

The worst is behind: expect strong top line growth with margin expansion as demand momentum returns and cotton prices cool down

**CMP: INR 173**

**Rating: BUY**

**Target Price: INR 288**

**Stock Info**

BSE	521016
NSE	ICIL
Bloomberg	ICNTIN
Reuters	ICNT
Sector	Textiles
Face Value (INR)	2
Equity Capital (INR cr)	40
Mkt Cap (INR cr)	3,427
52w H/L (INR)	178 / 101
Avg Daily Volume (in 000')	330

**Shareholding Pattern %**

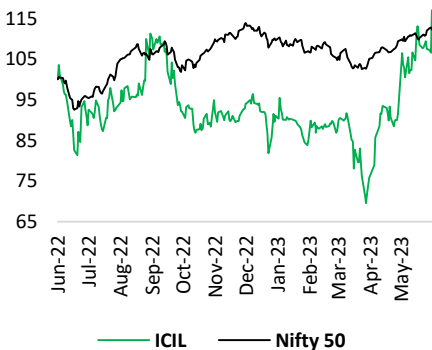
(As on March 2023)

Promoters	58.74
FII	9.28
DII	0.04
Public & Others	31.93

**Stock Performance (%)**

	1m	3m	12m
ICIL	27.7	29.3	16.1
Nifty 50	2.6	5.3	11.8

**ICIL Vs Nifty**



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**A stupendous performance; demand returns as buyers in the US and UK liquidate old stocks and start to buy again. Operating Margin expansion is visible sequentially as well as annually with cotton price moderation during the quarter.** ICIL's Q4FY23 Revenue from Operations was up 22.79% YoY to INR 807 Cr vs our estimate of INR 657 Cr (+22.79% QoQ). The EBITDA (ex-OI) was up 50.75% YoY to INR 144 Cr vs our estimate of INR 84 Cr (+96.58% QoQ). The margin was up 324bps YoY 17.87% vs our estimate of 12.83% (+671bps QoQ). The PAT was up 11.02% YoY INR 95 Cr vs our estimate of INR 37 Cr (+151.18% QoQ).

**Demand returns and cotton prices have softened significantly:** In the past few quarters the company faced a demand slowdown from high inflation that curtailed demand for discretionary products, supply chain & logistic issues (container shortage), and soaring cotton prices. All of these concerns have started to abate; inflation has started to moderate which has led to demand returning, large retailers in the US and UK have resumed buying momentum as inventory hang-ups with them have started to liquidate (hang-ups from previous overbuying to mitigate against facing shortfalls in inventories given the container shortage), and cotton prices have come down to the INR 55,000- INR 60,000/ candy mark vs INR 65,000 in Q3, and upward of INR 1,00,000 during peak pandemic times.

**Capex plans:** There is a residual capex of INR ~23 Cr on the spinning capacity which will be completed in FY23 and a regular maintenance capex of INR ~40 Cr required every year. All capex needs will be met internally. The company was in investment mode during the pandemic time and this will start to pay off now as major organic and inorganic acquisitions are done.

**Guidance:** The company can grow 15-20% and reach peak margins in the range of 16-18%. There will also be a heightened focus on debt reduction now that major capex (an amalgamation of PSML to bring in more spindles, expansion of the spinning capacity, and the GHCL acquisition) has been completed. Volumes will be in the range of 85-90mn meters. FCF generation will be higher from here on. Capacity utilization can touch ~60% up from the current 50%.

**Growing share of value-added products:** They target to grow the share of products like fashion & utility bedding (~19% of revenues targeted to become 30% in 3 years) as well as other licensed brands as they tend to be margin accretive. In addition to the 2 existing licensed brands, they are in talks with 2 additional brands.

**Valuation & Outlook:** The company is seeing a massive turnaround in its macroeconomic environment as the market returns to normalcy, and economies of scale will start to kick in from all the investments. The potential FTA with UK, EU, Canada, and the GCC could push growth over the company guidance. The GHCL acquisition has opened access to new customer bases, and they endeavoring to push the D2C and B2C branded business, as well as the fashion/ institutional/ utility bedding- all of which have high profitability. We expect recoveries above pre-pandemic levels in the medium-long term. We assign a TP of INR 288 valued at a P/E multiple of 15x the FY26E EPS of INR 19.18 and assign a BUY rating to the company.

INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenues	2,982	3,043	3,319	3,662	4,005
YoY growth (%)	16.63	2.04	9.07	10.33	9.36
Gross Profit ex- other income	1,489	1,651	1,812	1,989	2,155
GPM ex- other income	52.39%	54.82%	55.15%	55.14%	54.63%
Gross Profit	1,629	1,682	1,845	2,043	2,215
GPM	54.63%	55.28%	55.59%	55.80%	55.30%
EBITDA	544	425	517	579	653
EBITDA M (%)	18.26	13.96	15.59	15.80	16.30
PAT	329	213	288	326	380
YoY growth (%)	31.97	(35.23)	35.07	13.36	16.49
EPS (INR)	16.66	10.75	14.52	16.46	19.18
P/E (x)	10.39	16.09	11.92	10.51	9.02
Price/Book (x)	2.15	1.91	1.66	1.44	1.24
EV/EBITDA (x)	7.97	9.88	6.59	5.89	4.89
Debt/Equity (x)	0.83	0.49	0.37	0.28	0.21
RoE (%)	22.90	12.60	14.89	14.63	14.77

Source: Company & Arihant Research

**Quarterly Result**

<b>INR Cr (Consolidated)</b>	<b>Q4FY23</b>	<b>Q3FY23</b>	<b>Q4FY22</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
<b>Revenue from Operations</b>	<b>807</b>	<b>657</b>	<b>654</b>	<b>22.79%</b>	<b>23.44%</b>
<b>Other Income</b>	<b>3</b>	<b>5</b>	<b>37</b>	<b>-41.18%</b>	<b>-92.33%</b>
Raw Material Costs	359	326	315	10.29%	13.85%
Gross Profit (Ex- OI)	448	332	338	35.07%	32.38%
<i>Gross Margin (Ex- OI)</i>	<i>55.50%</i>	<i>50.45%</i>	<i>51.75%</i>	<i>505bps</i>	<i>375bps</i>
Employee costs	67	65	49	2.96%	36.38%
Other Expenses	237	194	194	22.49%	22.31%
<b>EBITDA (Ex-OI)</b>	<b>144</b>	<b>73</b>	<b>96</b>	<b>96.58%</b>	<b>50.75%</b>
<i>EBITDA margin (Ex-OI)</i>	<i>17.87%</i>	<i>11.16%</i>	<i>14.63%</i>	<i>671bps</i>	<i>324bps</i>
<b>EBITDA</b>	<b>147</b>	<b>78</b>	<b>132</b>	<b>88.18%</b>	<b>11.22%</b>
<i>EBITDA margin</i>	<i>18.15%</i>	<i>11.80%</i>	<i>19.14%</i>	<i>635bps</i>	<i>-99bps</i>
Depreciation	16	16	11	-0.18%	51.57%
<b>EBIT</b>	<b>131</b>	<b>62</b>	<b>121</b>	<b>111.83%</b>	<b>7.61%</b>
Finance costs	7	20	8	-64.99%	-14%
<b>PBT</b>	<b>123</b>	<b>41</b>	<b>113</b>	<b>198.19%</b>	<b>9.19%</b>
Tax Expense	29	4	28	678.59%	4%
<i>Effective tax rate %</i>	<i>23.27%</i>	<i>8.91%</i>	<i>24.54%</i>	<i>1436bps</i>	<i>-126bps</i>
<b>PAT</b>	<b>95</b>	<b>38</b>	<b>85</b>	<b>151.18%</b>	<b>11.02%</b>
<i>PAT margin %</i>	<i>11.70%</i>	<i>5.70%</i>	<i>12.36%</i>	<i>600bps</i>	<i>-66bps</i>
<b>EPS (INR)</b>	<b>4.78</b>	<b>1.90</b>	<b>4.31</b>	<b>151.58%</b>	<b>10.90%</b>

Source: Company & Arianth Research

**Q4FY23 Concall highlights:**

- The make-in-India plan, PLI incentive, PM Mitra textile parks, potential FTAs with new nations, and the China +1 strategy, all are growth levers for the company as they promote exports.
- Brand building through e-commerce and the domestic market (which is entirely a brand play) along with VAP & licenses are some of the drivers for margin expansion within the company.
- The order book is set for 5-6 months.
- Normal WC days will be ~180. Realization growth/de-growth will be in proportion to the RM price trajectory.
- Cotton is yarn 80% of the RM requirements, the rest is blended yarn.
- Interest costs were high during the year due to an ECL provision reversal and will remain at similar levels going forward.
- Forex gain during the year was INR 13 Cr vs INR 110 Cr last year.
- Yarn inventories are held for up to 6 months. High-cost inventories are expected to fully liquidate by Q2FY24.

Company Financials

Consolidated Income statement INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,982	3,043	3,511	3,995	4,488
<b>EBITDA</b>	<b>544</b>	<b>425</b>	<b>547</b>	<b>669</b>	<b>774</b>
Depreciation	(41)	(65)	(70)	(84)	(89)
Interest expense	(47)	(62)	(48)	(42)	(36)
Exceptional items	-	-	-	-	-
<b>Profit before tax</b>	<b>456</b>	<b>298</b>	<b>429</b>	<b>544</b>	<b>648</b>
Taxes	(127)	(85)	(120)	(152)	(182)
<b>Net profit</b>	<b>329</b>	<b>213</b>	<b>309</b>	<b>391</b>	<b>467</b>
Consolidated Balance Sheet INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	39	40	40	40	40
Reserves	1,547	1,753	2,052	2,434	2,890
<b>Net worth</b>	<b>1,587</b>	<b>1,793</b>	<b>2,092</b>	<b>2,473</b>	<b>2,930</b>
Minority Interest	6	0	0	0	0
Debt	1,319	876	776	676	576
Deferred tax liab (net)	66	69	69	69	69
<b>Total liabilities</b>	<b>2,978</b>	<b>2,738</b>	<b>2,938</b>	<b>3,219</b>	<b>3,576</b>
Fixed assets	598	1,097	767	918	899
Capital Work In Progress	24	183	165	161	151
Other Intangible assets	32	14	14	14	14
Investments	2	143	193	268	358
Other non current assets	342	53	0	0	0
<b>Net working capital</b>	<b>1,587</b>	<b>1,141</b>	<b>1,041</b>	<b>1,176</b>	<b>1,314</b>
Inventories	1,068	895	780	884	1,004
Sundry debtors	494	409	439	499	561
Loans & Advances	38	0	0	0	0
Other current assets	272	158	195	222	249
Sundry creditors	(159)	(225)	(263)	(305)	(361)
Other current liabilities & Prov	(127)	(96)	(109)	(124)	(140)
Cash	394	108	757	681	839
<b>Total assets</b>	<b>2,978</b>	<b>2,738</b>	<b>2,938</b>	<b>3,219</b>	<b>3,576</b>
Consolidated Statement of Cash Flow INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	456	298	429	544	648
Depreciation	41	65	70	84	89
Tax paid	(127)	(85)	(120)	(152)	(182)
Working capital Δ	(422)	446	100	(135)	(138)
<b>Operating cashflow</b>	<b>(53)</b>	<b>724</b>	<b>479</b>	<b>340</b>	<b>418</b>
Capital expenditure	(115)	(723)	278	(231)	(60)
<b>Free cash flow</b>	<b>(168)</b>	<b>1</b>	<b>757</b>	<b>109</b>	<b>357</b>
Equity raised	13	33	-	-	-
Investments	165	(142)	(50)	(75)	(90)
Others	(346)	307	53	-	-
Debt financing/disposal	742	(443)	(100)	(100)	(100)
Dividends paid	(39)	(40)	(10)	(10)	(10)
Other items	(13)	(3)	-	-	-
<b>Net Δ in cash</b>	<b>354</b>	<b>(286)</b>	<b>649</b>	<b>(76)</b>	<b>157</b>
<b>Opening Cash Flow</b>	<b>40</b>	<b>394</b>	<b>108</b>	<b>757</b>	<b>681</b>
<b>Closing Cash Flow</b>	<b>394</b>	<b>108</b>	<b>757</b>	<b>681</b>	<b>839</b>

Source: Company & ARIHANT Research

Ratios

Ratio analysis	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	16.6	2.0	15.4	13.8	12.3
Op profit growth	31.4	(22.0)	28.8	22.3	15.6
EBIT growth	35.6	(28.5)	32.5	22.8	16.9
Net profit growth	32.0	(35.2)	45.1	26.6	19.3
<b>Profitability ratios (%)</b>					
OPM	18.3	14.0	15.6	16.8	17.2
EBIT margin	16.9	11.8	13.6	14.7	15.3
Net profit margin	11.0	7.0	8.8	9.8	10.4
RoCE	15.2	9.2	12.4	14.0	14.8
RoNW	22.9	12.6	15.9	17.1	17.3
RoA	11.0	7.8	10.5	12.2	13.1
<b>Per share ratios</b>					
EPS	16.7	10.8	15.6	19.8	23.6
Dividend per share	2.0	2.0	0.5	0.5	0.5
Cash EPS	18.7	14.0	19.1	24.0	28.1
Book value per share	80.4	90.5	105.6	124.9	147.9
<b>Valuation ratios</b>					
P/E	10.4	16.1	11.1	8.8	7.3
P/CEPS	9.2	12.3	9.0	7.2	6.2
P/B	2.2	1.9	1.6	1.4	1.2
EV/EBIDTA	8.0	9.9	6.3	5.1	4.1
<b>Payout (%)</b>					
Dividend payout	12.0	18.6	3.2	2.6	2.2
Tax payout	27.9	28.5	28.0	28.0	28.0
<b>Liquidity ratios</b>					
Debtor days	59.7	48.4	45.0	45.0	45.0
Inventory days	284.2	236.7	180.0	180.0	180.0
Creditor days	23.5	30.9	32.0	33.0	35.0
<b>Leverage ratios</b>					
Interest coverage	10.6	5.8	10.0	13.9	18.8
Net debt / equity	0.6	0.4	0.0	(0.0)	(0.1)
Net debt / op. profit	1.7	1.8	0.0	(0.0)	(0.3)
<b>Du-Pont Analysis</b>					
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	0.8	0.9	0.9	0.9
EBIT margin (x)	0.2	0.1	0.1	0.1	0.2
Asset turnover (x)	1.2	1.0	1.1	1.2	1.2
Financial leverage (x)	1.7	1.7	1.6	1.5	1.4
<b>RoE (%)</b>	<b>22.9</b>	<b>12.6</b>	<b>15.9</b>	<b>17.1</b>	<b>17.3</b>

Source: Company & Arian 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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