

# Indo Count Industries

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
28,339	8,792
<b>Bloomberg</b>	<b>ICNT IN</b>
Equity Shares (m)	197
M.Cap.(INRb)/(USDb)	33.5 / 0.5
52-Week Range (INR)	216 / 135
1, 6, 12 Rel. Per (%)	-6/-6/-35
Avg Val, INRm	104
Free float (%)	41.1

## Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	22.1	22.8	25.8
EBITDA	4.7	4.8	5.6
PAT	2.6	2.7	3.4
EPS (INR)	13.4	13.7	17.1
Gr. (%)	61.6	2.0	25.1
BV/Sh (INR)	33.3	47.7	65.8
RoE (%)	48.9	33.8	30.2
RoCE (%)	33.3	28.4	28.7
P/E (x)	12.6	12.4	9.9
P/BV (x)	5.1	3.5	2.6

Estimate change

TP change

Rating change



**CMP: INR170**

**TP: INR205 (+21%)**

**Buy**

## Muted quarter; Focus on branded business

- **Results below estimate:** Revenue came in flat YoY at INR5b (est. of INR6.5b) in 3QFY17 as extended summer impacted US sales. Gross margin expanded 160bp YoY to 50.7%, mainly due to benefit of cotton prices, partly offset by higher other expenses (+390bp to 24.8% from 21% in 3QFY16). Thus, EBITDA margin contracted 270bp YoY to 20.3% (est. of 21.8%). Consequently, adj. PAT declined 27.3% to INR562m (est. of INR701m) from INR773m in the year-ago period.
- **EBITDA margin contracted** in 3QFY17 on account of higher job work charges as the company had outsourced some of the fabric by providing cotton or yarn. In case of some specialized fabric, weaving for fashion bedding business was given on job work. Management highlighted that once backward integration capex is completed, the dependency on outsourcing will reduce, aiding cost saving.
- **Phase I capex to come on stream by March 2017:** ICNT's planned capex (INR1.75b) for growth in processing capacity from 68m mtrs to 90m mtrs is expected to be commissioned by March 2017. In case of second phase of capex (INR3b), the company has identified some land and applied for a mega project to the Government of Maharashtra. It is expected to get completed by end-CY2017.
- **Valuation and view:** In view of muted quarter and as management lowered guidance to 56-57m mtrs for FY17, we cut earnings by 13%/8% for FY17E/ FY18E. With foray into products like fashion, institutional linens and utility bedding, and launch of Indo Count Retail Ventures under the brand Boutique Living in India market (October 2016), we expect revenue CAGR of 9.5% and PAT CAGR of 15% over FY16-19E. Maintain **Buy** with TP of INR205 (10x FY19E EPS).

## Standalone - Quarterly Earning Model

Y/E March	FY16				FY17				FY16	FY17E	FY17	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Net Sales	4,579	5,765	5,009	5,250	4,926	5,763	5,029	5,460	22,128	22,814	5,529	-9
YoY Change (%)	44.9	20.4	16.9	15.0	7.6	0.0	0.4	4.0	24.2	3.1	10.0	
Total Expenditure	3,567	4,713	3,858	4,087	3,824	4,599	4,009	4,325	17,393	18,046	4,324	
EBITDA	1,012	1,052	1,151	1,163	1,103	1,164	1,020	1,136	4,735	4,768	1,205	-15
Margins (%)	22.1	18.2	23.0	22.2	22.4	20.2	20.3	20.8	21.4	20.9	21.8	
Depreciation	67	69	72	51	80	73	79	80	188	357	59	
Interest	146	156	94	119	98	116	91	80	549	380	90	
Other Income	0	0	0	0	0	0	0	0	0	0	6	
PBT	798	828	985	993	924	975	849	976	3,998	4,031	1,062	-20
Tax	277	311	213	333	321	348	287	332	1,351	1,330	361	
Rate (%)	34.6	37.6	21.6	33.5	34.8	35.7	33.8	34.0	33.8	33.0	34.0	
Reported PAT	522	516	773	660	603	627	562	644	2,647	2,701	701	-20
Adj PAT	522	516	773	660	603	627	562	644	2,647	2,701	701	-20
YoY Change (%)	109.4	21.5	77.1	44.5	15.6	21.5	-27.3	-2.4	61.6	2.0	10.5	
Margins (%)	11.4	9.0	15.4	12.6	12.2	10.9	11.2	11.8	12.0	11.8	12.7	

E: MOSL Estimates

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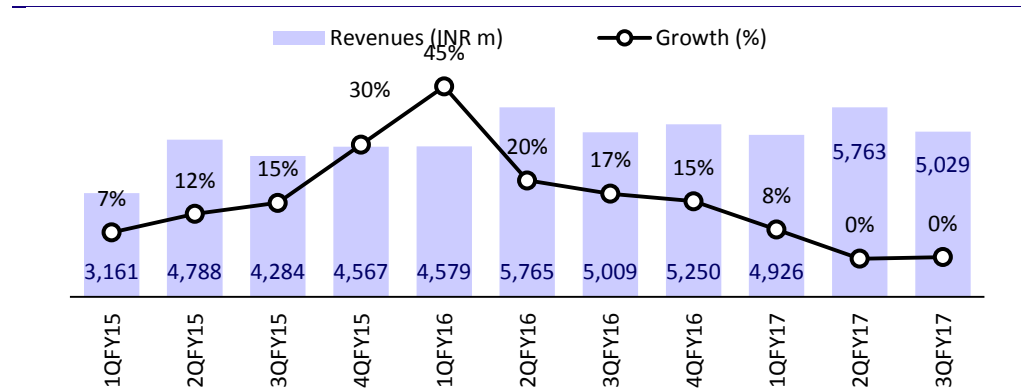
**Chintan Modi** (Chintan.Modi@MotilalOswal.com); +91 22 6129 1554

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

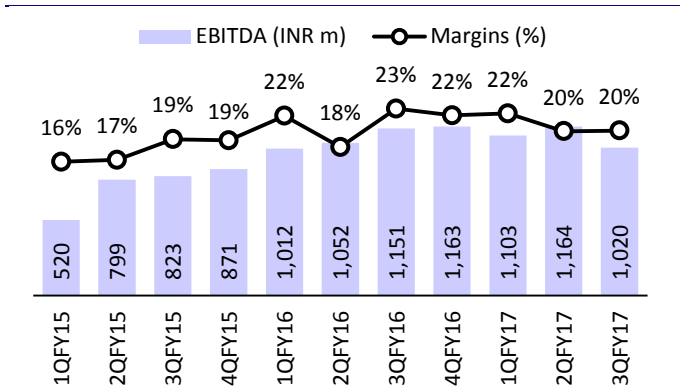
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Results below estimates**

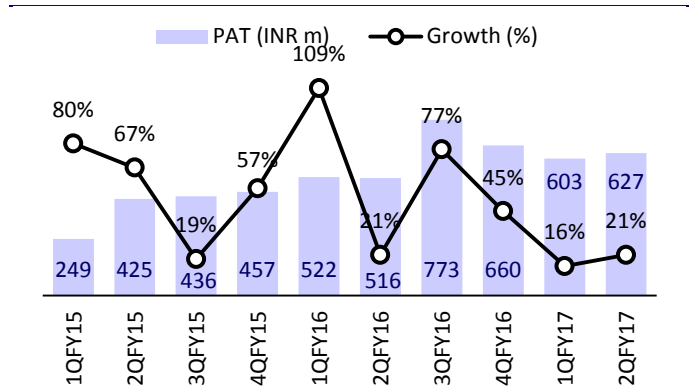
- ICNT reported revenue of INR5b (est. INR6.5b) in 3QFY17 marking flattish YoY growth. The muted growth was on the back of extended summer in US which impacted US sales.
- Gross margins improved by 160bp yoy to 50.7% due mainly due to benefit of cotton prices; though was offset by higher other expenses up by 390bp at 24.8% vs 21% in 3QFY16.
- Thus, EBITDA margins saw a decline of 270bp yoy to 20.3% (est. 21.8%) in 3QFY17. Consequently, adj. PAT de-grew by 27.3% from INR773m in 3QFY16 to INR562m (est. INR701m) in 3QFY17.

**Exhibit 1: Revenue trend**

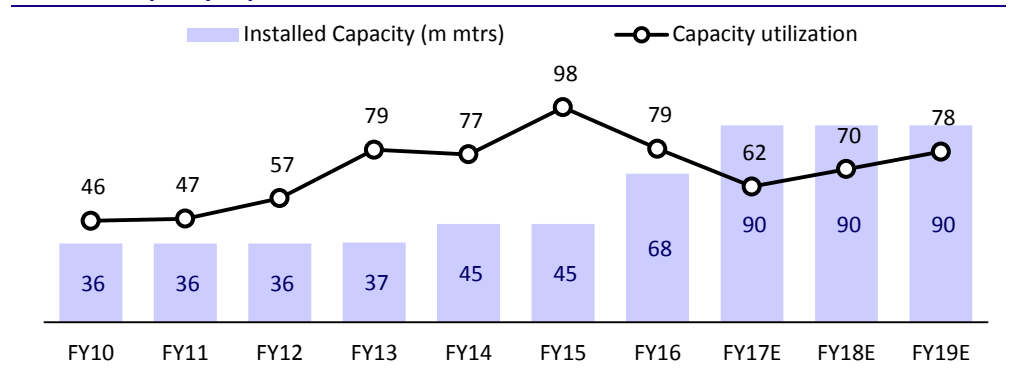
Source: MOSL, Company

**Exhibit 2: EBITDA trend**

Source: MOSL, Company

**Exhibit 3: PAT trend**

Source: MOSL, Company

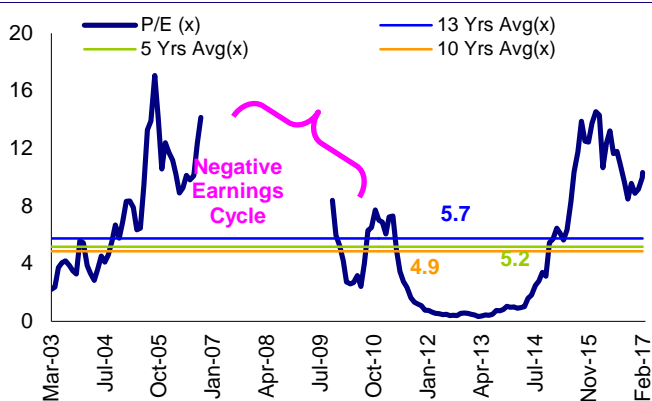
**Exhibit 4: Capacity expansion and utilization**

Source: MOSL, Company

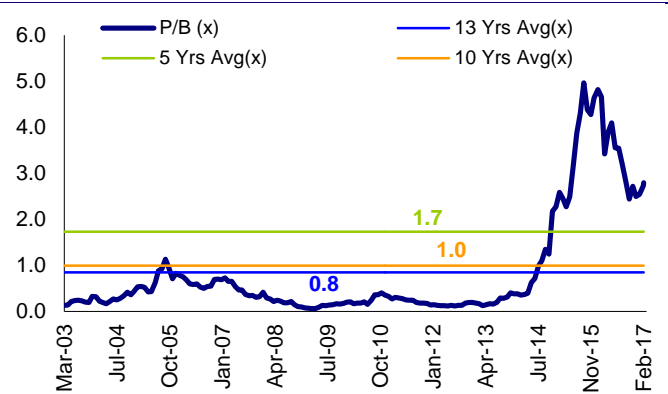
### Valuation and view

- 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.
- We expect ICNT to post 9.5% revenue CAGR and 15% PAT CAGR over FY16-19E.
- With robust return ratios, reducing debt and leadership in the bed sheet market, we believe valuations at 10x FY18E and 8x FY19E are attractive. We reiterate 'Buy' rating and a PT of INR205(10x FY19EPS).

**Exhibit 5: Price to earnings (one year forward)**

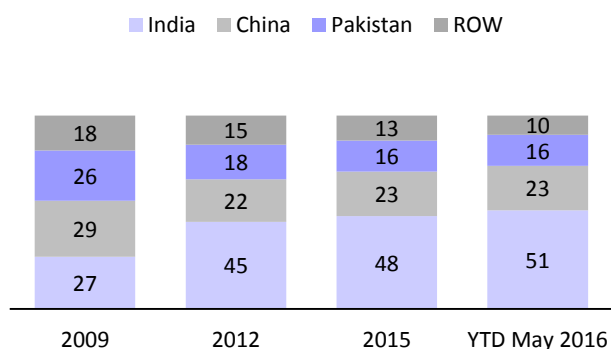


**Exhibit 6: Price to book (one year forward)**



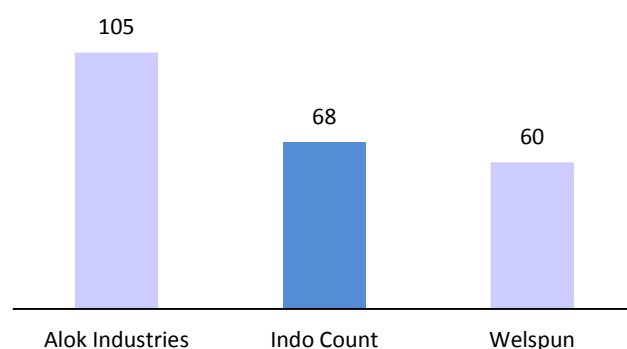
## Story in charts

**Exhibit 7: India's share in home textiles increasing**



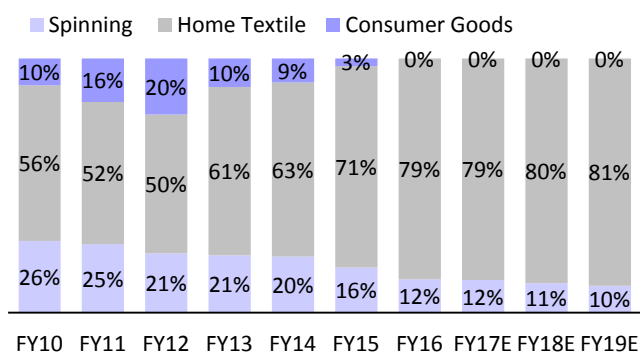
Source: MOSL, Company

**Exhibit 8: ICNT to increase capacity from 68 to 90m mtrs**



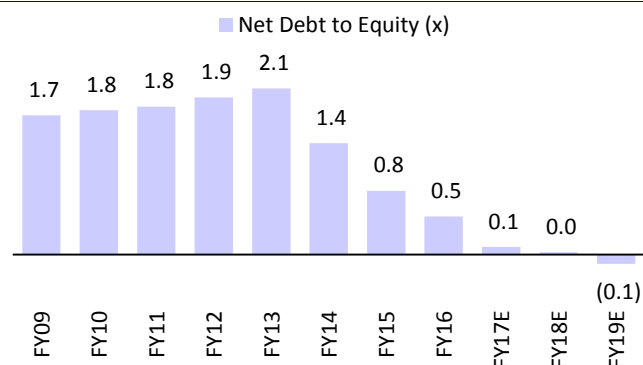
Source: MOSL, Company

**Exhibit 9: Share from home textiles on an uptrend**



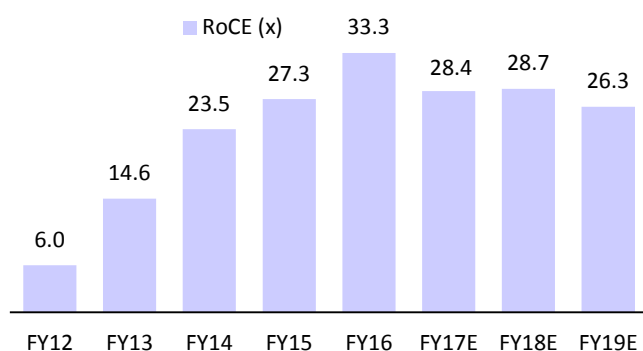
Source: MOSL, Company

**Exhibit 10: Net debt free by FY18**



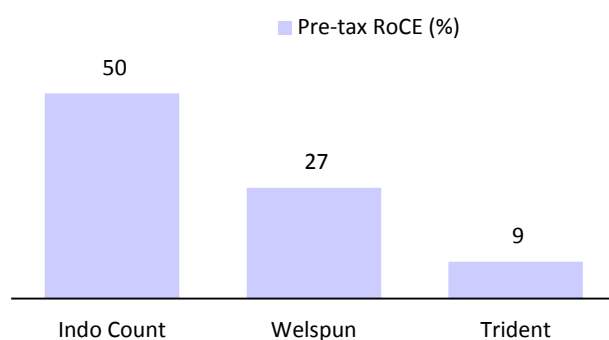
Source: MOSL, Company

**Exhibit 11: Robust RoCEs**



Source: MOSL, Company

**Exhibit 12: Highest pre-tax RoCE among peers due to asset light model – FY16**



Source: MOSL, Company

**Exhibit 13: Assumptions**

<b>Assumptions</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Installed Capacity (in mn mtrs)</b>								
Spinning (MT)	8,003	9,983	10,346	10,556	10,556	10,556	10,556	10,556
Processing - Home textiles (m mtrs)	36	37	45	45	68	90	90	90
<b>Capacity utilisation (%)</b>								
Spinning (MT)	78	92	96	96	95	95	96	96
Processing - Home textiles (m mtrs)	57	79	77	98	79	62	70	78
<b>Revenues (INR m)</b>	<b>8,071</b>	<b>12,109</b>	<b>14,979</b>	<b>17,818</b>	<b>22,128</b>	<b>22,814</b>	<b>25,843</b>	<b>29,066</b>
Spinning Division	1,731	2,502	3,027	2,819	2,607	2,636	2,717	2,771
Home Textile	4,066	7,379	9,460	12,589	17,428	18,022	20,755	23,589
Consumer Goods	1,640	1,257	1,303	490	-	-	-	-
<b>EBITDA (INR m)</b>	<b>630</b>	<b>1,138</b>	<b>1,891</b>	<b>3,137</b>	<b>4,574</b>	<b>4,998</b>	<b>5,740</b>	<b>6,508</b>
Spinning Division	-107	155	191	136	130	132	136	139
Home Textile	651	918	1,656	2,987	4,444	4,866	5,604	6,369
Consumer Goods	87	65	44	13	-	-	-	-

Source: Company, MOSL

## Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Net Sales</b>	<b>8,071</b>	<b>12,171</b>	<b>14,979</b>	<b>17,818</b>	<b>22,128</b>	<b>22,814</b>	<b>25,843</b>	<b>29,066</b>
Change (%)	10.1	50.8	23.1	19.0	24.2	3.1	13.3	12.5
<b>EBITDA</b>	<b>630</b>	<b>1,200</b>	<b>1,892</b>	<b>3,136</b>	<b>4,735</b>	<b>4,768</b>	<b>5,556</b>	<b>6,423</b>
EBITDA Margin (%)	7.8	9.9	12.6	17.6	21.4	20.9	21.5	22.1
Depreciation	186	185	196	160	188	357	433	513
<b>EBIT</b>	<b>444</b>	<b>1,015</b>	<b>1,696</b>	<b>2,977</b>	<b>4,547</b>	<b>4,411</b>	<b>5,123</b>	<b>5,910</b>
Interest	352	498	499	650	549	380	143	65
Other Income	0	0	0	0	0	0	63	210
Extraordinary items	-123	-157	0	-257	0	0	0	0
<b>PBT</b>	<b>-31</b>	<b>361</b>	<b>1,197</b>	<b>2,069</b>	<b>3,998</b>	<b>4,031</b>	<b>5,043</b>	<b>6,055</b>
Tax	-8	66	93	611	1,351	1,330	1,664	1,998
Tax Rate (%)	25.7	18.2	7.8	29.5	33.8	33.0	33.0	33.0
Min. Int. & Assoc. Share	-1	2	4	2	0	0	0	0
<b>Reported PAT</b>	<b>-22</b>	<b>293</b>	<b>1,100</b>	<b>1,456</b>	<b>2,647</b>	<b>2,701</b>	<b>3,379</b>	<b>4,057</b>
<b>Adjusted PAT</b>	<b>70</b>	<b>421</b>	<b>1,100</b>	<b>1,638</b>	<b>2,647</b>	<b>2,701</b>	<b>3,379</b>	<b>4,057</b>
Change (%)	-47.7	502.5	161.0	49.0	61.6	2.0	25.1	20.1

Balance Sheet						(INR Million)		
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	355	355	355	395	395	395	395	395
Reserves	1,434	1,601	2,562	3,844	6,187	9,026	12,595	16,914
<b>Net Worth</b>	<b>1,789</b>	<b>1,956</b>	<b>2,917</b>	<b>4,239</b>	<b>6,581</b>	<b>9,421</b>	<b>12,990</b>	<b>17,308</b>
Debt	3,554	4,110	4,341	3,859	3,421	1,421	421	421
Deferred Tax	-264	-213	-131	370	488	488	488	488
<b>Total Capital Employed</b>	<b>5,090</b>	<b>5,867</b>	<b>7,181</b>	<b>8,525</b>	<b>10,547</b>	<b>11,387</b>	<b>13,956</b>	<b>18,274</b>
Gross Fixed Assets	6,057	6,301	6,422	7,065	8,276	9,576	12,076	13,576
Less: Acc Depreciation	2,406	2,706	2,958	3,181	3,435	3,792	4,225	4,738
<b>Net Fixed Assets</b>	<b>3,651</b>	<b>3,596</b>	<b>3,464</b>	<b>3,884</b>	<b>4,841</b>	<b>5,784</b>	<b>7,851</b>	<b>8,838</b>
Capital WIP	49	18	3	146	106	110	124	140
Investments	1	0	0	0	0	0	0	0
<b>Current Assets</b>	<b>2,864</b>	<b>4,567</b>	<b>6,511</b>	<b>8,389</b>	<b>9,304</b>	<b>9,372</b>	<b>10,226</b>	<b>14,085</b>
Inventory	1,481	2,458	3,457	3,830	4,564	4,359	4,918	5,485
Debtors	586	879	1,087	1,270	2,058	1,625	1,841	2,070
Cash & Bank	71	86	313	508	296	524	31	2,406
Loans & Adv, Others	727	1,144	1,654	2,781	2,387	2,864	3,437	4,124
<b>Curr Liabs &amp; Provns</b>	<b>1,475</b>	<b>2,314</b>	<b>2,797</b>	<b>3,894</b>	<b>3,705</b>	<b>3,879</b>	<b>4,246</b>	<b>4,789</b>
Curr. Liabilities	1,475	2,257	2,514	3,163	2,814	3,006	3,222	3,593
Provisions	0	57	283	731	891	873	1,024	1,195
<b>Net Current Assets</b>	<b>1,389</b>	<b>2,253</b>	<b>3,714</b>	<b>4,495</b>	<b>5,599</b>	<b>5,492</b>	<b>5,980</b>	<b>9,296</b>
<b>Total Assets</b>	<b>5,090</b>	<b>5,867</b>	<b>7,181</b>	<b>8,525</b>	<b>10,547</b>	<b>11,386</b>	<b>13,956</b>	<b>18,274</b>

## Financials and Valuations

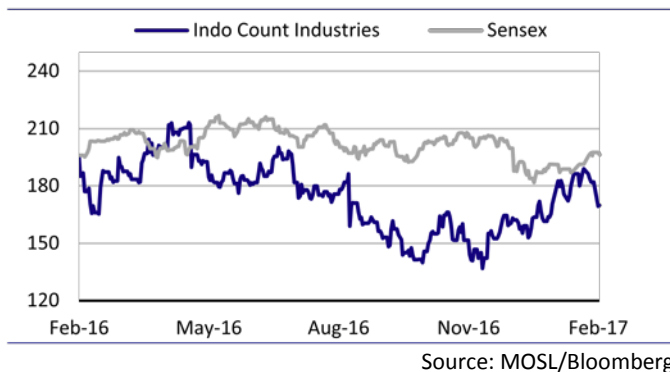
<b>Ratios</b>								
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>0.4</b>	<b>2.4</b>	<b>6.2</b>	<b>8.3</b>	<b>13.4</b>	<b>13.7</b>	<b>17.1</b>	<b>20.6</b>
Cash EPS	1.4	3.4	7.3	9.1	14.4	15.5	19.3	23.2
Book Value	10.1	11.0	16.4	21.5	33.3	47.7	65.8	87.7
DPS	0.0	0.0	0.0	0.0	0.0	0.6	0.8	1.1
Payout (incl. Div. Tax.)	0.0	0.0	0.0	0.0	0.0	5.1	5.6	6.4
<b>Valuation(x)</b>								
P/E				20.4	12.6	12.4	9.9	8.2
Price / Book Value				7.9	5.1	3.5	2.6	1.9
EV/Sales				1.9	1.5	1.4	1.2	1.0
EV/EBITDA				10.8	7.1	6.6	5.6	4.5
Dividend Yield (%)				0.0	0.0	0.4	0.5	0.7
<b>Profitability Ratios (%)</b>								
RoE	3.8	22.5	45.1	45.8	48.9	33.8	30.2	26.8
RoCE	6.0	14.6	23.5	27.3	33.3	28.4	28.7	26.3
RoIC	5.8	13.9	22.8	27.4	33.3	28.2	27.9	26.8
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	1.4	1.9	2.0	2.1	2.1	2.0	1.8	1.6
Debtors (No. of Days)	26	26	26	26	34	26	26	26
Inventory (No. of Days)	67	74	84	78	75	70	69	69
Creditors (No. of Days)	100	112	103	122	98	100	95	95
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	1.9	2.1	1.4	0.8	0.5	0.1	0.0	-0.1
<b>Cash Flow Statement</b>								
	<b>(INR Million)</b>							
Y/E Mar	2012	2013	2014	2015	2016	2017E	2018E	2019E
Adjusted EBITDA	630	1,200	1,892	3,136	4,735	4,768	5,556	6,423
Non cash opr. exp (inc)	-133	-181	-24	-303	-112	0	63	210
(Inc)/Dec in Wkg. Cap.	99	-772	-1,096	-158	-2,116	335	-981	-941
Tax Paid	-11	0	-231	-487	-838	-1,330	-1,664	-1,998
Other operating activities	-134	-60	-198	174	0	0	0	0
<b>CF from Op. Activity</b>	<b>451</b>	<b>187</b>	<b>342</b>	<b>2,362</b>	<b>1,670</b>	<b>3,772</b>	<b>2,974</b>	<b>3,694</b>
(Inc)/Dec in FA & CWIP	-97	0	13	-853	-1,220	-1,303	-2,515	-1,516
<b>Free cash flows</b>	<b>354</b>	<b>187</b>	<b>354</b>	<b>1,510</b>	<b>450</b>	<b>2,469</b>	<b>460</b>	<b>2,179</b>
(Pur)/Sale of Invt	0	1	-22	0	0	0	0	0
Others	137	-152	27	-175	17	0	0	0
<b>CF from Inv. Activity</b>	<b>40</b>	<b>-151</b>	<b>18</b>	<b>-1,028</b>	<b>-1,203</b>	<b>-1,303</b>	<b>-2,515</b>	<b>-1,516</b>
Inc/(Dec) in Net Worth	25	0	0	40	0	0	0	0
Inc / (Dec) in Debt	-244	476	314	-528	-9	-2,000	-1,000	0
Interest Paid	-352	-498	-499	-650	-549	-380	-143	-65
Divd Paid (incl Tax) & Others	-1	1	53	-1	-121	139	190	261
<b>CF from Fin. Activity</b>	<b>-572</b>	<b>-22</b>	<b>-133</b>	<b>-1,139</b>	<b>-679</b>	<b>-2,242</b>	<b>-953</b>	<b>196</b>
<b>Inc/(Dec) in Cash</b>	<b>-81</b>	<b>15</b>	<b>227</b>	<b>195</b>	<b>-212</b>	<b>228</b>	<b>-493</b>	<b>2,375</b>
Add: Opening Balance	153	71	86	313	508	296	523	30
<b>Closing Balance</b>	<b>71</b>	<b>86</b>	<b>313</b>	<b>508</b>	<b>296</b>	<b>523</b>	<b>30</b>	<b>2,405</b>

## Corporate profile

### Company description

Indo Count Industries Ltd (ICNT) is focused player on bedding—a niche segment of home textile market, which formed 81% of revenues in FY15. It's other two segments spinning and consumer goods contributed 16% and 3% respectively. In terms of EBITDA, home textiles contributed 95% of total EBITDA in FY15. With a unique asset-light business model, ICNT enjoys robust and best in class capital efficiency (40% RoCE). Entry in newer products expands opportunity by 3x to USD13b.

### Exhibit 1: Sensex rebased



### Exhibit 2: Shareholding pattern (%)

	Sep-16	Jun-16	Sep-15
Promoter	58.9	59.0	59.0
DII	1.9	1.8	1.5
FII	14.9	14.3	8.5
Others	24.3	25.0	31.1

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Elm Park Fund Limited	6.7
Lazard Emerging Markets Small Cap Equity Trust	2.9
Uniworth Finance And Securities Pvt Ltd	1.5
Ashish Kacholia	1.3
Dsp Blackrock Small And Mid Cap Fund	1.3

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Anil Kumar Jain	Executive Chairman
Mohit Kumar Jain	Managing Director
K R Lalpuria	Executive Director
Amruta Avasare	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Dilip J Thakkar	P N Shah
Prem Malik	R Anand
Sushil Kumar Jiwarajka	Vaijayanti Pandit
Kamal Mitra	

\*Independent

### Exhibit 6: Auditors

Name	Type
B K Shroff & Co	Statutory
S Anantha & Co	Secretarial Audit
Suresh Kumar Mittal & Co	Internal

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	13.7	15.1	-9.5
FY18	17.1	17.9	-4.2
FY19	20.6	19.8	4.1

Source: Bloomberg



NOTES

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