

CMP: INR 149

Rating: Buy

Target Price: INR 208

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)	2,947
52w H/L (INR)	315 / 124
Avg Yearly Volume (in 000')	591

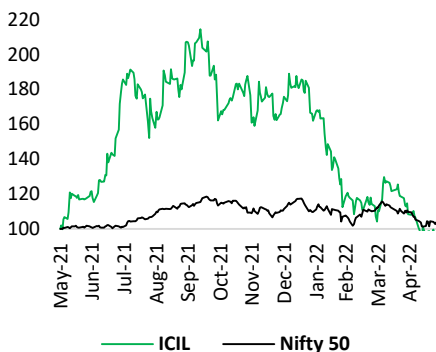
Shareholding Pattern %

(As on March, 2022)

Promoters	58.9
FII	9.4
DII	0.1
Public & Others	31.6

Stock Performance (%)	1m	3m	12m
ICIL	(14.7)	(17.7)	(5.0)
Nifty 50	(4.4)	(1.5)	5.9

ICIL Vs Nifty



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- **Indo Count Industries (ICIL)** reported a muted top-line performance in this quarter but has beaten our estimates on most other fronts, displaying an impressive bottom-line performance.
- ICIL has achieved the volume, value, and margin targets for the year.
- The Revenue from Operations (excluding other operating income) was INR 654 Cr vs INR 691 Cr in Q4FY21 (-5.31% YoY, -13.56% QoQ), missing our estimate of INR 807 Cr by 18.98%.
- The Gross Profit was INR 374 Cr vs INR 363 Cr in Q4FY21 (+3.30% YoY, -13.04% QoQ) with a Gross Margin of 57.28% vs 52.50% in Q4FY21 (+478bps YoY, +34bps QoQ).
- The EBITDA was INR 132 Cr vs INR 106 Cr in Q4FY21 (+24.38% YoY, -9.76% QoQ), marginally beating our estimate of INR 131 Cr. EBITDA margins were 19.09% vs 15.04% in Q4FY21 (+406bps YoY, +52bps QoQ), beating our estimate of 16.28% by 281bps.
- The PAT was INR 85 Cr vs INR 58 Cr in Q4FY21 (+47.07% YoY, +19.33% QoQ), beating our estimate of INR 73 Cr by 16.37%.

Q4FY22 Conference Call Highlights:

GHCL: The GHCL Home Textile Business acquisition was completed this quarter. So far revenues from this division have registered at INR 820 Cr, with an EBITDA of ~12.1%, and a PAT of INR 83 Cr. 192 looms were acquired which produced volumes of 19-20 Mn meters this year. All of the yarn will be used for captive consumption, and will be high value.

FTAs under review: FTAs with UAE, Australia, EU, and the UK are under discussion. They are expected to be extremely beneficial for both the company and the industry once they are all signed, as it will level the playing field for Indian products.

Valuation & Outlook: Despite the headwinds that rattled the industry, Indo Count has managed to deliver a decent performance. Cost pressures from soaring cotton prices (upward of 2x from last year) and freight/ logistics (reaching new highs) continue to be an issue. H2FY23 will be brighter, as 2 of the planned brownfield capacities for value-added products will become operational, and input costs with respect to freight and cotton will start softening. Retail sentiment in key markets will also pick up around then, aided by the company's consistent focus on value addition. Sales are expected to be slightly challenged for the 1st half of next year. We upgrade our rating from "Accumulate" to "Buy" with a revised TP of INR 208, valued at a P/E of 10x on the FY24E EPS of INR 20.8. Indo Count has the ability to deliver a good performance in the face of industry hiccups, due to its strong fundamentals, hedging capabilities, and evolving product portfolio.

INR Cr	FY21	FY22	FY23E	FY24E
Revenues	2,557	2,982	3,343	3,638
YoY growth (%)	19.79	16.63	12.09	8.82
Gross Profit ex- other income	1,249	1,489	1,698	1,931
GPM ex other income	49.59%	52.39%	51.80%	52.29%
Gross Profit	1,418	1,712	1,990	2,058
GPM	55.44%	57.42%	59.52%	56.58%
Operating profit	415	574	613	661
OPM (%)	16.21	19.26	18.35	18.16
PAT	249	359	372	410
YoY growth (%)	241.51	43.94	3.76	10.10
EPS (Rs)	12.62	18.17	18.85	20.75
P/E (x)	11.83	8.22	7.92	7.19
Price/Book (x)	2.29	1.86	1.53	1.27
EV/EBITDA (x)	8.41	6.74	5.61	4.67
Debt/Equity (x)	0.45	0.83	0.63	0.48
RoE (%)	21.94	24.98	21.17	19.24

Source: Company & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Revenue from Operations	654	756	691	-13.56%	-5.31%
Other Operating Income	37	30	14	20.85%	156.39%
Raw Material Costs	316	356	342	-11.27%	-7.71%
Gross Profit	374	431	363	-13.04%	3.30%
Gross Margin	57.28%	56.93%	52.50%	34bps	478bps
Employee costs	49	48	52	1.25%	-5.83%
Other Expenses	194	236	205	-17.97%	-5.29%
EBITDA	132	146	106	-9.76%	24.38%
<i>EBITDA margin %</i>	<i>19.09%</i>	<i>18.57%</i>	<i>15.04%</i>	<i>52bps</i>	<i>406bps</i>
Depreciation	11	10	10	7.74%	3.72%
EBIT	121	136	95	-11.06%	26.64%
Finance costs	8	15	11	-46.07%	-24%
Exceptional Items	-	-21	-	-100.00%	#DIV/0!
PBT	113	100	85	12.88%	33.23%
Tax Expense	28	29	27	-3.14%	3%
Effective tax rate %	24.62%	28.69%	31.71%	-407bps	-709bps
PAT	85	71	58	19.33%	47.07%
Add: Other Comprehensive Income	-13	-2	0	568.04%	-654.29%
Consolidated PAT	72	69	58	3.96%	23.89%
<i>PAT margin %</i>	<i>11.01%</i>	<i>9.16%</i>	<i>8.42%</i>	<i>186bps</i>	<i>260bps</i>
EPS (INR)	4.31	3.60	2.93	19.72%	47.10%

Source: Company & Arianth Research

Q4FY22 Conference Call Highlights:
Industry and business highlights of the year:

- The year ended on a good note through a focus on brand building resulting in double-digit revenue growth.
- Strengthened the product portfolio and customer connect.
- Logistical challenges were amplified due to the Russia- Ukraine war.
- Transit time to key markets has increased by 2-3 weeks. Sales were hampered in key regions.
- Expect sales to be challenged this year.
- Cotton prices have skyrocketed compared to last year.
- The Government's decision to remove duties on cotton till September is a positive for the Indian textile market
- FTAs with Australia and UAE will open up many opportunities for Indian export players. Discussions are open with the UK, Canada, and EU.
- Recorded a 17% revenue growth and met guidance of margins and value.
- Followed a disciplined hedge policy for RMs, mostly cotton. They are hedged for the next 6 months.
- Increased focus on value-added products.
- Branded business, e-commerce, and the domestic business shaped up well this year.
- Working toward growing the D2C and B2C segments with high-quality product offerings.
- The branded business contribution was 14% in FY22 vs 10% in FY21; fashion utility and institutional beddings' contribution increased from 15% in FY21 to 19% in FY22; e-commerce contribution increased from 4% in FY21 to 7% in FY22.
- Completed the acquisition of GHCL Home Textile business in Q4. Indo Count is now the largest home textile company with an annual capacity of 153mn meters. It will help enlarge the company's customer base in developed countries.
- Domestic brands have also done well this year.
- Further expanded the brand portfolio this year.
- Modernization of the spinning capacity has been completed.
- The increase in the home textile capacity from 90-108mn meters will be operational from Q3FY22 onward as some balancing equipment needs to be added.
- The new cut and sew facilities and top of the bed capacities will be operational by H2FY23.
- Proposed CAPEX towards additional spinning capacity at Pranavaditya Spinning Mills with a total spindle capacity of ~68,000 spindles. The plan is to spin specialized yarn here. This will be completed by Q4FY23 and will be funded by INR 95 Cr of internal accrual and INR 175 Cr of debt. INR 98 Cr will be spent in phase 1 and INR 172 Cr will be spent in phase 2.
- Recorded the highest ever profit in FY22.
- India is positioned well strategically in the home textile market and China is losing market shares. This will be beneficial for the company in the long and medium-term.

Q4FY22 Conference Call Highlights:

- The share of India in the home textile market has declined by 7% this year, due to the fact that India is positioned in the mid to high-end product market. Given the unstable economic scenario, mass-market products tend to do better rather than more premium ones.
- Inventories have increased strategically this year. Borrowings were increased to support that, and the respective borrowings will be reduced on an ongoing basis.
- **Long-term growth strategies:** Brand development and focus on the value-added segment, along with the signing FTAs with the UK, EU, Australia, UAE, etc, is to be beneficial for the company in the long run.
- All of the spinning mill output is for captive consumption.
- **Container shortages:** There is currently a mismatch in demand and supply wherein retailers aren't able to liquidate their inventories due to the container shortages, with containers being stuck at Chinese ports causing seasonal products to reach retailers at the wrong times. The geopolitical tensions have worsened it. This upcoming holiday season is expected to be good for the company, as this issue is expected to alleviate by then with the container shortage easing up, which will also ease freight rates.
- **Cotton prices:** The stable season for cotton is expected to come from September onward. The prices are now +100% from last year, hence the duties were removed by the government. There is also a shortage of cotton in the market. This will begin to stabilize in the next harvest season. There will be pressures for the next 2 quarters, but ICIL has undertaken hedging activities for the same. The shortage has impacted the global market, and international prices are now at the same level as domestic prices.
- Presently INR 60 Cr is locked up in government receivables. As on 31st March, this figure was INR 170 Cr. The company expects to realize INR 200-250 Cr cash from this next year.
- There should be a debt reduction of INR 300-400 Cr next year.
- They look toward being a billion-dollar company in 3-4 years with an EBITDA margin of ~18%. The key driver for this will be the value added portfolio.
- The company now enjoys a 2% subsidy on interest which has since lowered finance costs.

Company Financials

Consolidated Income statement INR Cr	FY21	FY22	FY23E	FY24E
Revenue	2,557	2,982	3,343	3,638
EBITDA	415	574	613	661
Depreciation	(43)	(41)	(53)	(57)
Interest expense	(28)	(47)	(57)	(50)
Exceptional items	(4)	-	-	-
Profit before tax	340	486	503	554
Taxes	(91)	(127)	(131)	(144)
Net profit	249	359	372	410

Consolidated Balance Sheet INR Cr	FY21	FY22	FY23E	FY24E
Equity capital	39	39	39	39
Reserves	1,245	1,547	1,890	2,290
Net worth	1,285	1,587	1,929	2,329
Minority Interest	6	6	6	6
Debt	577	1,319	1,219	1,119
Deferred tax liab (net)	80	66	66	66
Total liabilities	1,947	2,978	3,221	3,521
Fixed assets	540	598	844	837
Capital Work In Progress	8	24	14	15
Other Intangible assets	21	32	32	32
Investments	167	2	152	157
Inventories	718	1,068	1,009	1,028
Sundry debtors	516	494	557	576
Loans & Advances	144	38	20	22
Other current assets	135	272	214	232
Sundry creditors	(244)	(159)	(205)	(207)
Other current liabilities & Prov	(104)	(127)	(145)	(150)
Cash	40	394	728	978
Total assets	1,947	2,978	3,221	3,521

Consolidated Statement of Cash Flow INR Cr	FY21	FY22	FY23E	FY24E
Profit before tax	340	486	503	554
Depreciation	43	41	53	57
Tax paid	(91)	(127)	(131)	(144)
Working capital Δ	(510)	(422)	136	(51)
Operating cashflow	(218)	(23)	561	416
Capital expenditure	(31)	(115)	(290)	(51)
Free cash flow	(249)	(138)	272	365
Equity raised	79	(17)	-	-
Investments	(167)	165	(150)	(5)
Others	(7)	(346)	342	-
Debt financing/disposal	243	742	(100)	(100)
Dividends paid	(30)	(39)	(30)	(10)
Other items	21	(13)	-	-
Net Δ in cash	(110)	354	334	250
Opening Cash Flow	150	40	394	728
Closing Cash Flow	40	394	728	978

Source: Company & Arianth Research

Ratios

Ratio analysis	FY21	FY22	FY23E	FY24E
Growth matrix (%)				
Revenue growth	19.8	16.6	12.1	8.8
Op profit growth	74.4	38.6	6.8	7.7
EBIT growth	91.2	43.6	5.0	7.8
Net profit growth	241.5	43.9	3.8	10.1
Profitability ratios (%)				
OPM	16.2	19.3	18.3	18.2
EBIT margin	14.5	17.9	16.8	16.6
Net profit margin	9.7	12.0	11.1	11.3
RoCE	17.1	16.5	13.7	13.5
RoNW	21.9	25.0	21.2	19.2
RoA	12.8	12.0	11.6	11.6
Per share ratios				
EPS	12.6	18.2	18.8	20.8
Dividend per share	1.5	2.0	1.5	0.5
Cash EPS	14.8	20.2	21.6	23.6
Book value per share	65.1	80.4	97.7	118.0
Valuation ratios				
P/E	11.8	8.2	7.9	7.2
P/CEPS	10.1	7.4	6.9	6.3
P/B	2.3	1.9	1.5	1.3
EV/EBIDTA	8.4	6.7	5.6	4.7
Payout (%)				
Dividend payout	11.9	11.0	8.0	2.4
Tax payout	26.6	26.2	26.0	26.0
Liquidity ratios				
Debtor days	72.6	59.7	60.0	57.0
Inventory days	203.6	284.2	230.0	210.0
Creditor days	41.1	23.8	27.0	25.0
Leverage ratios				
Interest coverage	13.2	11.3	9.8	12.0
Net debt / equity	0.4	0.6	0.3	0.1
Net debt / op. profit	1.3	1.6	0.8	0.2

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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