

26 May 2017

Initiating Coverage (BUY)

INDO COUNT INDUSTRIES LTD

CMP

INR 171

Target Price

INR 218

Stock Details

Industry	TEXTILES
Bloomberg Code	ICNT:Natl India
BSE Code	521016
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	3,373.83
52wk. Low/High (Adjusted) (Rs.)	134.60/209.90

Shareholding Pattern Mar '17

Promoter (%)	58.94
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	41.06
No. of Share Outstanding (mn)	197.30

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	02.05	02.55	11.51	12.00
EV/EBITDA (x)	1.06	7.18	6.25	6.28
P/BV (x)	0.74	5.15	3.99	3.57

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

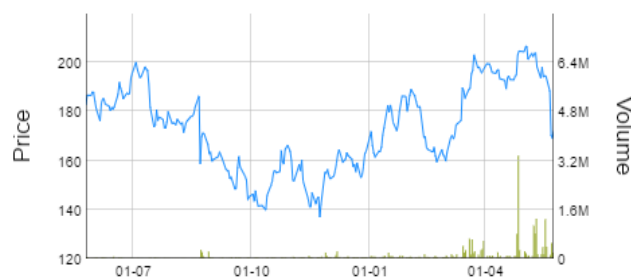
Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	17,169	21,737	24,346	28,728
EBITDA	3,137	4,735	5,339	6,333
Net Profit	1,457	2,647	2,932	3,591
EPS (Rs.)*	39.0	67.0	14.9	18.2

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	17.6	21.4	21.5	21.5
EBIT Margin (%)	16.7	20.5	20.7	20.8
Net Pro. Margin (%)	8.2	12.0	11.8	12.2
Debt/Equity (x)	0.16	0.09	0.07	0.05
RoNW (%)	40.8	49.0	39.0	35.0
RoCE (%)	31.3	40.5	33.9	31.5

One Year Price / Volume



We recommend 'BUY' on INDO COUNT INDUSTRIES LTD for a target of INR 218 - valuing the company at P/E 12x of FY18E Earning.

INVESTMENT RATIONALE:

- With a unique asset-light business model, ICNT enjoys robust and best in class capital efficiency.
- With aggressive capacity expansion plans, foray into newer products like fashion, institutional linens and utility bedding, we believe ICNT has strong room for growth.
- The company is also striving to penetrate into various distribution channels such as e-commerce and furniture and mattress shops along with tie-ups with smaller regional retailers.
- The company has hired designers globally and strengthened domestic and international teams.
- Diversification of product basket within home textiles has led the need for capacity expansion.
- These product differentiations, innovations, patents and experience will aid to gain market share.
- Capacity expansion to cater to increased demand.
- India's market share of exports to the US in the cotton bed sheets segment has been steadily increasing.
- Over the years, Indo Count has developed strong relationship with key customers across countries.
- Supportive global demand scenario for home textiles.

VALUATIONS AND VIEW:

Indo count has emerged as a leader in home textile segment in India. The company has strong clientele base in export markets across US, Europe, Japan, Middle East, Australia, Canada region. Indo count's entry into fashion bedding segment gives the company access to USD 12bn market. We value the business at 12x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 218 per share.

RISK & CONCERS

- **Exports:** Since Indo Count relies a lot on developed economies of USA, Europe and UK for business, acute slowdown in these markets could adversely impact its business. To mitigate this risk, Indo Count has taken some corrective actions: forayed in institutional & fashion bedding; expand in other markets like Australia, New Zealand and Canada.
- **Raw material risk:** Increased volatility in prices of cotton - key raw material for yarn - could suppress margins. Thanks to increased value addition, and soft cotton prices, Indo Count's material margin has ceaselessly surged in last few years. A part of input gains have also accrued from its resilient material procurement policy.
- **Competition:** It operates in a competitive scenario comprising of domestic and multinational players. Since, it is a preferred vendor, it needs to serve its customers rightly in order to build a long term relationship and grow its business.

COMPANY BACKGROUND:

Indo Count Industries (ICIL) Promoted by Anil Kumar Jain, was set up in 1988 with a focus to be a 100% export oriented spinning mill with an installed capacity of 26,000+ spindles. It is one of the global leaders in home textile manufacture and exports. Due to an increasing demand for its yarn over the years, Indo Count expanded its spinning capacity to 59,000+ spindles. Post expiry of the quota system in 2006, the company ventured into home textiles business. In 2008, Indo Count acquired Pranavadiya Spinning Mills Ltd (a BIFR company) and incorporated its 20,000+ spindles, thus having total spindles of 80,000+ and producing ~14,000 tons of combed yarn per annum.

Conceived as a 100% export oriented spinning mill, in a mere 24 years since its formation, the vertically integrated company has grown to become the world's third largest manufacturer exporter of bed sheets with a global footprint spanning 16 countries across 4 continents. After having established itself firmly in the bed sheets space, ICIL is now eyeing the high-margin fashion bedding and institutional bedding space. ICIL plans to apply its experience and innovative abilities to enter the UK and Australia.

Products-

- Bed Sheets
- Fashion Bedding
- Utility Bedding
- Institutional Bedding

INDUSTRY OVERVIEW:

The global home textile market is expected to grow at CAGR of 5% over FY12-FY17 to reach \$96 bn. Of this the global bed linen market is estimated to be ~\$50 bn. India, due to its dominance in cotton, power and labour costs, has been increasing its market share of exports to the US in the cotton-based bed sheet segment. Since FY11, India's share has risen from 38% to 48% of all exports to the US due to its increasing cost advantages, thus garnering the market share from Pakistan and other nations.

The US cotton bed sheet market is divided into three major segments: Luxury (over 500 thread counts (TC's), Premium (100-500 TC's) and Economy (under 100 TC's). The Luxury segment is dominated by Turkey and Egypt, the Premium market by India and the Economy by Pakistan and China. One of the major changes the market is undergoing is the consolidation of the Premium and Economy segments into one -- driven by customer preferences for better quality products. India, with its cost advantages in wages, power and manufacturing, is poised to increase its market share.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Welspun India	83	10.0	8,319.1	1.57	154.5	(23.00)	1,757.2	8.72	3.54
Vardhman Textile	1,302	10.8	7,472.9	1.28	188.9	(16.31)	1,513.5	6.86	1.61
SRF	1,588	22.5	9,120.3	0.63	95.9	6.08	1,090.9	20.67	2.97
Trident	78	11.8	3,959.6	1.15	99.7	63.56	1,268.3	32.26	1.96
Arvind Ltd	367	29.1	9,496.6	0.65	96.9	4.06	2,464.8	10.39	3.21
Binny	212	1.6	473.6	-	(1.2)	(58.97)	0.0	-	1.29
K P R Mill Ltd	723	19.0	5,450.8	0.69	71.9	30.49	782.7	8.54	3.95
Indo Count Inds.	171.0	11.5	3,373.8	0.24	48.8	(28.09)	512.9	(0.10)	5.15

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	5,250.30	4,926.40	5,763.40	5,028.90	4,675.10	-10.96%	-7.04%
Other Income	--	--	--	--	453.7		
Total Income	5,250.30	4,926.40	5,763.40	5,028.90	5,128.80	-2.31%	1.99%
Expenditure	-4,087.20	-3,823.80	-4,599.40	-4,009.40	-4,316.60		
As a % of Sales	77.85%	77.62%	79.80%	79.73%	92.33%		
Interest	-119.1	-98	-116	-91.4	--	#VALUE!	#VALUE!
PBDT	1044	1004.6	1048	928.1	732.9		
As a % of Sales	19.88%	20.39%	18.18%	18.46%	15.68%		
Depreciation	-51.2	-80.4	-73.2	-79	--		
PBT	992.8	924.2	974.8	849.1	732.9	-26.18%	-13.69%
As a % of Sales	18.91%	18.76%	16.91%	16.88%	15.68%		
Tax	-332.9	-321.3	-347.6	-287.2	-244.9	-26.43%	-14.73%
Net Profit	659.9	602.9	627.2	561.9	488	-26.05%	-13.15%
As a % of Sales	12.57%	12.24%	10.88%	11.17%	10.44%		
Equity	394.8	394.8	394.8	394.8	394.8	0.00%	0.00%
EPS (Rs)	16.71	15.27	15.89	2.85	--	#VALUE!	#VALUE!
CEPS (Rs)	18.01	17.31	17.74	16.23	2.47		
OPM %	22.15	22.38	20.2	20.27	15.68		
NPM %	12.57	12.24	10.88	11.17	10.44		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	11,868	14,676	17,169	21,737	24,346	28,728	33,037
Other Operating Income	241	303	649	391	487	692	825
Expenditure	10,970	13,088	14,681	17,393	19,494	23,087	26,649
EBITDA	1,138	1,891	3,137	4,735	5,339	6,333	7,213
Depreciation	185	196	160	188	204	206	206
EBIT	953	1,695	2,977	4,547	5,135	6,128	7,007
Interest Expenses	436	499	650	549	761	816	989
PBT	518	1,196	2,327	3,998	4,373	5,312	6,018
Tax	66	93	611	1,351	1,442	1,721	1,931
Other Income	-	-	-	-	-	-	-
Extraordinary Items	(157)	-	(257)	-	-	-	-
Net Income Before Adjustment	295	1,104	1,459	2,647	2,932	3,591	4,087
Minority Int./Income from Assoc.	2	4	2	0	-	-	-
Adjusted PAT	293	1,100	1,457	2,647	2,932	3,591	4,087

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	380	380	420	395	395	395	395
Reserves & surplus	1,565	2,513	3,819	6,162	8,070	11,661	15,748
Net worth	1,945	2,893	4,239	6,556	8,465	12,056	16,143
Minority Interest	13	55	57	57	-	84	84
Share Application Money	11	24	-	-	-	-	-
Loan Funds	1,359	972	672	575	577	575	573
Net deferred tax liability	-	-	370	511	511	511	511
Other Long-term Liabilities	20	7	-	-	-	-	-
Long-term Provisions	-	-	22	14	16	19	22
Total Liabilities	3,349	3,951	5,361	7,715	9,569	13,246	17,335
Net block	3,613	3,467	4,030	4,948	4,830	4,670	4,509
Investment, Loan & Adv.	241	189	116	118	132	156	179
Total Current Assets	4,539	6,453	8,273	9,186	10,854	15,617	20,896
Current Liabilities & Provisions	5,044	6,158	7,059	6,539	6,248	7,199	8,251
Net Current Assets	(506)	295	1,214	2,648	4,606	8,419	12,645
Total Assets	3,349	3,951	5,361	7,715	9,569	13,246	17,335

Cash Flow (Consolidated)

Y/E Mar (Rs Mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	1,670	1,217	3,297	4,011
Cash Flow from Investments	(1,203)	(107)	(75)	(74)
Cash Flow from Financing	(679)	(473)	(244)	(426)
Net Changes in Cash	(212)	637	2,978	3,510
Opening Cash	508	296	933	3,911
Closing Cash Balance	296	933	3,911	7,421

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