Indo Count Industries Ltd.

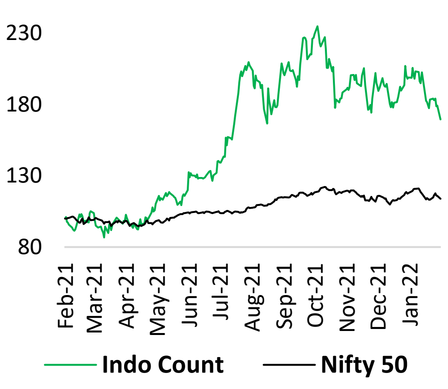
CMP: INR 208
Rating: Buy
Target Price: INR 342

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)	4,031
52w H/L (INR)	315 / 113
Avg Yearly Volume (in 000')	940

Shareholding Pattern % *(As on December, 2021)*	
Promoters	58.94
FII	9.68
DII	0.04
Public & Others	31.34

Stock Performance (%)	1m	3m	12m
ICIL	(24.1)	(23.1)	61.1
Nifty 50	(6.6)	(5.8)	12.5

ICIL Vs Nifty



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- **Indo Count Industries Ltd.** reported a Consolidated Revenue from Operations was INR 756 Cr vs INR 783 Cr in Q3FY21 (-3.42% YoY, +2.39% QoQ).
- The Gross Profit was INR 431 Cr vs INR 394 Cr in Q3FY21 (-9.29% YoY, +5.40% QoQ).
- The Gross Margin was 56.93% vs 50.31% in Q3FY21 (+662bps YoY, +163bps QoQ).
- The EBITDA was INR 146 Cr vs INR 143 Cr in Q3FY21 (+2.25% YoY, +4.91% QoQ).
- The EBITDA margin was 19.31% vs 18.42% in Q3FY21 (+107bps YoY, +46bps QoQ). Margins are in line with the guidance given by the company.
- The PAT was INR 71 Cr vs INR 93 Cr in Q3FY21 (-23.31% YoY, -16.07% QoQ).
- The PAT margin was 9.16% vs 13.45% in Q3FY21 (-429bps YoY, -217bps QoQ).
- The poor bottom-line performance is due to an exceptional item of INR 21 Cr, owed to a realization loss on e-Scrips under RoSCTL and RoDTEP schemes.
- Raw Material Costs were INR 356 Cr (-10.62% YoY, -0.68% QoQ), displaying the company's ability to efficiently manage input cost inflation.
- On the basis of top-line numbers, the company has reported a decent performance.

Q3FY22 Conference Call Highlights:

Funding of the GHCL Acquisition: The total consideration of INR 575 Cr will be funded through a mix of debt (INR 200 Cr) and the balance through current assets.

Exceptional Item: The book value of the scrips is INR 180 Cr. They were written down by 15%. They will come back to upward of 90% of the original value over a period of time.

Front end focus: The rise in cotton prices was well handled on EBITDA and PAT, displaying great flexibility on part of the firm, which is why they do not take too much backward integration with material like yarn- their model is asset-light with a front end focus with high-value addition. They already have a spinning capacity of 75,000 spinners, and the GHCL acquisition will lead to more. However, it is not their area of focus, nor do they desire to expand it. The company is now able to comfortably deliver 108mn meters.

Valuation & Outlook: We assign a TP of INR 342 based on a P/E Multiple of 11x on the FY24E EPS of INR 31.1. The company admits to facing headwinds with logistics. Despite that, they managed to attain the highest ever 9M Revenue, EBITDA and PAT. On a quarterly basis too, the top line performance was healthy. The medium and long term demand outlook for the company is stable, and the recent acquisition of GHCL's home textile division will make Indo Count the largest Home Textile Company in the world. ICIL has a growing customer base, promising demand and sustainable growth trajectory. We assign a "Buy" rating with an upside of 65% on the CMP.

INR cr	FY20	FY21	FY22E	FY23E	FY24E
Revenues	2,080	2,519	3,040	4,044	4,458
YoY growth (%)	7.5	21.1	20.7	33.0	10.2
Operating profit	183	377	614	821	911
OPM (%)	8.8	15.0	20.2	20.3	20.4
PAT	73	249	397	546	614
YoY growth (%)	22.3	241.5	59.4	37.6	12.4
EPS (Rs)	3.7	12.6	20.1	27.7	31.1
P/E (x)	56.2	16.5	10.3	7.5	6.7
Price/Book (x)	4.2	3.2	2.5	1.9	1.5
EV/EBITDA (x)	23.4	12.0	7.8	5.6	4.5
Debt/Equity (x)	0.3	0.4	0.5	0.3	0.2
RoE (%)	7.4	21.9	27.0	28.5	24.7

Source: Company & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue from Operations	**756**	**739**	**783**	***2.39%***	***-3.42%***
Other Operating Income	**30**	**28**	**9**	***6.98%***	***231.61%***
Raw Material Costs	356	358	398	*-0.68%*	*-10.62%*
Gross Profit	431	409	394	*5.40%*	*9.29%*
Gross Margin	56.93%	55.31%	50.31%	*163bps*	*662bps*
Employee costs	48	47	38	*1.95%*	*25.59%*
Other Expenses	236	222	213	*6.45%*	*11.09%*
EBITDA	**146**	**139**	**143**	***4.91%***	***2.25%***
EBITDA margin %	*19.31%*	*18.85%*	*18.24%*	*46bps*	*107bps*
Depreciation	10	10	11	*1.00%*	*-7.52%*
EBIT	**136**	**129**	**132**	***5.21%***	***3.05%***
Finance costs	15	12	7	*25.86%*	*116%*
Exceptional Items	-21	-	-0	-	*104200%*
PBT	**100**	**117**	**125**	***-14.75%***	***-20.03%***
Tax Expense	29	32	32	*-11.28%*	*-11%*
Effective tax rate %	29%	28%	26%	*112bps*	*305bps*
PAT	**71**	**85**	**93**	***-16.07%***	***-23.31%***
Add: Other Comprehensive Income	-2	3	13	*-168.55%*	*-77.36%*
Consolidated PAT	**69**	**88**	**105**	***-20.99%***	***-34.25%***
PAT margin %	*9.16%*	*11.87%*	*13.45%*	*-271bps*	*-429bps*
EPS (INR)	**3.60**	**4.30**	**4.71**	***-16.28%***	***-23.57%***

Source: Company & Arihant Research

Q3FY22 Conference Call Highlights:

Q3FY22 Highlights:

- The textile sector saw a resurgence in both domestic and export markets. Despite the supply chain problems, there were good sales delivered due to the holiday season, and even after that. Holiday sales were up 14% YoY.
- Ecommerce showed elevated growth due to elevated levels of buying from home.
- USA- the main market of the company banned all cotton and cotton products from the Xinjiang region in China which produces 20% of the world's cotton. This, along with the FTA's under discussion with developed countries like Canada, Australia, Europe, UK, etc., and the China+1 strategy, the Atmanirbhar Bharat scheme, and the PLI Scheme are all pushing textile manufacturers within the country. India is at the forefront of its development, and all of these posts huge opportunities for the company. There is scope here to grab huge shares, especially in the international market.
- The intensity of demand continues through Q3. They expect better number in Q4.
- The revenue target for FY22 is INR 3,000 Cr, down from INR 3,200 Cr. And the volume delivery target is 75 Mn+ meters, down from the previous target of 85-90 Mn meters. This is because short-term headwinds are expected to persist (supply chain and logistic issues, and the price of cotton rising by INR 30,000 per bale YoY to INR 75,000), but the medium and long term demand outlook is expected to stay strong.
- The increase in revenues and market shares was largely owed to the changing portfolio and increased importance given to B2C and D2C branded sales in both domestic and international markets though omni channels and ecommerce. Branded sales have better margins than the rest of the segments.
- The acquisition of the GHCL Home textile business via slump sale has been approved. After this acquisition is completed, ICIL will become the largest home textile business in the world with a capacity of 153 Mn meters pa which will allow them to share a wider spectrum of customers and increase their market share.
- The brownfield spinning capacity has become operational (currently spent INR 109 Cr on the same). The third wave delayed it and prevented it from becoming fully operational. It will be by Q4.
- CARE's credit rating is CARE A+ (Outlook: Positive) for Long Term Bank Facilities and CARE A1+ for Short Term Bank Facilities. ICRA's credit rating is ICRA AA- (Outlook Stable) for Company's Long-Term Bank Facilities and ICRA A1+ for Short Term Bank facilities.
- The company received 2 awards for sustainability this year- The Global Sustainability Award and CII Water Award.
- 9MFY22 Revenues: Branded Business- 14%; Fashion/Utility/ Institutional Bedding Business- 19%; E-commerce business- 6%; India Home Textile Business- 2%.
- GHCL's Current utilization is at 60% and margins are 11%.

Q3FY22 Conference Call Highlights:

Reasons for reduced guidance: There were no cancellations or customers lost, however, retailers and brands were under pressure this quarter causing a dip in volumes. However, long to medium-term demand momentum and high growth potential prevails. Volumes will stabilize in time to come.

Increase in realization:
- The average realization is now INR 374 per meter (+20% over last year). This is because they ventured into fashion utility and institutional bedding to build margins. ICIL has also taken steps for RM management with the price hikes for customers. Recently they also have an increased focus on their Value-added products. This is going to be the strategy going forward. There are challenges with inflation, inputs, logistics, etc. They are consciously investing in the supply chain for the value-added side, for next phase of growth.
- Proper inventory management and FOREX Realization has helped increase realization YoY in Q3. Though it was still better in Q2 (INR 375 per meter).

Customers from GHCL: The acquisition will not result in any overlapping customers- new ones will be added in the mid to high range for home textiles. This will cause visible volume and value growth in Q1 and thereon. The expected addition to revenue from GHCL Next year is INR 700-800 Cr. The revenue contribution of GHCL in 9MFY22 was INR 556 Cr. The managements expects about 20 Mn meters a year from this business.

Managing Price Increases:
- When both future and spot prices rise in the whole market, they pass on price rises. They produce on an order basis, and maintain cordial relations with customers, considering them partners. Customers accept the price increases to a very large extent. They are continuously engaged with them too, meeting their product mix and distribution requirements, helping them gain market share. So it is more a joint responsibility between the parties that lets them maintain margins.
- Currently, their cotton prices are hedged till May/ June of this year (Q1). Post that, they will take action as necessary.

Debt and Working capital after GHCL Acquisition: Inventory levels are up, whereas gross debt was- Short term INR 800 Cr; Long term INR 100 Cr. This is in the process of being paid off.

RM and FOREX Policy:
- RM levels are generally maintained as per the order book- about 5 to 6 months.
- As per the boards FOREX policy, about 60-70% of the book is hedged from time to time.

Company Financials

Consolidated Income statement (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,080	2,519	3,040	4,044	4,458
EBITDA	**183**	**377**	**614**	**821**	**911**
Depreciation	(43)	(43)	(81)	(87)	(92)
Interest expense	(39)	(28)	(41)	(44)	(40)
Other income	55	38	40	41	42
Exceptional items	(98)	(4)	-	-	-
Profit before tax	**57**	**340**	**531**	**731**	**821**
Taxes	16	(91)	(134)	(184)	(207)
Minorities and other	-	-	-	-	-
Reported Net profit	**73**	**249**	**397**	**546**	**614**
Other Comprehensive income	0	0	0	0	0
Net profit	**73**	**249**	**397**	**546**	**614**

Consolidated Balance Sheet (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	39	39	39	39	39
Reserves	947	1,245	1,623	2,139	2,744
Net worth	**986**	**1,285**	**1,662**	**2,179**	**2,783**
Minority Interest	7	6	6	6	6
Debt	335	558	758	653	603
Deferred tax liab (net)	57	80	80	80	80
Total liabilities	**1,385**	**1,928**	**2,505**	**2,917**	**3,471**
Fixed assets	554	540	1,042	1,026	1,006
Capital Work In Progress	6	8	16	17	18
Other Intangible assets	21	21	21	21	21
Investments	0	167	172	177	182
Inventories	524	718	747	980	1,008
Sundry debtors	242	516	625	831	916
Loans & Advances	9	57	19	25	27
Other current assets	190	143	194	258	285
Sundry creditors	(221)	(264)	(283)	(376)	(414)
Other current liabilities & Prov	(90)	(104)	(123)	(163)	(180)
Cash	150	127	75	120	602
Total assets	**1,385**	**1,928**	**2,505**	**2,917**	**3,471**

Source: Company & Arihant Research

Company Financials

Consolidated Statement of Cash Flow (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	57	340	531	731	821
Depreciation	43	43	81	87	92
Tax paid	16	(91)	(134)	(184)	(207)
Working capital Δ	116	(411)	(114)	(376)	(87)
Other operating items	-	-	-	-	-
Operating cashflow	**232**	**(119)**	**365**	**257**	**619**
Capital expenditure	(15)	(31)	(591)	(72)	(73)
Free cash flow	**218**	**(150)**	**(227)**	**185**	**546**
Equity raised	(50)	79	-	-	-
Investments	46	(167)	(5)	(5)	(5)
Others	(18)	-	-	-	-
Debt financing/disposal	(16)	223	200	(105)	(50)
Dividends paid	(12)	(30)	(20)	(30)	(10)
Equity Buy back	-	-	-	-	-
Capital subsidy	-	-	-	-	-
Other items	(51)	21	-	-	-
Net Δ in cash	**117**	**(24)**	**(51)**	**45**	**481**
Opening Cash Flow	**34**	**150**	**127**	**75**	**120**
Closing Cash Flow	**150**	**127**	**75**	**120**	**602**

Ratio analysis	FY20	FY21	FY22E	FY23E	FY24E
Growth matrix (%)					
Revenue growth	7.5	21.1	20.7	33.0	10.2
Op profit growth	17.7	105.7	63.1	33.6	10.9
EBIT growth	48.6	91.2	54.1	35.4	11.0
Net profit growth	22.3	241.5	59.4	37.6	12.4
Profitability ratios (%)					
OPM	8.8	15.0	20.2	20.3	20.4
EBIT margin	9.3	14.7	18.8	19.2	19.3
Net profit margin	3.5	9.9	13.1	13.5	13.8
RoCE	18.9	17.2	20.1	22.1	20.7
RoNW	7.4	21.9	27.0	28.5	24.7
RoA	5.3	12.9	15.9	18.7	17.7
Per share ratios					
EPS	3.7	12.6	20.1	27.7	31.1
Dividend per share	0.6	1.5	1.0	1.5	0.5
Cash EPS	5.9	14.8	24.2	32.1	35.8
Book value per share	50.0	65.1	84.2	110.4	141.0
Valuation ratios					
P/E	56.2	16.5	10.3	7.5	6.7
P/CEPS	35.2	14.0	8.6	6.5	5.8
P/B	4.2	3.2	2.5	1.9	1.5
EV/EBIDTA	23.4	12.0	7.8	5.6	4.5
Payout (%)					
Dividend payout	16.2	11.9	5.0	5.4	1.6
Tax payout	(29.0)	26.6	25.2	25.2	25.2
Liquidity ratios					
Debtor days	41.9	73.7	74.0	74.0	74.0
Inventory days	165.5	203.6	202.0	197.0	193.0
Creditor days	41.9	44.3	42.0	42.0	42.0
Leverage ratios					
Interest coverage	4.9	13.2	13.8	17.4	21.7
Net debt / equity	0.2	0.3	0.4	0.2	0.0
Net debt / op. profit	1.0	1.1	1.1	0.6	0.0

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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