewing Pakistan's GSP+ Status (which grants it duty free trade on majority categories) and is also in FTA conversations with India. Any headway being made on this front would open an entirely new market for ICIL to cater.

We had initiated coverage on ICIL on 03rd June 2021 at a recommended price of INR152 and a BUY rating on the stock with a target price of INR200. Our target price got achieved on 14th July 2021. We have revised our estimates for FY22E and FY23E owing to the strong revenue growth visibility and earnings growth momentum, we expect ICIL to achieve volumes of +20mn in the subsequent quarters to close FY22E with ~85mn metres and FY23E with ~95mn metres, along with steady improvement in operating margins.

We expect ICIL to post Revenue/EBITDA/PAT CAGR over FY21-FY23E of 13%/20.3%/25.1% to INR3,216cr/INR546cr/INR390cr in FY23E. We have maintained BUY rating with a revised Target price of INR314 per share; valued at EV/EBITDA of 10.5x, signifying PE of 14.4x on FY23E; an upside of 15.2%.

Key Concall takeaways

➤ **RoSCTL:** The benefit will continue till March 2024 and will provide Indian Companies at a competitive advantage at a global level. The government has announced made-ups rate to the tune of 8.2%. The company accounts rate of 5.5-6% depending upon the product mix and continues to receive duty drawback of 2.6%.

➤ EU reviewing GSP+ status to Pakistan

- A. As per management, EU is reviewing the GSP+ status to Pakistan on the account of blasphemy laws.
- B. EU is a fragmented market with 28 countries
- C. Indian company pays 9.6% duty rate.
- D. India is in talks with EU on FTA agreement
- E. EU has a market size of US \$31bn at a retail level and US has a market size of US \$28bn.
- F. After FTA coming into picture, it will open greater opportunity for Indian companies to garner market share.
- G. With China plus One gaining strong traction, China is losing market share and EU is keen of signing the FTA agreement with India.
- H. Currently, ~15% of revenue comes from EU market for ICIL.

➤ China Plus One Strategy & XUAR cotton issue gaining strong traction:

- A. The Xinjiang Uyghur Autonomous Region (XUAR) in China, produces about 20% of the world's cotton & 80% of China's cotton – and the province is China's largest textile and apparel exporter. However, with multiple reports concerning human rights violations, such as use of forced labor, in the XUAR, have led to condemnation from many Western countries.
- B. The US Senate passed a bill to ban complete ban of Xinjiang cotton plus boycott from other western countries which further intensifies US-China trade war.
- C. As per management, the severe rights issue continues for a long time and this will benefit India in a long run.

➤ Can other countries compete with India at global level?

- A. As per management, despite China losing edge at global level, India will continue to have an edge against countries like Vietnam, Bangladesh and Philippines.
- B. Vietnam and Bangladesh is i) more of labour arbitrage, ii) more into apparel business and less focus on Home Textile, iii) only cut and sew operations with no RM availability (depended upon India, Pakistan, etc), iv) Home textile requires finer yarn count which these countries lacks.
- C. For apparel these countries can pose a threat but not to Home textile players.
- D. India is present at complete value chain with abundant cotton raw material and skilled labours.

➤ India gaining market share at global level:

- A. Because of China plus One strategy, China is losing market share and which is turning beneficial for Indian companies.
- B. India gained market share to 61% in Jan-May 21 from 52% in CY20 in US imports in cotton sheets. China lost the market share to 11% from 14% during the same period.
- C. India gained 2% points of market share to 20% in Jan-May 21 whereas China lost 4% points to 48% during the same period, in US imports in cotton bedspreads.
- D. India gained market share to 62% in Jan-May 21 from 54% in CY20 whereas China lost market share and stood at 13% from 16% during the same period, in US imports in cotton pillow cases.

➤ Volume:

- A. The company did a volume of 18.1mn metres as against 9.9mn metres in Q1FY21 and 21.7mn metres in Q4FY21.
- B. Volume was lower on the account of Covid induced lockdown resulted in shutdown of manufacturing activities from 15th May'21 to 23rd May'21 and logistical challenges faced by exporters in addition to the second wave of the Covid pandemic.
- C. Management sounded confident of achieving a run rate of +20mn metres for the next three quarters so as to close FY22 on 85-90mn metres.

➤ **Cotton Outlook**

- A. As per management, the cotton consumption is on a rising trend.
- B. Due to Xinjiang Cotton (~20% to the global market) has gone out of the market which is keeping cotton prices at elevated levels.
- C. As its a commodity and global clients are aware about the situation, the company was able to pass on the rise in RM prices during the quarter.
- D. The company has hedged cotton till October till new crop comes into the market, thus cushioning from the volatility in prices.
- E. Further, the company has consciously invested in the supply chain.
- F. US cotton crop is less

➤ **Licensed Brand tie-up**

- A. The company has partnership with a licensed brand, Jasper Conran O.B.E. for an exclusive bed and bath collection, launching in Spring 2022.
- B. The range will be sold and marketed internationally under the Jasper Conran London brand, exclusively through Indo Count
- C. The brand is recognized in UK and sold in MBO like Debenhams.
- D. The brand is positioned as mid to high.
- E. The company has 5 year agreement with the brand and will pay 5-6% royalty globally.
- F. This partnership with Jasper will create a high quality bed and bath brand incorporating natural fibres in superior thread counts and fabric constructions, using the most advanced technologies.

➤ **Operational Highlights**

- A. The Capex for additional 18mn metres will become operational by Q4FY22E.
- B. Fashion, Utility and Institutional segment is on track.
- C. Activity in Online platform increased.
- D. Home becoming the centre stage with WFH culture.
- E. Company is developing the Health and Hygiene product.
- F. The company has increased the e-com & digital channels which accounts 4% of revenue in FY21 to increase to 8% in FY23E.
- G. The domestic business is improving and is on track to contribute 3% of revenue on rising top-line in FY23E from 1% in FY21.
- H. GM of the many products was +50% in Q1FY22. The GM in FY22E to be on similar lines of FY21.
- I. Forex: The company books the order month on month on rolling basis. Its a transactional business for the company hence, its treated as a part of revenue.
- J. Net Debt: INR291cr in Q1 vs INR263cr in Q4. Net Debt/Equity stands at 0.21x.
- K. Company has become an official member of the US Cotton Trust Protocol.

Quarter Result

Q1FY22 Result Analysis

Particulars	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	336	705	759	126.0	7.7
Net raw material & Purchase of finished goods	165	342	323	96.3	(5.6)
% of sales	49.0	48.6	42.6		
Employee expenses	33	52	47	40.8	(9.5)
% of sales	9.9	7.4	211.4		
Other expenses	99	205	211	113.1	3.3
% of sales	29.5	29.1	27.8		
Total expenditure	297	599	581	95.7	(2.9)
Operating Profit	39	106	178	357.3	67.8
OPM(%)	11.6	15.0	23.4		
Interest	5	11	12	122.9	7.2
PBDT	34	95	166	393.9	74.7
Depreciation	11	10	10	(7.2)	(4.6)
Exceptional item	-	-	-		
PBT	23	85	156	582.7	84.5
Tax	5	27	39		
Effective tax rate (%)	22.6	31.7	24.8		
Reported PAT	18	58	117	562.7	103.1
NPM(%)	5.3	8.2	15.4		
EPS (Rs.)	0.9	2.9	5.9	562.7	103.1
Equity	20	20	20	-	-

Source: Company & Arianth Research

Result declared vs Our estimates

Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	Arianth Capital estimates	Variation (%)
Net Sales	336	705	759	126.0	7.7	696	9.0
EBITDA	39	106	178	357.3	67.8	104	70.2
EBITDA (%)	11.6	15.0	23.4	1,184	838	15.0	841
Reported PAT	18	58	117	562.7	103.1	62	88.9

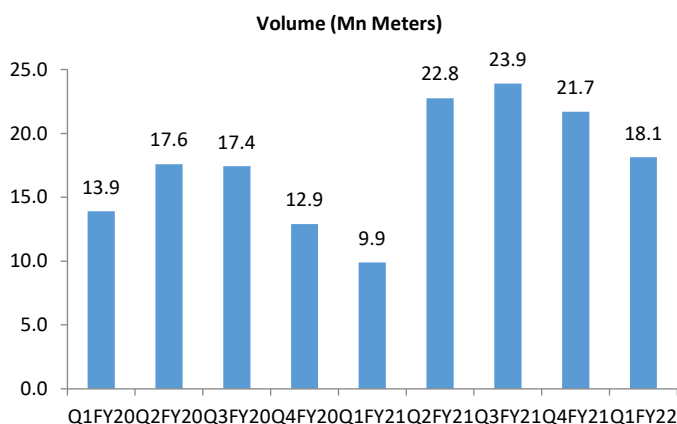
Source: Company & Arianth Research

Quarter Result

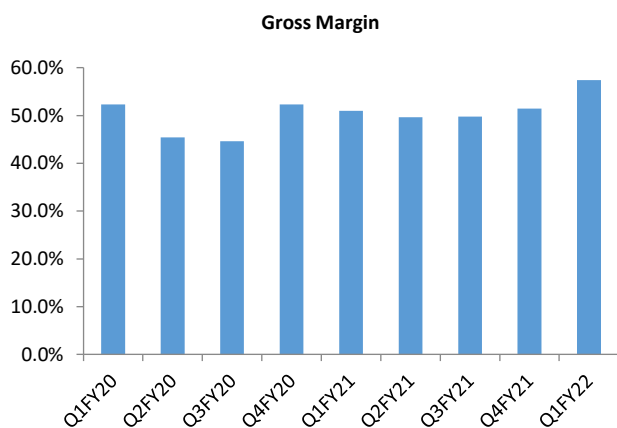
Change in our Estimates

Particulars	FY22E		FY23E	
	Old	New	Old	New
Revenue	2,777	2,858	3,163	3,232
EBITDA	438	518	516	598
EBITDA Margin	15.8%	18.1%	16.3%	18.5%
PAT	300	365	363	429
EPS (INR)	15.2	18.5	18.4	21.7

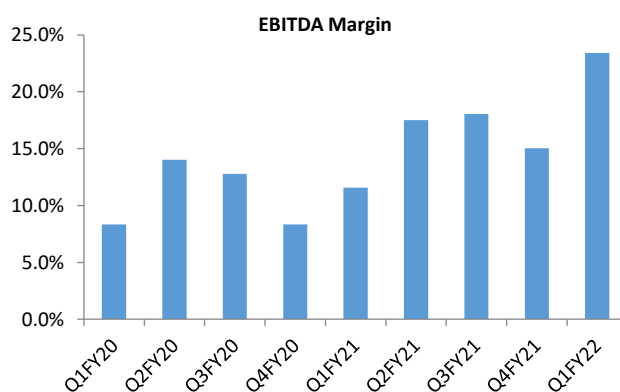
Source: Company & Arianth Research



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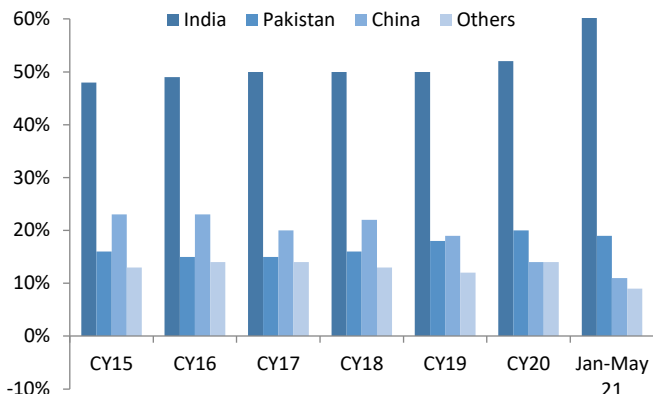
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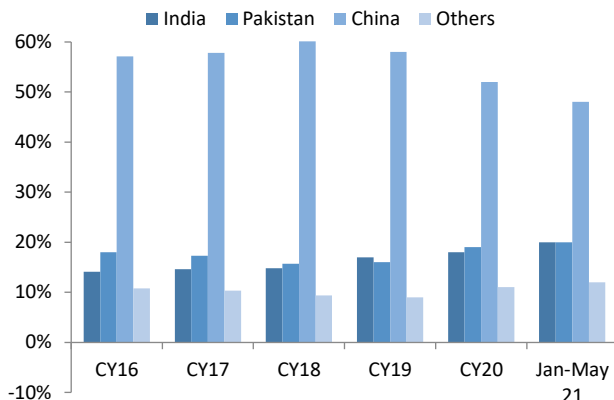
Quarter Result

US imports in Cotton Sheets



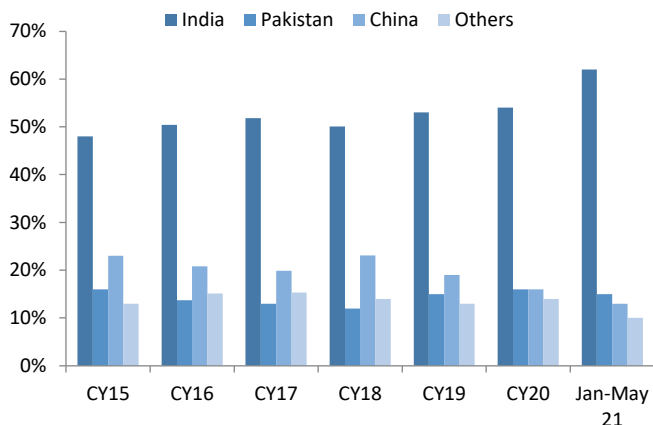
Source: Otexa & Arihant Research

US imports in Cotton Bedsread



Source: Otexa & Arihant Research

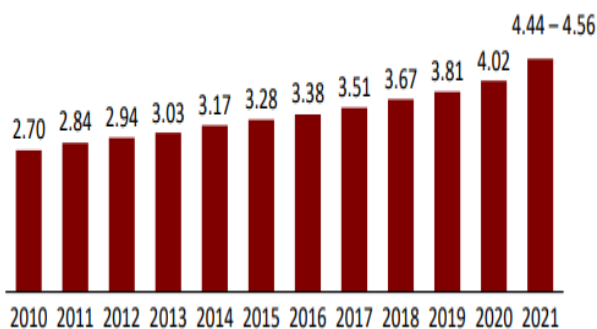
US imports in Cotton Pillow Cases



Source: Otexa & Arihant Research

US Retail Sales rising trend

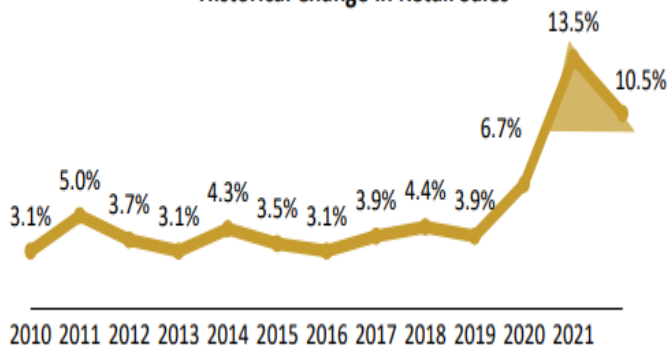
Historical Retail Sales (\$ in trillions)



Source: Company PPT & Arihant Research

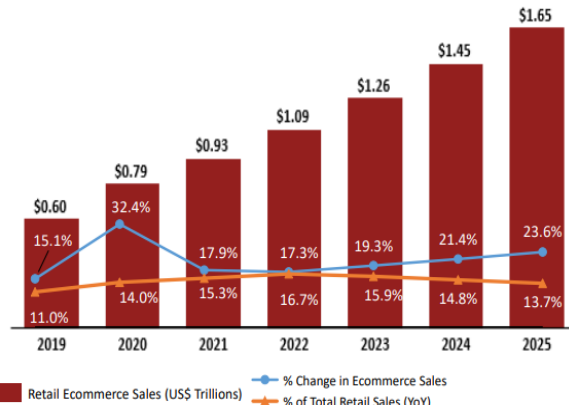
NRF predicts that the retail sales will grow between 10.5% and 13.5% to \$4.44 tn to \$4.56 tn in 2021

Historical Change in Retail Sales



Source: Company PPT & Arihant Research

Retail E-Commerce Sales in US 2019-2025



Source: Company PPT & Arihant Research

Income statement summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,934	2,080	2,519	2,858	3,232
EBITDA	156	183	377	518	598
Depreciation	(35)	(43)	(43)	(44)	(47)
Interest expense	(36)	(39)	(28)	(31)	(25)
Other income	10	55	38	44	47
Exceptional items	-	(98)	(4)	-	-
Profit before tax	95	57	340	488	573
Taxes	(36)	16	(91)	(123)	(144)
Minorities and other	-	-	-	-	-
Reported Net profit	60	73	249	365	429
Comprehensive income	0	0	0	0	0
Net profit	60	73	249	365	429

Ratio analysis

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	4.1	7.5	21.1	13.5	13.1
EBITDA growth	(4.3)	17.7	105.7	37.6	15.3
EBIT growth	(42.9)	48.6	91.2	39.6	15.4
Net profit growth	(52.4)	22.3	241.5	46.4	17.6
Profitability ratios (%)					
EBITDA margin	8.0	8.8	15.0	18.1	18.5
Net profit margin	3.1	3.5	9.9	12.8	13.3
RoCE	6.2	18.9	17.2	19.7	19.9
RoNW	6.2	7.4	21.9	25.0	23.4
Per share ratios					
EPS	3.0	3.7	12.6	18.5	21.7
Dividend per share	0.4	0.6	1.5	1.0	1.5
Book value per share	49.4	50.0	65.1	82.6	102.8
Valuation ratios					
P/E	90.1	73.7	21.6	14.7	12.5
P/B	5.5	5.5	4.2	3.3	2.6
EV/EBIDTA	36.6	30.4	15.4	11.0	9.1
Payout (%)					
Dividend payout	13.2	16.2	11.9	5.4	6.9
Tax payout	37.3	(29.0)	26.6	25.2	25.2
Liquidity ratios					
Debtor days	47.5	41.9	73.7	74.0	74.0
Inventory days	185.3	165.5	203.6	202.0	197.0
Creditor days	29.1	41.9	44.3	42.0	42.0

Balance sheet summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	39	39	39	39	39
Reserves	935	947	1,245	1,590	1,989
Net worth	975	986	1,285	1,630	2,029
Minority Interest	7	7	6	6	6
Debt	351	335	558	473	368
Deferred tax liab (net)	109	57	80	80	80
Total liabilities	1,441	1,385	1,928	2,188	2,482
Fixed assets	572	554	540	629	649
Capital Work In Progress	16	6	8	12	12
Other Intangible assets	3	21	21	21	21
Investments	46	0	167	172	177
Inventories	531	524	718	809	889
Sundry debtors	255	242	516	588	664
Loans & Advances	21	9	57	17	20
Other current assets	147	190	143	183	206
Sundry creditors	(144)	(221)	(264)	(273)	(307)
Other current liabilities & Prov	(40)	(90)	(104)	(115)	(130)
Cash	34	150	127	145	281
Total assets	1,441	1,385	1,928	2,188	2,482

Cashflow summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	95	57	340	488	573
Depreciation	35	43	43	44	47
Tax paid	(36)	16	(91)	(123)	(144)
Working capital Δ	92	116	(411)	(143)	(133)
Other operating items	-	-	-	-	-
Operating cashflow	187	232	(119)	265	343
Capital expenditure	(59)	(15)	(31)	(137)	(67)
Free cash flow	128	218	(150)	129	275
Equity raised	(33)	(50)	79	-	-
Investments	(46)	46	(167)	(5)	(5)
Others	0	(18)	-	-	-
Debt financing/disposal	(21)	(16)	223	(85)	(105)
Dividends paid	(8)	(12)	(30)	(20)	(30)
Other items	(12)	(51)	21	-	-
Net Δ in cash	8	117	(24)	19	136
Opening Cash Flow	26	34	150	127	145
Closing Cash Flow	34	150	127	145	281

Source: Company & Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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