Management Meet Update
Indo Count Industries

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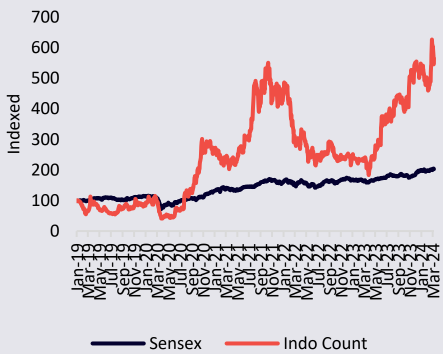
All stars aligning; valuation re-rating on cards

We recently interacted with the management of Indo Count Industries (ICNT) to get a sense of its growth plans and the dynamics in the home textile market. It is currently largest exporter of bed linens which undertook a forward integration in 2007 which enabled it to foray into the home textile market. It boasts of marquee global clients like Walmart, JCPenney, and Bed Bath & Beyond. Multiple expansions in the past and acquisition of GHCL's textile unit have taken capacity to 153mn metres. Around 95% of revenue accrues from exports (74% to the US). ICNT has diversified its product mix to fashion, utility, and institutional segments from bed linen.

With a strong clientele, expanding product bouquet, entry into new export markets, shift in the product mix towards premium products, and cumulative capex of INR1,000cr by FY24-end, ICNT aims to double revenue over the next three-to-four years with margin expansion. We upgrade our TP to INR430 from INR350 earlier, driven by: i) market share gains in the US, ii) potential signing of FTAs with the UK and EU, iii) adequate capacity to meet incremental demand, iv) margin expansion driven by operating leverage, and v) greater contribution from the fashion utility and value-added segments. We introduce our FY26 estimates and roll over at 16x FY26E earnings from 15x FY25 earnings. We maintain 'BUY' with an upgraded TP of INR430 (at 16x FY26E P/E).

CMP: INR295
Rating: BUY
Target price: INR430
Upside: 46%
Date: March 13, 2024

Bloomberg:	ICNT:IN
52-week range (INR):	101/364
Shares in issue (cr):	19.8
M-cap (INR cr):	6,217
Promoter holding (%)	58.74



Aggressive capex leads to healthy revenue potential

In the last couple of years, ICNT has expanded capacity to 153mn metres from 90mn metres. It competed brownfield expansion of 18mn metres in FY23 and acquired the textile unit of GHCL (45mn metres). The management aims to double revenue in the next three-to-four years on optimum capacity utilisation without incurring additional material capex. ICNT gains from the rising share of Indian home textile players in the US market driven by the China+1 theme, which is due to the US ban on cotton from the Xinjiang region, China's focus on its domestic market, and higher cost of manufacturing in China. We expect 17% volume CAGR over FY23–26 on market share gains in the US and healthy replacement demand. We think that average realisations have bottomed out (12% de-growth in FY24) and 4% CAGR in average realisation over FY24–26. This will result in a FY24–26 revenue CAGR of 15%.

Value added segment to drive margin; cash flows and margin to result in superior return ratios

ICNT is boosting the contribution from value added segments by promoting fashion, utility, and institutional bedding products, whose contribution rose to 19% in FY23 from 7% in FY18. It has invested INR70cr with value addition in focus. It aims to raise contribution to 30% over the next three-to-four years which will result in margin expansion. Premium products offer higher realisation (~20%) than conventional utility bedding. Capacity utilisation stands at 62%. We expect it to rise to 78% by FY26 which will lead to a positive operating leverage. We see margin expanding by 240bp by FY26E and touch ~18%. We expect ICNT to generate strong operating cash flows. The company has aggressively spent on capex in the last two years. As it will only need minimal maintenance capex, we expect it to be net debt free by FY26.

Valuation and view

We expect ICNT to grow its revenue, EBITDA, and PAT, with healthy return ratios and cash. Operational metrices for ICNT are at par with other Indian textile exporters. Despite that, it is trading at a discount to its peers. Hence, we see room for a valuation re-rating.

The home textile export market, especially bed linen, has navigated headwinds such as the rise in cotton prices, lower demand (on higher inflation), inventory build-up with US retailers, and supply-chain disruptions. Demand is robust despite near term disruptions owing to longer transit times due to the Red Sea crisis. India gained market share in US bedsheet imports (59% in 2023 from 49% in 2022) from the RoW (especially China and Pakistan).

We are positive on the textile export theme in the medium-to-long term given: i) the US ban on cotton imports from China's Xinjiang region, ii) signing of FTAs with Australia and the UAE and a higher likelihood of an FTA with the EU and the UK, and iii) various government initiatives to aid textile exports. We expect a revenue/EBITDA/PAT CAGR of 15%/20%/24% over FY23–26. We maintain 'BUY' with an upgraded TP of INR430 (at 16x FY26E P/E).

Key financials

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales (INR cr)	713	657	9	1,009	(29)	3,012	3,278	3,985	4,533
Gross Profit	453	332	37	545	(17)	1,651	1,819	2,215	2,525
Gross margins %	63.5	50.5	1,300.9	54.0	942.5	54.8	55.5	55.6	55.7
EBITDA (INR cr)	104	73	42	165	(37)	454	536	677	793
EBITDA margins %	14.6	11.2	492.4	16.3	125.3	15.1	16.4	17.0	17.5
Adj. PAT (INR cr)	58	38	54	114	(49)	277	333	445	533
Adj. PAT margins (%)	8.1	5.7	631.9	11.3	167.8	9.2	10.1	11.2	11.8
P/E (x)	13.3	15.9	6.4	10.4	17.0	22.1	18.4	13.8	11.5

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Key takeaways from the management interaction:

- The management is confident of achieving volumes of 90–100mn meters with 16–18% margin.
- It aims to double revenue in three-to-four years. It is focused on increasing the contribution from institutional bedding, fashion utility, e-commerce, and the domestic business.
- ICNT aims to grow the domestic businesses at an exponential rate and expects 10% contribution from the e-commerce segment.
- The e-commerce business consists of three models: i) supply to dot-com businesses, ii) supply to platform businesses, and iii) D2C brands.
- Greater contribution from value added and fashion bedding to 30% from 19% in FY23 and operating leverage will result in margin expansion.
- Cotton arrivals in the market are healthy. Higher international prices are behind the recent run-up in cotton prices. The management said this run-up was driven by speculation and added that it doesn't affect the company as it has hedged input cost till October.
- The management is focused on the bed linen market, which constitutes 50% of the home textile market. It commands a 20% share in the US bed linen market.
- The size of the EU/US home textile market is pegged at USD35bn/USD32bn. UK and Japan are USD5bn each.
- Indian exporters have gained market share from China due to the US ban on cotton from the Xinjiang region, higher manufacturing cost, and its focus on the domestic market.
- The management expects demand in the US market to be better in FY25 as compared to FY24 and market to grow by 5-6%.
- ICNT commands 7–8% share in the UK sheets market. It has a showroom and offices in the UK.
- US retail and textile sales are growing at 3–4%. The management feels India's market share can grow to 80%.
- ICNT can achieve an optimum capacity of 145mn metres. It has a 76-acre parcel in Bhilad (Gujarat). It has utilised 38 acres and can expand capacity by 45mn metres to reach a total capacity of 200mn metres.
- It uses 1.4lk spindles for captive consumption which constitutes 25% of its total requirement.
- The company is investing in renewable energy to optimise energy cost.
- The Red Sea crisis has increased lead times to 35 days from 20 days.
- India's cotton yield per hectare is 466kg and can grow to 600kg as efforts are underway to improve it.

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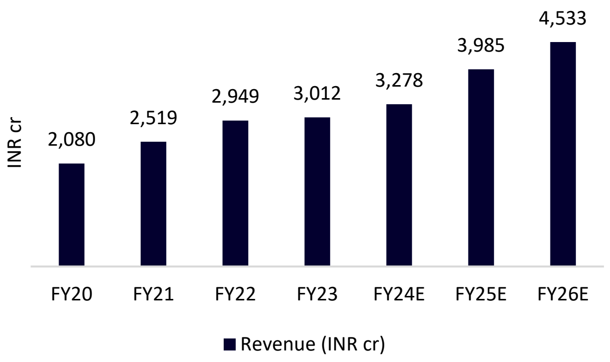
Focus charts

Exhibit 1: Expect 15% revenue CAGR over FY24–26...



*FILA store openings not included in our assumptions

Exhibit 2: ...driven by volume growth on healthy demand...

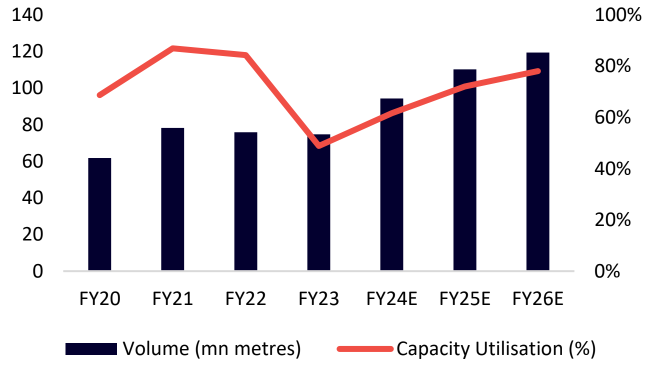


Exhibit 3: ...aided by realisation growth

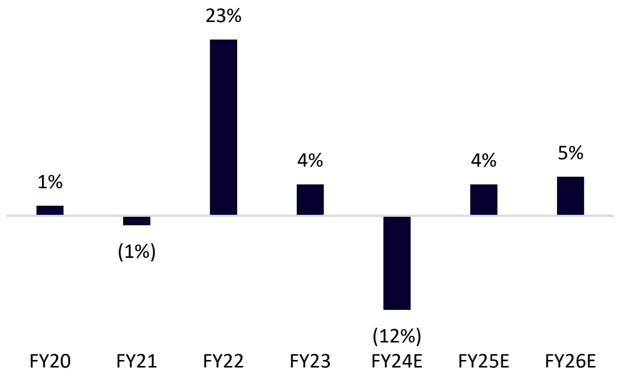


Exhibit 4: EBITDA margin to expand on positive operating leverage...

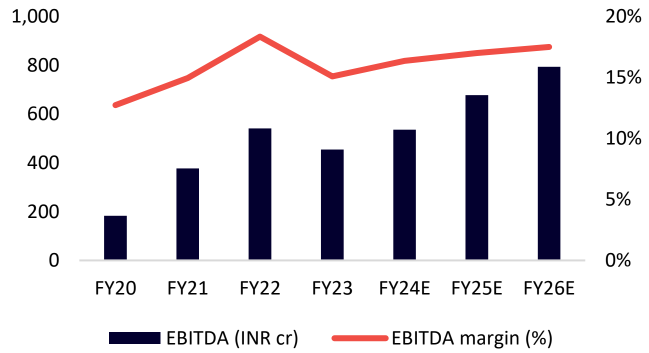


Exhibit 5: ...leading to 25% PAT growth over FY23–26E...

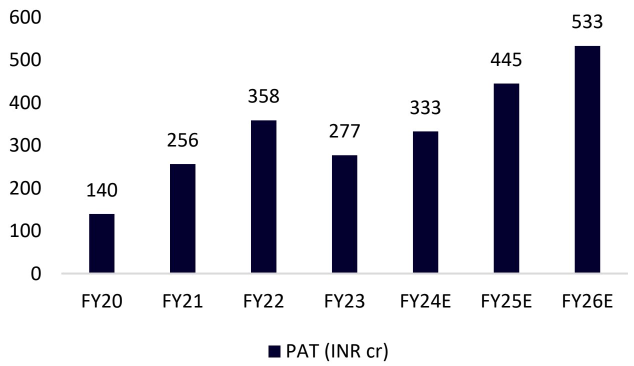
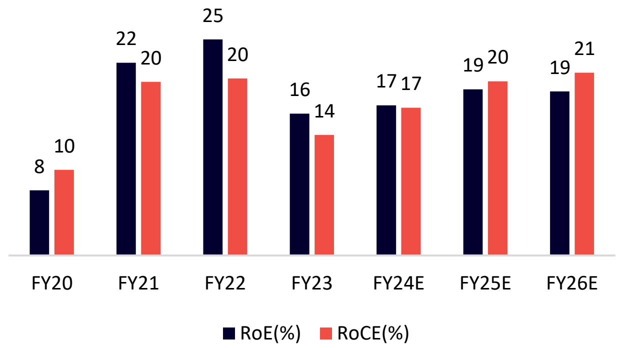


Exhibit 6: ...with return ratios expanding in coming years



Source: Nuvama Wealth Research

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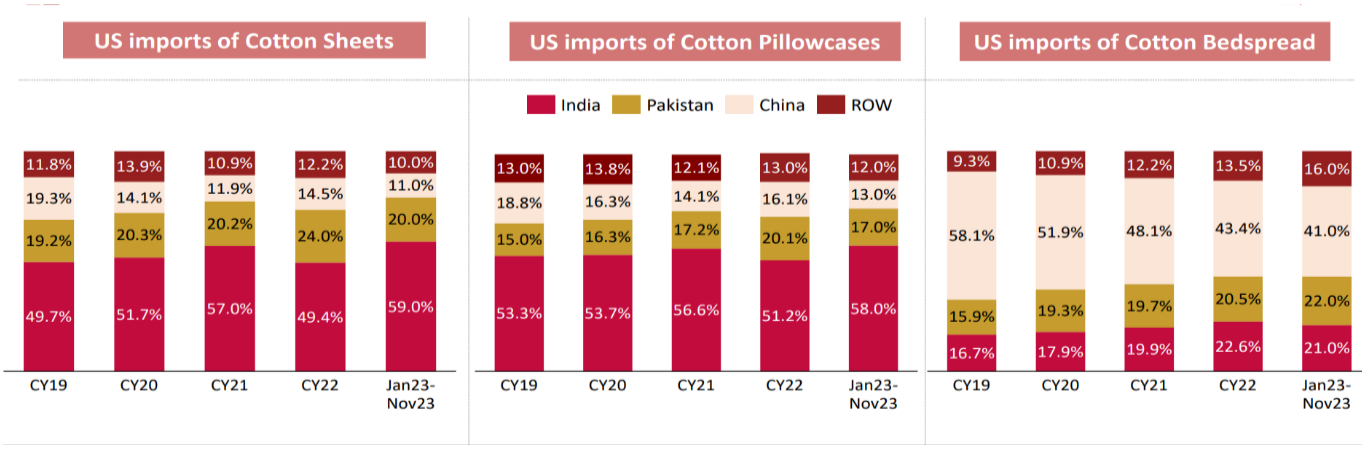
Story in charts

Indian home textile players are seeing a continuous increase in market share driven by the China+1 theme. China is losing market share due to the ban imposed by the US on cotton from its Xinjiang region on human rights issues, higher manufacturing cost, and focus on its domestic market. We expect this trend in market share gains to continue ahead.

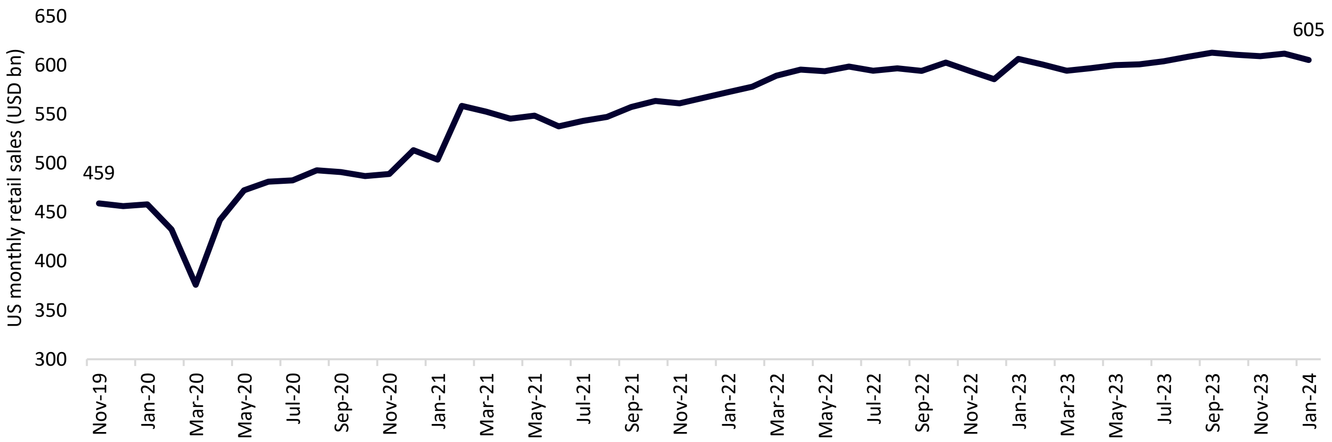
Exhibit 7: Snapshot of the home textile market in the US



Source: Indo Count Investor Presentation

Retail sales in the US are robust despite higher inflation. We expect it to stay strong going forward which will lead to a healthy demand for home textiles.

Exhibit 8: Continuous YoY rise in US monthly retail sales (USD bn)



Source: Statista

ICNT has invested in organic as well as inorganic capacity expansion. As capacity utilisation stands at 62%, it has adequate capacity and won't need to incur material capex for volume growth in the medium term.

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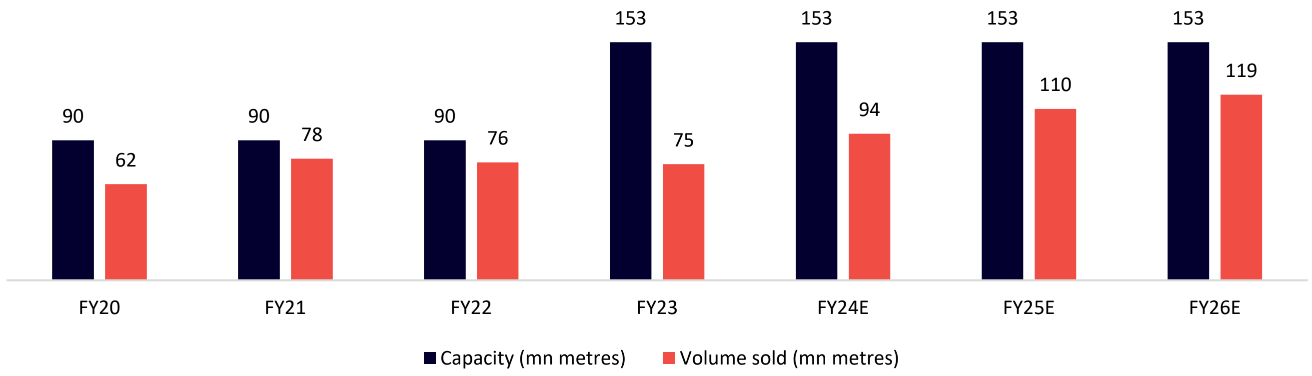
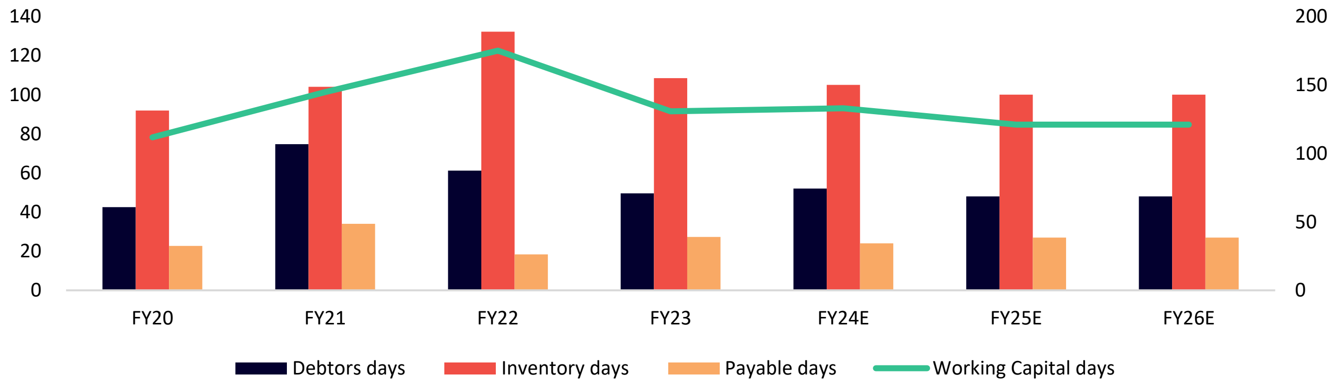
Exhibit 9: Robust demand and healthy capacity additions lead to strong volume growth over the years



Source: Nuvama Wealth Research

Despite the addition of GHCL's textile unit, ICNT's working capital cycle management has stayed prudent. We expect the management to continue with this strategy going forward.

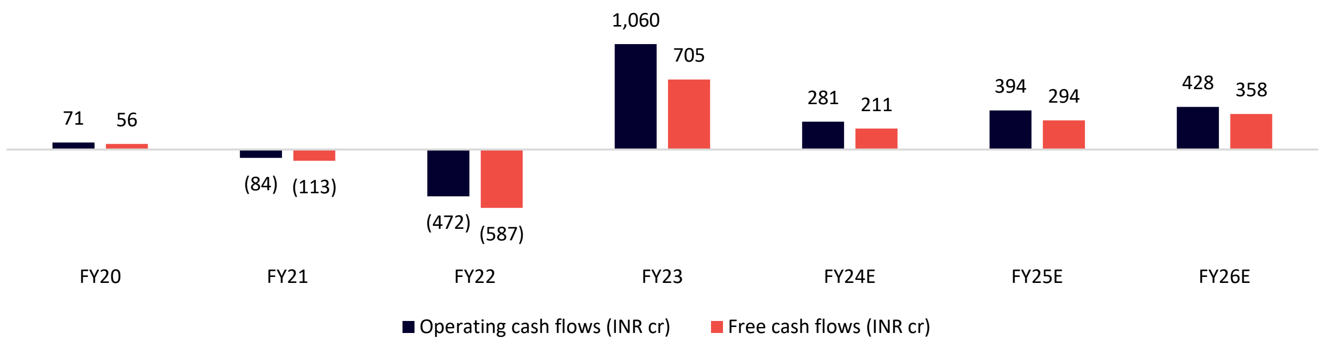
Exhibit 10: Prudent working capital management



Source: Nuvama Wealth Research

Prudent working capital management has led to healthy cash flows for ICNT despite capacity additions over the years.

Exhibit 11: Cash flows over the years



Source: Nuvama Wealth Research

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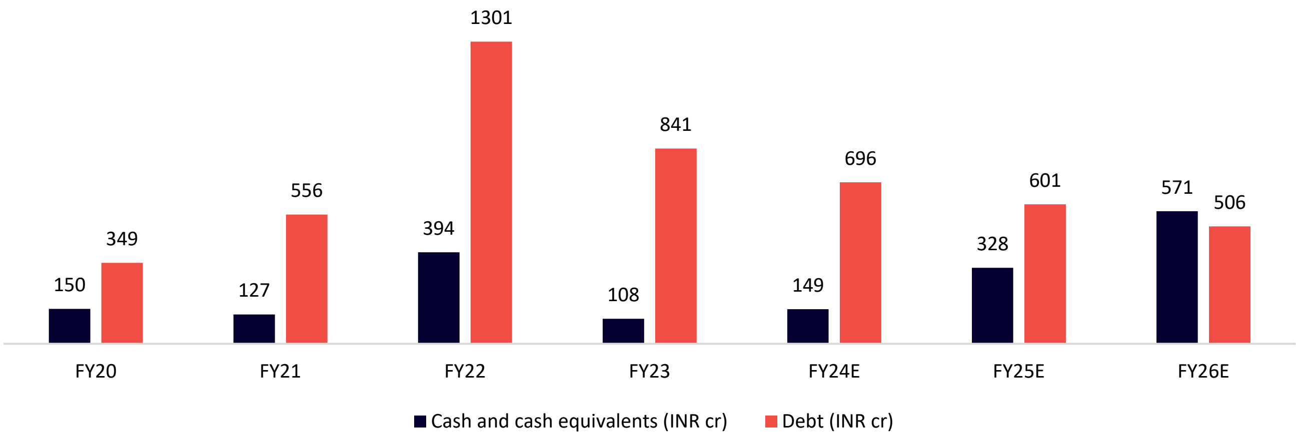
Healthy cash flows over the years have led to a comfortable cash position and debt repayments. Going forward, a minimal capex requirement (despite maintenance capex) will result in ICNT turning net debt free. The management expects debt to remain on the Balance Sheet as interest cost is lower than the cost of capital.

Exhibit 12: Cash and debt positions



Source: Nuvama Wealth Research

Exhibit 13: Revised Estimates

	FY24E			FY25E			FY26E
(Rs cr)	Old	Revised	Change (%)	Old	Revised	Change (%)	New
Net sales	3,344	3,278	-2.0	3,957	3,985	0.7	4,533
Other income	58	58		61	61		64
Total Income	3,402	3,336		4,018	4,046		4,597
EBITDA	547	536	-2.0	697	677	-2.8	793
EBITDA margin (%)	*16.4*	*16.4*		*17.6*	*17.0*		*17.5*
PBT	455	444	-2.3	613	594	-3.1	712
PBT margin	*13.4*	*13.3*		*15.3*	*14.7*		*15.5*
Net Profit	341	333	-2.5	459	445	-3.1	533
Adjusted Net profit	341	333	-2.5	459	445	-3.1	533
EPS (Rs.)	17.2	16.8	-2.4	23.2	22.4	-3.2	26.9
Adj EPS (Rs)	17.2	16.8	-2.4	23.2	22.4	-3.2	26.9

Source: Nuvama Wealth Research

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Peer analysis

Exhibit 14: Financial comparison of ICNT versus its peers

	Indo Count Industries	Welspun Living	Gokaldas Exports	KPR Mill
Three-year revenue CAGR (FY23–26E)	15%	13%	18%	7%
Gross margin (%)	FY20: 54%, FY21: 53%, FY22: 58%, FY23: 59%	FY20: 56%, FY21: 51%, FY22: 54%, FY23: 55%	FY20: 54%, FY21: 54%, FY22: 59%, FY23: 56%	FY20: 47%, FY21: 46%, FY22: 50%, FY23: 49%
EBITDA margin	FY23: 21%, FY24E: 21%, FY25E: 22%, FY26E: 23%	FY23: 21%, FY24E: 21%, FY25E: 22%, FY26E: 23%	FY23: 21%, FY24E: 21%, FY25E: 22%, FY26E: 23%	FY20: 19%, FY21: 16%, FY22: 20%, FY23: 20%
PAT margin (%)	FY20: 12%, FY21: 9%, FY22: 16%, FY23: 18%	FY20: 11%, FY21: -5%, FY22: 4%, FY23: 13%	FY20: 9%, FY21: 12%, FY22: 11%, FY23: 11%	FY20: 8%, FY21: 4%, FY22: 10%, FY23: 11%
EV/EBITDA ratio	FY19: 1,321, FY20: 1,346, FY21: 1,328, FY22: 1,450	FY19: 620, FY20: 619, FY21: 534, FY22: 610	FY19: 124, FY20: 134, FY21: 123, FY22: 150	FY19: 485, FY20: 510, FY21: 547, FY22: 620
RoE (%)	FY20: 22%, FY21: 8%, FY22: 20%, FY23: 29%	FY20: 18%, FY21: -5%, FY22: 6%, FY23: 13%	FY20: 19%, FY21: 20%, FY22: 17%, FY23: 17%	FY20: 25%, FY21: 9%, FY22: 33%, FY23: 33%
RoCE (%)	FY20: 20%, FY21: 4%, FY22: 17%, FY23: 26%	FY20: 31%, FY21: -6%, FY22: 10%, FY23: 14%	FY20: 22%, FY21: 25%, FY22: 19%, FY23: 18%	FY20: 27%, FY21: 18%, FY22: 38%, FY23: 36%

Source: Company, Nuvama Wealth Research

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Valuation and view

In the last couple of years, ICNT has been on a capacity expansion spree through the organic and inorganic route. Despite the heavy capex, its debt level, working capital, and return ratios remain healthy. Margin expanded due to a correction in cotton prices, greater contribution from fashion and utility bedding, and positive operating leverage on higher capacity utilisation.

ICNT has enough room for a valuation re-rating given its healthy overall growth and comparable margin and return ratios vis-à-vis its peers.

The stock trades at 14x/12x FY25E/FY26E earnings. It deserves a better multiple given its 25% PAT CAGR and high double-digit return ratios. We upgrade our TP and maintain 'BUY' on the counter. **Driven by market share gains in the US, potential signing of FTAs with the UK and EU, enough capacity to take care of incremental demand, and margin expansion on account of operating leverage and greater contribution from fashion utility and value-added segments, we upgrade our TP to INR450 from INR371 earlier. We introduce our FY26 estimates and roll over at 16x FY26E earnings from 15x FY25 earnings.**

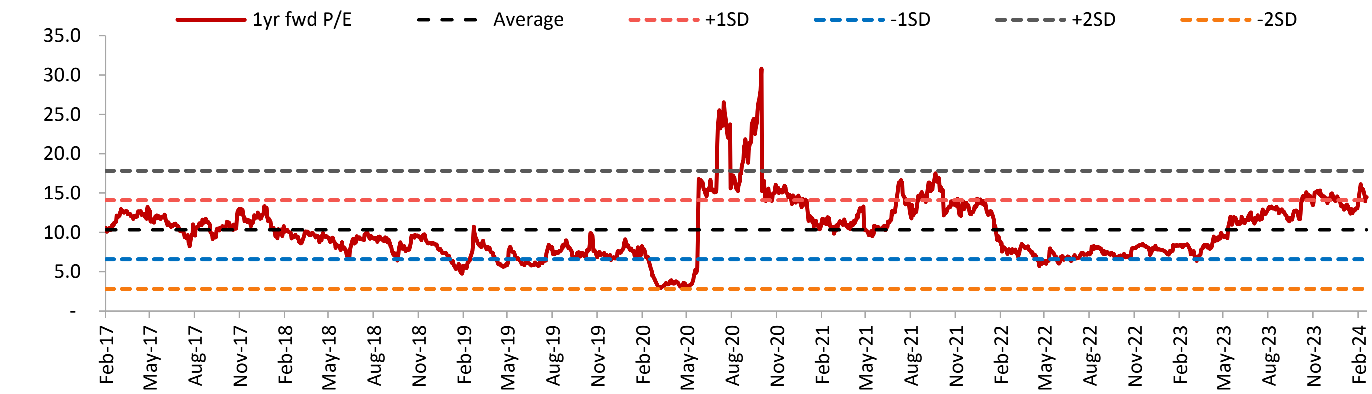
Exhibit 15: Valuation matrix

Company	Revenue				EBITDA Margin				PAT				P/E			ROCE (%)			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Gokaldas	2222	2165	3356	3697	12%	11%	12%	14%	173	132	226	301	35.9	21.0	15.8	24	17	21	22
KPR Mill	6186	6162	6626	7581	21%	21%	22%	23%	814	807	939	1168	33.0	28.4	22.8	23	20	21	23
Indo Count	**3012**	**3278**	**3985**	**3985**	**15%**	**16%**	**17%**	**18%**	**277**	**333**	**445**	**533**	**18.5**	**13.8**	**11.5**	**14**	**17**	**20**	**21**
Welspun	8094	9356	9356	11803	9%	15%	20%	20%	199	694	949	949	23.4	17.1	12.9	6.2	15.4	18.7	21.3

*Bloomberg estimates for Welspun

Source: Company, Nuvama Wealth Research

Exhibit 16: P/E ratio band (x)



Source: Bloomberg

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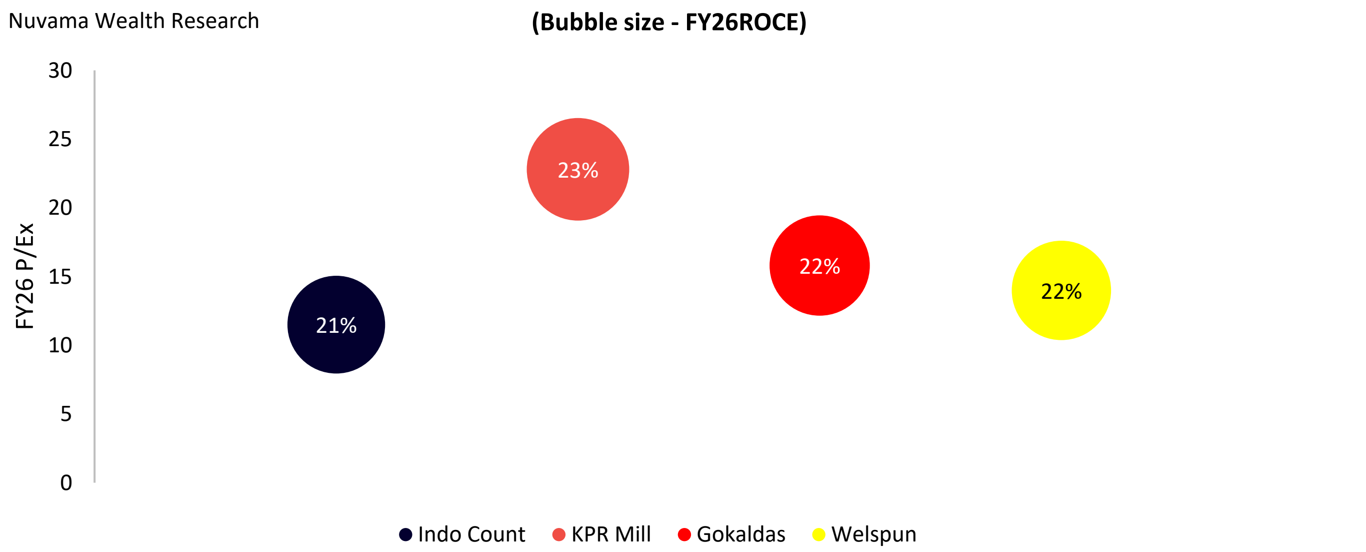
Exhibit 17: ICNT can re-rate based on comparable margins and return ratios

	Margin	RoCE	RoE	FY26E P/E ratio	Target FY26E P/E ratio
KPR	23.2	23	20	23	25
GEXP	13.8	22	20	17	23
ICNT	17.5	21	19	12	16

Source: Company, Nuvama Wealth Research

Exhibit 18: Bubble chart



Source: Company, Nuvama Wealth Research

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Financials

Income statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	2,949	3,012	3,278	3,985	4,533
Direct costs	1,353	1,361	1,459	1,769	2,008
Employee costs	191	268	285	343	390
Other expenses	864	929	998	1,195	1,342
Total operating expenses	2,408	2,557	2,742	3,307	3,739
EBITDA	541	454	536	677	793
Depreciation and amortisation	41	65	81	86	90
EBIT	500	390	455	591	704
Interest expenses	47	62	69	58	56
Other income	34	31	58	61	64
Extraordinary items	0	0	0	0	0
Profit before tax	486	359	444	594	712
Provision for tax	127	82	112	150	179
Core profit	359	277	333	445	533
Extraordinary items	0	0	0	0	0
Profit after tax	359	277	333	445	533
Minority Interest	-0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	358	277	333	445	533
Equity shares outstanding (cr)	20	20	20	20	20
EPS (INR) basic	18.2	14.0	16.8	22.4	26.9
Diluted shares (Cr)	20	20	20	20	20
EPS (INR) fully diluted	18.2	14.0	16.8	22.4	26.9
Dividend per share	2	2	2	2	2
Dividend payout (%)	11	14	13	10	9

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	81.7	84.9	83.7	83.0	82.5
Depreciation	1.4	2.1	2.5	2.2	2.0
Interest expenditure	1.6	2.1	2.1	1.5	1.2
EBITDA margins	18.3	15.1	16.4	17.0	17.5
Net profit margins	12.2	9.2	10.1	11.2	11.8

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	17.1	2.1	8.8	21.6	13.8
EBITDA	43.6	(16.0)	18.0	26.4	17.1
PBT	41.6	(26.2)	23.9	33.7	19.8
Net profit	39.8	(22.8)	20.1	33.7	19.8
EPS	39.8	(23.0)	20.1	33.7	19.8

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Balance sheet (INR cr)

As on 31st March	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	39	40	40	40	40
Preference Share Capital	0	0	0	0	0
Reserves & surplus	1,547	1,753	2,086	2,530	3,063
Shareholders funds	1,587	1,793	2,125	2,570	3,103
Secured loans	1,290	841	691	591	491
Unsecured loans	11	0	5	10	15
Borrowings	1,301	841	696	601	506
Minority interest	6	0	0	0	0
Sources of funds	**2,894**	**2,634**	**2,821**	**3,171**	**3,608**
Gross block	1,070	1,549	1,624	1,724	1,794
Depreciation	472	510	591	677	767
Net block	598	1,039	1,033	1,047	1,027
Capital work in progress	24	180	180	180	180
Total fixed assets	622	1,219	1,213	1,227	1,207
Unrealised profit	0	0	0	0	0
Investments	2	149	169	189	209
Inventories	1,068	895	943	1,092	1,242
Sundry debtors	494	409	467	524	596
Cash and equivalents	394	108	165	333	568
Loans and advances	33	10	11	12	14
Other current assets	29	57	57	57	57
Total current assets	2,019	1,479	1,643	2,018	2,476
Sundry creditors and others	282	313	294	363	394
Provisions	0	2	2	2	2
Total CL & provisions	282	315	296	365	396
Net current assets	1,737	1,164	1,348	1,653	2,081
Net Deferred tax	-66	0	10	20	30
Misc expenditure	600	102	82	82	82
Uses of funds	**2,894**	**2,634**	**2,821**	**3,171**	**3,608**
Book value per share (INR)	80	91	107	130	157

Cash flow statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net profit	359	277	333	445	533
Add: Depreciation	41	65	81	86	90
Add: Misc expenses written off/Other Assets	-597	499	20	0	0
Add: Deferred tax	-13	-66	-10	-10	-10
Add: Others	-0	0	0	0	0
Gross cash flow	-211	774	424	521	612
Less: Changes in W. C.	261	-287	127	138	193
Operating cash flow	-472	1,060	297	383	420
Less: Capex	115	355	70	100	70
Free cash flow	**-587**	**705**	**227**	**283**	**350**

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Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	25.0	16.4	17.0	18.9	18.8
ROACE (%)	20.5	13.9	16.7	19.8	20.9
Debtors (days)	61	50	52	48	48
Current ratio	7	5	6	6	6
Debt/Equity	0.8	0.5	0.3	0.2	0.2
Inventory (days)	132	108	105	100	100
Payable (days)	18	27	24	27	27
Cash conversion cycle (days)	175	131	133	121	121
Debt/EBITDA	2.4	1.9	1.3	0.9	0.6
Adjusted debt/Equity	0.6	0.4	0.2	0.1	(0.0)

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	18.2	14.0	16.8	22.4	26.9
Y-o-Y growth (%)	*39.8*	*(23.0)*	*20.1*	*33.7*	*19.8*
CEPS (INR)	20.2	17.2	20.9	26.8	31.4
Diluted P/E (x)	*17.1*	*22.2*	*18.5*	*13.8*	*11.5*
Price/BV(x)	3.9	3.4	2.9	2.4	2.0
EV/Sales (x)	*2.4*	*2.3*	*2.0*	*1.6*	*1.3*
EV/EBITDA (x)	13.0	15.1	12.4	9.5	7.7
Diluted shares O/S	*19.7*	*19.8*	*19.8*	*19.8*	*19.8*
Basic EPS	18.2	14.0	16.8	22.4	26.9
Basic PE (x)	*17.1*	*22.2*	*18.5*	*13.8*	*11.5*
Dividend yield (%)	0.6	0.6	0.0	0.0	0.0

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