

CMP: INR 130

Rating: HOLD

Target Price: INR 141

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)	2,576
52w H/L (INR)	238 / 120
Avg Daily Volume (in 000')	316

Shareholding Pattern %

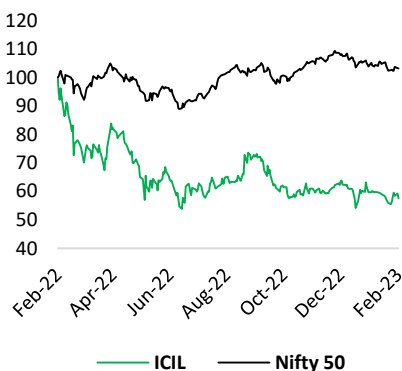
(As on December, 2022)

Promoters	58.74
FII	9.30
DII	0.02
Public & Others	31.94

Stock Performance (%)

	1m	3m	12m
ICIL	(3.0)	(5.1)	(42.1)
Nifty 50	(0.6)	(2.4)	3.2

ICIL Vs Nifty



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ICIL's Q3FY23 Revenue from Operations was INR 657 Cr vs INR 756 Cr in Q3FY22 (-13.10% YoY, -22.13% QoQ). The Gross Margin (ex-OI) was 51.17% vs 56.93% in Q3FY22 (-567bps YoY, -93bps QoQ). The EBITDA (including OI) was INR 78 Cr vs INR 146 Cr in Q3FY22 (-46.52% YoY, -34.76% QoQ). The EBITDA margin was 11.80% vs 18.57% in Q3FY22 (-677bps YoY, -230bps QoQ). The PAT was INR 38 Cr vs INR 71 Cr in Q3FY22 (-21.05% YoY, -13.45% QoQ). The company has reported a poor performance resulting from muted holiday consumption in key markets like the US. This is reflected in the growth of all parameters. There was some RM price pressure as is seen by GM contraction. Employee costs were also up 34% YoY which led to a contraction in the EBITDA Margins, and Depreciation expenses were up 64% YoY.

Dampened demand in key markets from heightened inflation: There has been a shift in consumer wallet shares away from discretionary purchases, and toward essential purchases and travel, leading to slowed seasonal consumption. The high inflation stemmed from the recent hike in interest rates by central banks. The subdued volumes have caused the company to guide for 73-75Mn meters and flattish revenues with margins in the range of 15-16% for FY23.

Capex plans: Phase 2 of the capex for the modernization of the PSML spinning capacity will be operational by March 2023 and will entail an estimated INR 170 Cr of capex which will be funded by a mix of internal accruals and debt. Once this capex completes, there will be little capex left for FY24.

New possible brand launches: In an attempt to increase B2C reach and grow the fashion/ utility bedding portfolio, they might launch a couple of new licensed D2C brands in the next year.

Growing the share of value-added products: They target to grow the share of products like fashion & utility bedding (~19% of revenues) as well as other licensed brands as they tend to be margin accretive

Long-term guidance: Over the next 3-4 years, the company has guided for an additional INR 1,500-1,600 Cr of revenue from the GHCL acquisition and an INR ~600 Cr revenue from the PSML capex being undertaken. Margins are expected to stabilize at 18-20%.

Valuation & Outlook: The company has been adversely impacted by the current macroeconomic headwinds on both the top and bottom lines. Supply chain conditions are improving and cotton prices are stabilizing, however, the demand sentiment is expected to pick up in the FY24 post and margin expansion will follow. To reflect the impact of these headwinds, we cut our FY23E/FY24E/FY25E/FY26E EPS estimates by 15%/5%/8%/7% and assign a TP of INR 141 (upside of 8.1%) valued at a P/E multiple of 9x on the FY24E EPS of INR 15.6, and recommend that investors HOLD the stock.

INR Cr	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenues	2,557	2,982	3,020	3,557	3,805	4,023
YoY growth (%)	19.79	16.63	1.27	17.79	6.95	5.73
Gross Profit ex- other operating income	1,249	1,489	1,651	2,007	2,182	2,304
GPM ex- other operating income	49.59%	52.39%	55.31%	57.14%	58.09%	58.02%
Gross Profit	1,287	1,629	1,686	2,052	2,231	2,355
GPM	50.34%	54.63%	55.84%	57.69%	58.63%	58.55%
EBITDA	415	544	463	558	617	686
EBITDA M (%)	16.21	18.26	15.34	15.69	16.23	17.05
PAT	249	329	241	308	347	397
YoY growth (%)	241.51	31.97	(26.58)	27.74	12.51	14.43
EPS (INR)	12.62	16.66	12.23	15.62	17.58	20.11
P/E (x)	10.30	7.81	10.64	8.33	7.40	6.47
Price/Book (x)	2.00	1.62	1.43	1.22	1.05	0.91
EV/EBITDA (x)	7.49	6.41	6.21	4.95	4.20	3.47
Debt/Equity (x)	0.45	0.83	0.65	0.51	0.40	0.31
RoE (%)	21.94	22.90	14.26	15.83	15.31	15.11

Source: Company & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Revenue from Operations	657	844	756	-22.13%	-13.10%
Other Operating Income	5	5	30	-3.64%	-84.24%
Raw Material Costs	326	409	356	-20.42%	-8.50%
Gross Profit	336	440	431	-23.52%	-21.89%
<i>Gross Margin (Ex- OI)</i>	<i>51.17%</i>	<i>52.10%</i>	<i>56.93%</i>	<i>-93bps</i>	<i>-576bps</i>
Employee costs	65	66	48	-2.28%	34.11%
Other Expenses	194	254	236	-23.75%	-18.09%
EBITDA	78	120	146	-34.76%	-46.52%
<i>EBITDA margin %</i>	<i>11.80%</i>	<i>14.10%</i>	<i>18.57%</i>	<i>-230bps</i>	<i>-677bps</i>
Depreciation	16	15	10	7.36%	63.59%
EBIT	62	104	136	-40.96%	-54.69%
Finance costs	20	21	15	-1.94%	32%
Exceptional Items	-	-	-21	-	-100%
PBT	41	84	100	-50.57%	-58.54%
Tax Expense	4	17	29	-77.98%	-87%
<i>Effective tax rate %</i>	<i>8.92%</i>	<i>20.02%</i>	<i>28.68%</i>	<i>-1110bps</i>	<i>-1977bps</i>
PAT	38	67	71	-43.71%	-47.04%
Add: Other Comprehensive Income	6	-19	-2	-132.81%	889.69%
Consolidated PAT	44	48	69	-7.89%	-36.46%
<i>PAT margin %</i>	<i>6.65%</i>	<i>5.63%</i>	<i>8.80%</i>	<i>102bps</i>	<i>-216bps</i>
EPS (INR)	3.38	3.91	4.28	-13.55%	-21.03%

Source: Company & Arianth Research

Quarterly Highlights:

- This quarter was challenging for the industry from the high inflation and muted holiday spending. The geopolitical situation has also worsened the situation.
- Inflation remains a key challenge and will continue to be an issue.
- Spending on essential purchases and travel was much more than on discretionary purchases which impacted volumes for the quarter.
- Improvement in the global supply chain made the business more competitive.
- Cotton prices have stabilized significantly and are showing signs of softening.
- The domestic economy is in better shape than the global economy as it is witnessing a demand uptick. There is a better opportunity to develop local brands.
- The bed linen market is getting more organized as middle-class aspirations are improving, and so is domestic brand consumption. They expect 2 digit percentage revenue contribution from domestic brands in the next few years.
- Plans for net debt reduction are on track. Net debt for the quarter was INR 684 Cr vs INR 762 in the September quarter.
- The B2C business did well, with an increase in branded e-commerce shares during the quarter across the 10 active brands both locally and globally. The recently launched brand ‘Gaiam’ was promoted in the US this season. The share of branded business slowly growing.
- The brownfield home textile expansion (from 90mn to 108mn meters) of the spinning facility and TOB (Top Of Bed) facility is on track and will be completed by Q4. This will serve additional customers and also increase the share of the VAP business.
- In the domestic market, the brand ‘Boutique Living’ won the best brand award at The Economic Times Best Brands 2022 Conclave.

Short-term expectations: This quarter was a one-off from the muted demand in the marketplace. Q4 might perform better from the easing freight costs and improving supply chain situation. However, substantial improvement will come from FY24 onward.

Realizations: They were up 20% this quarter and will go up further as they continue to work on value-added segment growth, especially through fashion, and utility/ institutional bedding. This segment is expected to be ~30% of revenues in the future.

Entering new markets: From the new FTAs signed with Australia and the UAE, the company expects to increase its share in these countries over other countries like Pakistan that enjoy duty-free access to these markets.

Company Financials

Consolidated Income statement INR Cr	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	2,557	2,982	3,020	3,557	3,805	4,023
EBITDA	415	544	463	558	617	686
Depreciation	(43)	(41)	(64)	(71)	(76)	(81)
Interest expense	(28)	(47)	(73)	(65)	(59)	(53)
Exceptional items	(4)	-	-	-	-	-
Profit before tax	340	456	326	422	482	551
Taxes	(91)	(127)	(85)	(114)	(135)	(154)
Net profit	249	329	241	308	347	397
Consolidated Balance Sheet INR Cr	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Equity capital	39	39	39	39	39	39
Reserves	1,245	1,547	1,759	2,058	2,395	2,782
Net worth	1,285	1,587	1,799	2,097	2,434	2,821
Minority Interest	6	6	6	6	6	6
Debt	577	1,319	1,169	1,069	969	869
Deferred tax liab (net)	80	66	66	66	66	66
Total liabilities	1,947	2,978	3,040	3,239	3,476	3,763
Fixed assets	540	598	738	780	788	771
Capital Work In Progress	8	24	13	14	29	46
Other Intangible assets	21	32	32	32	32	32
Investments	167	2	152	202	277	367
Other non current assets	7	342	0	0	0	0
Net working capital	1,164	1,587	1,244	1,335	1,408	1,493
Inventories	718	1,068	852	878	918	973
Sundry debtors	516	494	503	563	602	637
Loans & Advances	144	38	18	22	23	25
Other current assets	135	272	193	227	243	257
Sundry creditors	(244)	(159)	(192)	(208)	(221)	(232)
Other current liabilities & Prov	(104)	(127)	(131)	(147)	(157)	(166)
Cash	40	394	861	876	941	1,054
Total assets	1,947	2,978	3,040	3,239	3,476	3,763
Consolidated Statement of Cash Flow INR Cr	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Profit before tax	340	456	326	422	482	551
Depreciation	43	41	64	71	76	81
Tax paid	(91)	(127)	(85)	(114)	(135)	(154)
Working capital Δ	(510)	(422)	342	(91)	(73)	(85)
Operating cashflow	(218)	(53)	647	288	350	394
Capital expenditure	(31)	(115)	(193)	(114)	(99)	(81)
Free cash flow	(249)	(168)	455	174	251	313
Equity raised	79	13	-	-	-	-
Investments	(167)	165	(150)	(50)	(75)	(90)
Others	(7)	(346)	342	-	-	-
Debt financing/disposal	243	742	(150)	(100)	(100)	(100)
Dividends paid	(30)	(39)	(30)	(10)	(10)	(10)
Other items	21	(13)	-	-	-	-
Net Δ in cash	(110)	354	467	15	66	112
Opening Cash Flow	150	40	394	861	876	941
Closing Cash Flow	40	394	861	876	941	1,054

Source: Company & ARIHANT Research

Ratios

Ratio analysis	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Growth matrix (%)						
Revenue growth	19.8	16.6	1.3	17.8	6.9	5.7
Op profit growth	74.4	31.4	(14.9)	20.4	10.6	11.1
EBIT growth	91.2	35.6	(20.6)	21.9	11.0	11.8
Net profit growth	241.5	32.0	(26.6)	27.7	12.5	14.4
Profitability ratios (%)						
OPM	16.2	18.3	15.3	15.7	16.2	17.1
EBIT margin	14.5	16.9	13.2	13.7	14.2	15.0
Net profit margin	9.7	11.0	8.0	8.7	9.1	9.9
RoCE	17.1	15.2	10.1	11.6	11.9	12.3
RoNW	21.9	22.9	14.3	15.8	15.3	15.1
RoA	12.8	11.0	7.9	9.5	10.0	10.6
Per share ratios						
EPS	12.6	16.7	12.2	15.6	17.6	20.1
Dividend per share	1.5	2.0	1.5	0.5	0.5	0.5
Cash EPS	14.8	18.7	15.5	19.2	21.4	24.2
Book value per share	65.1	80.4	91.1	106.2	123.3	142.9
Valuation ratios						
P/E	10.3	7.8	10.6	8.3	7.4	6.5
P/CEPS	8.8	6.9	8.4	6.8	6.1	5.4
P/B	2.0	1.6	1.4	1.2	1.1	0.9
EV/EBIDTA	7.5	6.4	6.2	4.9	4.2	3.5
Payout (%)						
Dividend payout	11.9	12.0	12.3	3.2	2.9	2.5
Tax payout	26.6	27.9	26.0	27.0	28.0	28.0
Liquidity ratios						
Debtor days	72.6	59.7	60.0	57.0	57.0	57.0
Inventory days	203.6	284.2	230.0	210.0	210.0	210.0
Creditor days	41.1	23.5	27.0	25.0	25.0	25.0
Leverage ratios						
Interest coverage	13.2	10.6	5.4	7.5	9.1	11.3
Net debt / equity	0.4	0.6	0.2	0.1	0.0	(0.1)
Net debt / op. profit	1.3	1.7	0.7	0.3	0.0	(0.3)
Du-Pont Analysis						
Tax burden (x)	0.7	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	0.9	0.8	0.9	0.9	0.9
EBIT margin (x)	0.1	0.2	0.1	0.1	0.1	0.2
Asset turnover (x)	1.3	1.2	1.0	1.0	1.0	1.0
Financial leverage (x)	1.7	1.7	1.8	1.8	1.6	1.5
RoE (%)	21.9	22.9	14.3	15.8	15.3	15.1

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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