

Indo Count Industries

BSE SENSEX
26,813

S&P CNX
8,220

CMP: INR959 TP: INR1,380 (+44%)

Buy

Indo Count
INDUSTRIES LTD.

Stock Info

Bloomberg	ICNT IN
Equity Shares (m)	39.5
52-Week Range (INR)	1,248/625
1, 6, 12 Rel. Per (%)	0/-13/57
M.Cap. (INR b)/ (USD b)	37.9/0.6
Avg Val (INR m)	75
Free float (%)	41.1

Financials Snapshot (INR b)

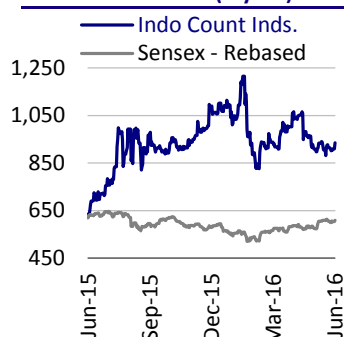
Y/E Mar	2016	2017E	2018E
Net Sales	22.1	26.4	31.7
EBITDA	4.7	5.9	7.3
PAT	2.7	3.6	4.6
EPS (INR)	67.6	90.3	115.3
Gr. (%)	62.9	33.7	27.7
BV/Sh (INR)	166.1	259.9	379.8
RoE (%)	49.4	42.4	36.0
RoCE (%)	33.6	33.6	32.3
P/E (x)	14.2	10.6	8.3
P/BV (x)	5.8	3.7	2.5

Shareholding pattern (%)

As On	Mar-16	Dec-15	Mar-15
Promoter	59.0	59.0	59.0
DII	1.7	2.0	1.8
FII	13.3	9.8	6.9
Others	26.1	29.2	32.4

FII Includes depository receipts

Stock Performance (1-year)



Focus on value-added products

Laying foundations for long-term growth, margin expansion

Scaling up on value-added products through brands business

Our interactions with the management suggest clear focus on branded business through owned and in-licensed brands. The intent is to increase the share of high-value fashion, institutional and utility bedding from 10% to 30% in the next few years. Currently, China holds 85-90% market share in these segments, which provides a huge opportunity for market share gains.

After the three brands it launched recently – *Boutique Living*, *Revival* and *The Pure Collection*, ICNT plans to in-licensed three UK brands. *Boutique Living* is provides hip hotel look and is targeted towards successful sophisticated professional. *Revival*, with its linen base and vintage look, is targeted towards a college graduate and professional who is passionate about classic detailing. *The Pure Collection* is a 100% organic cotton brand for environment-conscious people.

ICNT has recently opened a 9,200sf retail shop in New York to showcase its brands. It plans to launch three in-licensed UK brands over next few months in the US, Mexico and other countries with ROFR for India. The three owned brands are in the price range of USD99 to USD199 while the in-licensed brands will be in the price range of USD149 to USD299, catering to the premium segment.

The management highlighted that in any major retail store, the retailer's own brands constitute 70-75% of products while 25-30% are other brands, which provides a significant opportunity to tap. Own brands not only aid higher realizations and better margins, but also widen the product basket, helping to increase client wallet share and acquire new clients. We believe ICNT is taking the right steps to increase revenue share from value-added products.

Brownfield capacity expansion on track; see margins expanding 160bp

The increase in processing capacity from 68m meters to 90m meters is on track for completion by 4QFY17. ICNT targets sales volume of ~62m meters in FY17 and expects to achieve peak utilization by FY19. Entire capex planned is through brownfield expansion and debottlenecking; the incremental operating cost would be minimal. The company is investing in weaving, with specialized looms and value-added equipment for fashion and utility bedding, all of which would be ready by the end of FY18.

Valuation and view

Given its unique asset-light business model, ICNT enjoys robust and best-in-class capital efficiency. With its focus on high value, high margin products like fashion, institutional linen and utility bedding, we expect ICNT to post 19% revenue CAGR and 31% PAT CAGR over FY16-18. Focus on brands and increase in the revenue share of higher value products should entail higher realizations and margins. We expect 160bp margin expansion over FY16-18 to 23%. Maintain **Buy** with a TP of INR1,380 (12x FY18E EPS).

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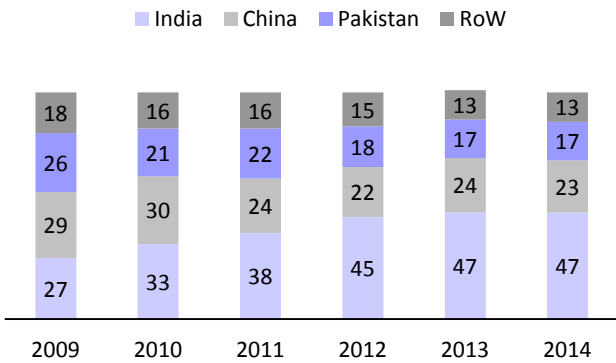
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

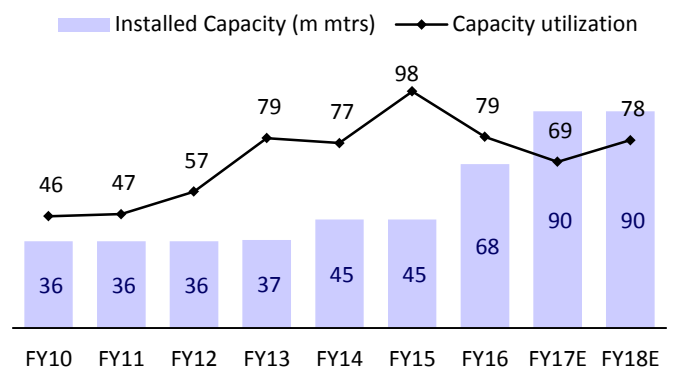
Story in charts

Exhibit 1: India's share in home textiles increasing



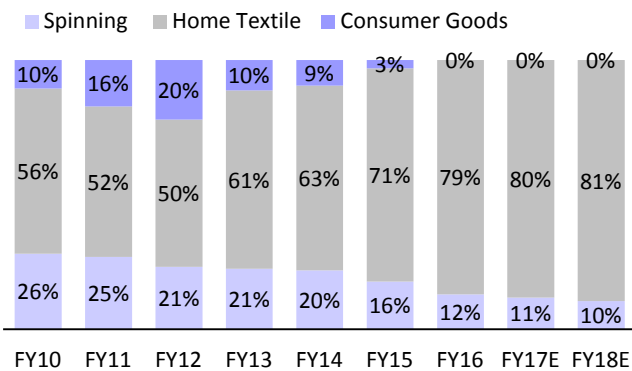
Source: MOSL, Company

Exhibit 2: Capacity expansion and utilization



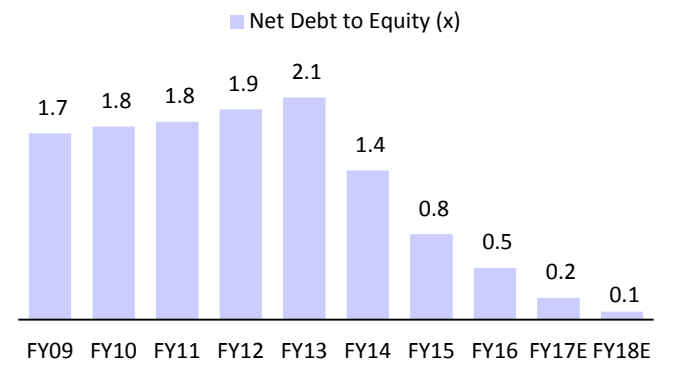
Source: MOSL, Company

Exhibit 3: Share from home textiles on an uptrend



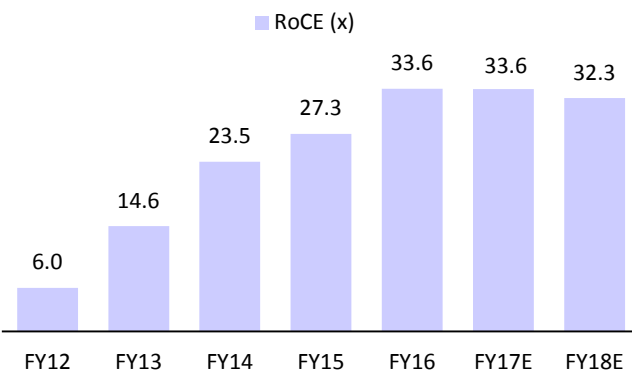
Source: MOSL, Company

Exhibit 4: Net debt free by FY18



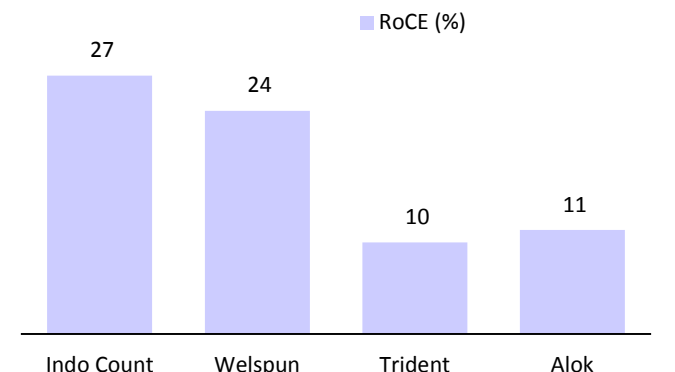
Source: MOSL, Company

Exhibit 5: Robust RoCE



Source: MOSL, Company

Exhibit 6: Highest RoCE among peers due to asset light model – FY15



Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	7,332	8,071	12,171	14,979	17,818	22,128	26,394	31,672
Change (%)	73.3	10.1	50.8	23.1	19.0	24.2	19.3	20.0
EBITDA	723	630	1,200	1,892	3,136	4,735	5,886	7,285
EBITDA Margin (%)	9.9	7.8	9.9	12.6	17.6	21.4	22.3	23.0
Depreciation	196	186	185	196	160	189	233	293
EBIT	527	444	1,015	1,696	2,977	4,547	5,653	6,991
Interest	306	352	498	499	650	549	351	221
Other Income	0	0	0	0	0	0	21	24
Extraordinary items	-46	-123	-157	0	-257	0	0	0
PBT	175	-31	361	1,197	2,069	3,998	5,323	6,795
Tax	68	-8	66	93	611	1,329	1,757	2,242
Tax Rate (%)	39.0	25.7	18.2	7.8	29.5	33.3	33.0	33.0
Min. Int. & Assoc. Share	1	-1	2	4	2	0	0	0
Reported PAT	106	-22	293	1,100	1,457	2,668	3,566	4,552
Adjusted PAT	134	70	421	1,100	1,638	2,668	3,566	4,552
Change (%)	-243.9	-47.7	502.5	161.0	49.0	62.9	33.7	27.7

Balance Sheet							(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	355	355	355	355	395	395	395	395
Reserves	1,580	1,434	1,601	2,562	3,844	6,161	9,866	14,601
Net Worth	1,935	1,789	1,956	2,917	4,239	6,556	10,261	14,996
Debt	3,695	3,554	4,110	4,341	3,859	3,421	2,421	1,421
Deferred Tax	-254	-264	-213	-131	370	511	511	511
Total Capital Employed	5,389	5,090	5,867	7,181	8,525	10,544	13,249	16,985
Gross Fixed Assets	5,988	6,057	6,301	6,422	7,065	8,317	9,617	12,117
Less: Acc Depreciation	2,104	2,406	2,706	2,958	3,181	3,370	3,603	3,896
Net Fixed Assets	3,884	3,651	3,596	3,464	3,884	4,947	6,014	8,220
Capital WIP	21	49	18	3	146	0	216	259
Investments	1	1	0	0	0	0	0	0
Current Assets	2,731	2,864	4,567	6,511	8,389	9,304	11,160	13,214
Inventory	1,328	1,481	2,458	3,457	3,830	4,564	4,928	5,851
Debtors	565	586	879	1,087	1,270	2,058	1,880	2,256
Cash & Bank	153	71	86	313	508	296	348	302
Loans & Adv, Others	685	727	1,144	1,654	2,781	2,387	4,004	4,805
Curr Liabs & Provns	1,248	1,475	2,314	2,797	3,894	3,707	4,140	4,708
Curr. Liabilities	1,224	1,475	2,257	2,514	3,163	2,830	3,229	3,631
Provisions	25	0	57	283	731	877	911	1,077
Net Current Assets	1,482	1,389	2,253	3,714	4,495	5,598	7,020	8,506
Total Assets	5,389	5,090	5,867	7,181	8,525	10,545	13,249	16,985

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	3.8	2.0	11.9	31.0	41.5	67.6	90.3	115.3
Cash EPS	9.3	7.2	17.1	36.5	45.5	72.4	96.2	122.7
Book Value	54.5	50.4	55.1	82.2	107.4	166.1	259.9	379.8
DPS	0.0	0.0	0.0	0.0	0.0	2.0	3.0	4.0
Payout (incl. Div. Tax.)	0.0	0.0	0.0	0.0	0.0	3.5	3.9	4.0
Valuation(x)								
P/E					23.1	14.2	10.6	8.3
Cash P/E					21.1	13.3	10.0	7.8
Price / Book Value					8.9	5.8	3.7	2.5
EV/Sales					2.3	1.9	1.5	1.2
EV/EBITDA					13.1	8.7	6.8	5.4
Dividend Yield (%)					0.0	0.2	0.3	0.4
Profitability Ratios (%)								
RoE	6.9	3.8	22.5	45.1	45.8	49.4	42.4	36.0
RoCE	5.8	6.0	14.6	23.5	27.3	33.6	33.6	32.3
Turnover Ratios (%)								
Asset Turnover (x)	1.2	1.4	1.9	2.0	2.1	2.1	2.0	1.9
Debtors (No. of Days)	27	26	26	26	26	34	26	26
Inventory (No. of Days)	66	67	74	84	78	75	68	67
Creditors (No. of Days)	93	100	112	103	122	99	95	90
Leverage Ratios (%)								
Net Debt/Equity (x)	1.8	1.9	2.1	1.4	0.8	0.5	0.2	0.1

Cash Flow Statement

(INR Million)

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Adjusted EBITDA	723	630	1,200	1,892	3,136	4,735	5,886	7,285
Non cash opr. exp (inc)	-96	-133	-181	-24	-303	0	21	24
(Inc)/Dec in Wkg. Cap.	-455	99	-772	-1,096	-158	-1,315	-1,370	-1,531
Tax Paid	-10	-11	0	-231	-487	-1,189	-1,757	-2,242
Other operating activities	-2	-134	-60	-198	174	0	0	0
CF from Op. Activity	160	451	187	342	2,362	2,232	2,780	3,535
(Inc)/Dec in FA & CWIP	-38	-97	0	13	-853	-1,106	-1,516	-2,543
Free cash flows	121	354	187	354	1,510	1,126	1,264	992
(Pur)/Sale of Invt	0	0	1	-22	0	0	0	0
Others	2	137	-152	27	-175	0	0	0
CF from Inv. Activity	-36	40	-151	18	-1,028	-1,105	-1,516	-2,543
Inc/(Dec) in Net Worth	33	25	0	0	40	0	0	0
Inc / (Dec) in Debt	187	-244	476	314	-528	-438	-1,000	-1,000
Interest Paid	-259	-352	-498	-499	-650	-549	-351	-221
Divd Paid (incl Tax) & Others	1	-1	1	53	-1	-352	139	183
CF from Fin. Activity	-39	-572	-22	-133	-1,139	-1,339	-1,212	-1,038
Inc/(Dec) in Cash	85	-81	15	227	195	-212	52	-46
Add: Opening Balance	68	153	71	86	313	508	296	347
Closing Balance	153	71	86	313	508	296	347	302

E: MOSL Estimates

INDO COUNT INDUSTRIES GALLERY

ICNT




Initiating Coverage | 25 August 2015
Sector: Textiles

Indo Count



Linen craft

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28 October 2015
3QFY16 Results Update | Sector: Textiles

Indo Count

CMP: INR949 TP: INR1,300 (+36%) Buy

Strong show continues; new capex plan highlights demand visibility


- Results in line: ICNT's revenue grew 21.6% YoY to INR5.7b in 2QFY16 v/s INR4.8b in 2QFY15. EBITDA grew 56% YoY to INR1,245m (est. INR1,250m). EBITDA margins expanded 470bp—from 16.4% in 2QFY15 to 21.4% (est. 21.8%) in 2QFY16, led by higher share of home textiles (stood at 90%). PAT for the quarter was up 55% YoY to INR659m (est. INR706m). During 1HFY16, revenues grew 31% YoY—led by 19% volumes growth. During the quarter, ICNT declared a dividend—for the first time in its history—of INR1/share.
- Aggressive plans for capacity expansion: ICNT plans to expand its processing capacity from 68m meters to 90m meters by December 2016, at a cost of INR1.75b. Management is also evaluating another round of capacity expansion, which will be Greenfield and likely to cost INR3b; further details will be available over the next 30-45 days as feasibility studies are completed. Management highlighted that demand environment, especially for exports out of India, remains robust and India's share in US home textile market is likely to increase from the current level of 45-46% to ~70% over the next few years. Against this context, management remains confident that it will be able to achieve the highest levels of capacity utilization even on the expanded capacities.
- Forays into domestic home textile business: ICNT also announced its foray in the domestic home textiles business to build a strong home textiles brand over the next 3-5 years. The foray is routed through a subsidiary majority owned by ICNT, and will be headed and partially owned by Mr. Asim Dalal—who currently owns 'The Bombay Store' format retail chains. Management highlighted that the move is aimed to target premium and super premium categories in home textiles and it will invest INR250m over the next two years in this business. Instead of setting up physical retail stores, ICNT plans to tap the e-commerce—which management believes will be more capital efficient as a go-to-market strategy.
- Valuation and view: With a unique asset-light business model, ICNT enjoys robust and best-in-class capital efficiency (39% RoCE as against 24% for Welspun, 10% for Trident). With foray into newer products like fashion, institutional linens and utility bedding, we expect ICNT to post 24% revenue CAGR and 44% PAT CAGR over FY15-17. We believe valuations at 15x FY16E and 11x FY17PE are attractive, and re-rating should continue. Maintain Buy with a TP of INR1,300 (15x FY17PE).

Estimate change →
TP change →
Rating change →

Standalone - Quarterly Earnings Model (INR Million)

Y/E March	FY15				FY16				FY17				FY18				FY16	FY17E	FY18E	Var %	
	10	20	30	40	10	20	30E	40E	10	20	30E	40E	10	20	30E	40E	2016	2017E	2018E	%	
Net Sales	3,161	4,788	4,384	4,567	4,610	5,821	5,216	5,417	17,818	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399
YoY Change (%)	6.8	11.6	14.5	29.7	45.8	21.8	22.0	23.0	22.8	25.2	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8
Total Expenditure	2,641	3,990	3,460	3,696	3,522	4,577	4,127	4,256	14,881	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659
EBITDA	520	799	823	871	1,098	1,245	1,099	1,161	3,136	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461
Margins (%)	16.4	16.7	19.2	19.1	23.5	21.4	21.0	21.2	17.6	20.9	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8
Depreciation	96	97	44	58	42	44	48	48	160	160	160	160	160	160	160	160	160	160	160	160	160
Interest	139	179	141	166	149	155	148	148	650	591	591	591	591	591	591	591	591	591	591	591	591
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PBT	345	583	639	667	847	1,046	903	965	2,069	3,877	3,877	3,877	3,877	3,877	3,877	3,877	3,877	3,877	3,877	3,877	3,877
Tax	96	158	203	129	291	387	298	318	1,111	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357
Rate (%)	27.8	27.1	23.7	23.3	24.0	27.0	25.0	29.5	30.0	29.5	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Reported PAT	249	425	436	487	554	659	605	646	1,459	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520
Adj PAT	249	425	436	487	554	659	605	646	1,459	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520
YoY Change (%)	80.2	67.5	23.2	11.6	22.2	15.3	18.7	18.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1
Margins (%)	7.9	8.9	10.2	10.0	12.0	11.3	11.6	11.5	9.2	11.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3

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Investors are advised to refer through disclosures made at the end of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.



10 February 2016
3QFY16 Results Update | Sector: Consumer

Indo Count Industries

CMP: INR1,110 TP: INR1,340(+21%) Buy

Consistent performance; value added products showing traction

- Results in line: ICNT's revenue grew 17.3% YoY to INR5.5b (est. INR5.2b) in 3QFY16. EBITDA grew 32% YoY to INR1.1b (est. INR1.1b). EBITDA margins expanded 240bp—from 19.2% in 3QFY15 to 21.6% (est. 21%). Interest costs stood at INR93m v/s INR141m in 3QFY15. However, INR48m was on account of interest equalization reserve by Central Government to the extent of 3% for entire nine months (there was no subvention in 3QFY15). PAT for the quarter was up 45% YoY to INR34m (est. INR30m).
- Growth led by value added products in home textiles: For the nine months, home textiles grew 37% in volume terms and 39% in value terms, contributed to 90% of revenues as against 82% last year, while spinning de-grew 9%. Value added products like institutional bedding, fashion bedding and utility bedding which contributed 4-5% of volumes last year, contributed 10% this year. Margin expansion was on account of this increasing share of home textiles and higher value product mix, decreasing raw material prices and operating leverage benefits. Management highlights that it is well on track to increase the share of these high value segments to 30% over the next few years.
- Growth guidance intact. Capacity expansion on track: Company sold 42m meters of home textiles and continues to guide for 55m meters of sales in FY16 (~66-68m meters by FY17) with value upwards of 24% and margins at 20%. Management highlighted that capacity expansion is on track and accordingly 90m meters should be available by end of 2016. Management is confident of achieving the same given strong industry growth – total textile and apparel exports to USA grew at 4.8% YoY in volume terms, imports of made-ups in USA from India grew 9.2% YoY, with India's share being at 48% of made-ups imports and imports of made-ups from India grew 12% over China during the period Jan to Nov 2015.
- Valuation and view: With a unique asset-light business model, ICNT enjoys robust and best-in-class capital efficiency (39% RoCE as against 24% for Welspun, 10% for Trident). With foray into newer products like fashion, institutional linens and utility bedding, we expect ICNT to post 23% revenue CAGR and 39% PAT CAGR over FY15-18. We believe valuations at 17x FY16E, 12x FY17E and 10x FY18E PE are attractive, and re-rating should continue. Maintain Buy with a TP of INR1,340 (12x FY18E PE).

Estimate change →
TP change →
Rating change →

Standalone - Quarterly Earnings Model (INR Million)

Y/E March	FY15				FY16				FY17				FY18				FY16	FY17E	FY18E	Var %	
	10	20	30	40	10	20	30E	40E	10	20	30E	40E	10	20	30E	40E	2016	2017E	2018E	%	
Net Sales	3,161	4,788	4,384	4,567	4,610	5,821	5,216	5,417	17,818	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399	22,399
YoY Change (%)	6.8	11.6	14.5	29.7	45.8	21.8	22.0	23.0	22.8	25.2	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8
Total Expenditure	2,641	3,990	3,460	3,696	3,522	4,577	4,127	4,256	14,881	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659	17,659
EBITDA	520	799	823	871	1,098	1,245	1,099	1,161	3,136	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461	4,461
Margins (%)	16.4	16.7	19.2	19.1	23.5	21.4	21.0	21.2	17.6	20.9	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8	21.8
Depreciation	96	97	44	58	42	44	48	48	160	160	160	160	160	160	160	160	160	160	160	160	160
Interest	139	179	141	166	149	155	148	148	650	591	591	591	591	591	591	591	591	591	591	591	591
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PBT before O/E expense	345	583	639	667	847	1,046	946	973	2,327	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824
Extra-Ord expense	0	0	0	0	0	0	257	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PBT	345	583	639	667	847	1,046	946	973	2,327	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824
Tax	96	158	203	129	291	387	298	318	1,111	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357
Rate (%)	27.8	27.1	23.7	23.3	24.0	27.0	25.0	29.5	30.0	29.5	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Reported PAT	249	425	436	487	554	659	605	646	1,459	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520
Adj PAT	249	425	436	487	554	659	605	646	1,459	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520	2,520
YoY Change (%)	80.2	67.5	23.2	11.6	22.2	15.3	18.7	18.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.1
Margins (%)	7.9	8.9	10.2	10.0	12.0	11.3	11.6	11.5	9.2	11.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3

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