Edelweiss Wealth Research

Indo Count Industries Ltd.

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Indo Count Industries Ltd

Turnaround imminent; margin profile set to improve

Indo Count Industries Ltd (ICIL) is a leading home textile manufacturing company in India. Exports form a major chunk of ICIL's business and the company is a leader in bed linen exports to the US. In fact, ICIL exports 12% of total bed sheets imported by the US, (v/s China's share of ~20%). Moreover, we expect India's bed linen exports to the US to receive a major fillip on account of (a) higher consumer focus on home décor due to the work from home (WFH) scenario, and (b) increased adoption of the 'China Plus One' trend by global players. We expect ICIL to post revenue/EBITDA/PAT CAGR of 14%/83%/35% over FY20-23E due to higher demand for home textiles, strong clientele, expanding product bouquet, shift in product mix towards premium products and the 'China Plus One' trend catching up. We initiate a 'Tactical BUY' on ICIL with a target price of INR209/share (44% upside) based on 12x FY23E EPS.

Improved demand for home textiles to strengthen financials

ICIL's growth was muted over FY17-20 due to reduction in government incentives, high cotton prices and subdued demand from clients. However, **now the company is witnessing some green shoots in its business such as (a) revival of strong export demand from the US owing to consumers' focus on home improvement amid WFH, (b) ban on cotton imports from China (Xinjiang region), resulting in higher demand for Indian cotton players, (c) consolidation of US retailers, and (d) strong holiday season in the US.** These positive factors have led to ICIL delivering volumes of 20mn metres each in Q2FY21 and Q3FY21 (v/s usual quarterly run rate of 14-17mn metres), and we believe this trend would continue at least for the next 1-2 years. We expect ICIL to clock volumes of 74mn metres in FY21 followed by 12% volume growth each for FY22E and FY23E.

'China Plus One' strategy to spur demand for home textiles

Global companies have stepped up efforts to implement 'China Plus One' strategy, which will diversify their supply chains in the wake of the Covid-19-induced disruptions and the US-China trade tensions. **India is an attractive alternative over China as it has availability of cotton at lower costs, labour cost advantage and supportive government policies. Further, the US has banned cotton imports from China's Xinjiang region (contributes ~87% of overall Chinese cotton production and 20% of global cotton production).** This move should also directly benefit India (second largest producer of cotton in the world).

New capex offers scope for volume growth; initiate coverage with 'BUY'

ICIL has recently announced brownfield capacity expansion plans of 18mn metres at a capex of INR200cr (INR150cr to enhance capacity of bed linen and top bed products and the balance INR50cr to modernise its spinning unit) to meet the higher demand from the US owing to favourable trends and the ban on Xinjiang cotton. **The new capacity would help ICIL garner INR600cr revenue over the medium term.** ICIL is also focused on growing its business through niche value-added segments such as Fashion, Utility, and Institutional beddings in the USD10bn US market. Given the improved demand scenario, we initiate a 'Tactical BUY' on ICIL with a target price (TP) of INR209/share based on 12x FY23E EPS.

Year to March (INR cr)	FY19	FY20	FY21E	FY22E	FY23E
Net revenue	1,934	2,080	2,469	2,775	3,116
EBITDA	156	183	405	458	517
Adjusted PAT	60	140	257	297	344
EBITDA margin (%)	8.1%	8.8%	16.4%	16.5%	16.6%
EPS basic (INR)	3.0	7.1	13.0	15.0	17.4
Diluted P/E (x)	45.6	19.7	10.7	9.2	8.0
RoCE (%)	8.3	9.9	24.0	22.3	21.7
RoAE (%)	6.2	7.5	22.8	20.9	19.8

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CMP INR: 145
Rating: BUY
Target Price INR: 209
Upside: 44%

Bloomberg:	ICNT IN
52-week range (INR):	24 / 172
Share in issue (cr):	20
M cap (INR cr):	2,750
Promoter Holding (%)	58.94

Date: May 07, 2021

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Over FY20-23E, ICIL is expected to clock ~14% revenue CAGR, led by (a) higher demand for home textiles, (b) 'China Plus One' strategy taking shape, (c) expanding product bouquet and (d) continuation of duty drawback scheme. Further, the company should deliver ~41% EBITDA CAGR along with margin expansion of ~780bps due to healthy revenue growth, expansion of margin accretive segments and operational efficiency. PAT CAGR is expected at ~35% with healthy RoCE and RoE of ~22% and ~20%.

ICIL is a home textiles manufacturer and exports primariliy to US. IndoCount is expected to witnessed sustained revenue growth driven by a) Uptick in home textiles demand amid WFH scenario in the US, b) Ban on Xinjiang region of China resulting in higher bed linen export orders to second largest home textiles exporter: India, including ICIL and (c) augmentation of capacity for expected heightened demand in FY22 & FY23.

Continuation of duty drawback scheme under RoDTEP, expansion of high margin Fashion, Utility and Institutional bedding segments, operational efficiency and foray into B2C/D2C brands in the domestic markets is expected to improve margin profile for the company.

Higher volumes coupled with expansion of margin accretive business segments would aid profitability and enhance return ratios (RoCE and RoE) to ~20% by FY23E.

(INR cr)	FY20	FY21E	FY22E	FY23E
Revenue	2,080	2,469	2,775	3,116
EBITDA	183	405	458	517
EBITDA margin (%)	8.8	16.4	16.5	16.6
PAT margin (%)	6.7	10.4	10.7	11.0

	FY20	FY21E	FY22E	FY23E
RoCE (%)	9.9	24.0	22.3	21.7
Debt-to-Equity ratio	1.9	0.8	0.9	0.6

	FY23E	CMP/Target
P/E	8x	209

At CMP, FY23E P/E is 8x + **FY23E RoCE of 22%** + **At target price, FY23E P/E is 12x**

The stock is a 'Tactical BUY' with a target price of INR209/share.

Upside of 44%

Story in a nutshell

Exhibit 1: Capacity augmentation in place for expected higher demand…

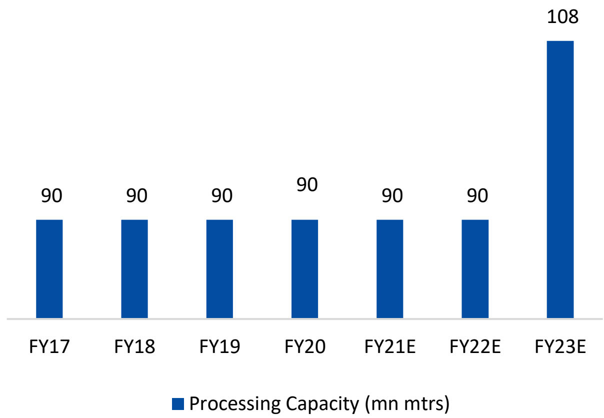


Exhibit 2: …coupled with 'China Plus One' strategy to aid India's bed linen exports market share…

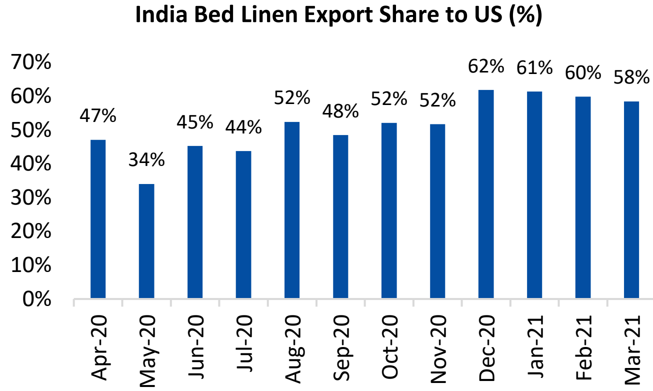


Exhibit 3: …and augment sales volumes…

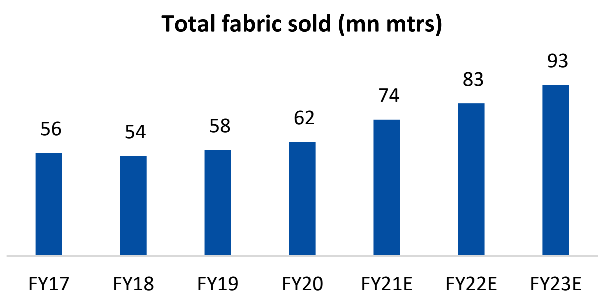


Exhibit 4: …along with continuation of duty drawback…

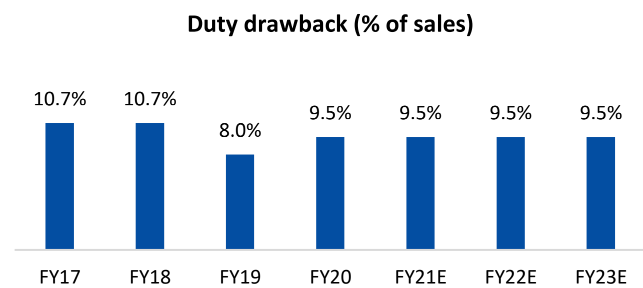


Exhibit 5: …to improve operating margins and profitability…

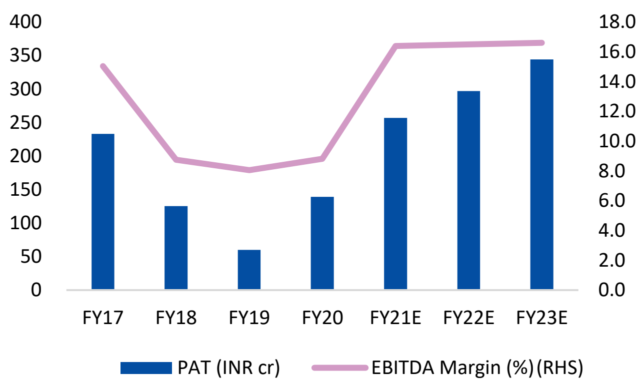
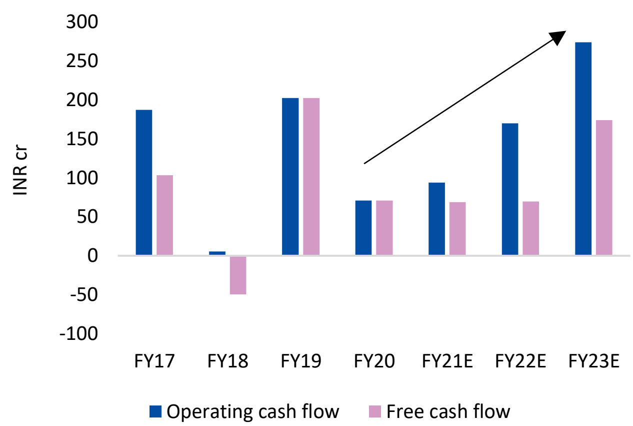


Exhibit 6: …and generate robust cashflows



Source: Edelweiss Wealth Research

I. Improvement in US home textiles demand to strengthen revenues

Overall, the home textiles segment witnessed a slowdown in 2018 due to multiple headwinds like Brexit, implementation of GST (resulting in an inverted duty structure) and appreciation of the INR. The period proved challenging for ICIL too as revenue declined 13.6% in FY18; this was followed by slower revenue growth of 4%/7.5% in FY19/FY20. Further, along with increased capacity of 90mn metres in 2017 (earlier capacity: 68mn metres), adverse macro factors led to lower utilization levels for the company, removal of MEIS benefit to the tune of 4%, resulting in operating margin contracting from 15% in FY17 to 9% in FY20.

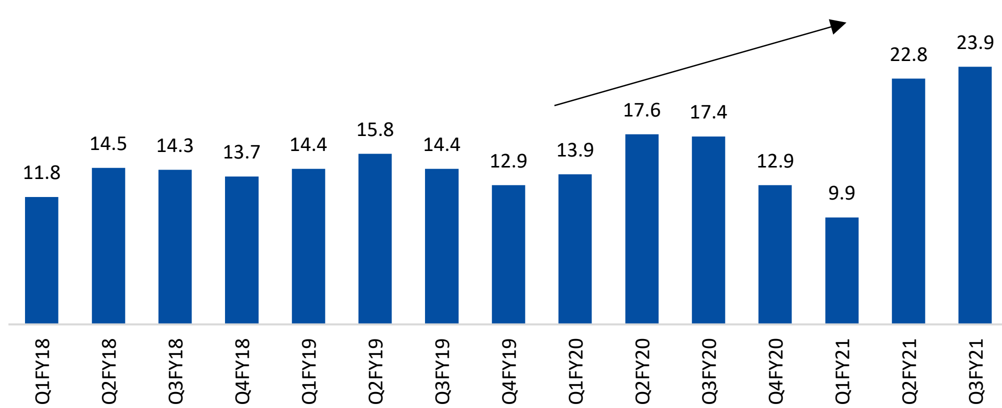
After three subdued years (FY18-20), FY21 (barring Q1FY21) was a turnaround year for ICIL as the company witnessed significant volume uptick of 29%/37% in Q2FY21/Q3FY21. This improvement was due to a revival in bed linen exports to the US thanks to the ban on cotton exports from China's Xinjiang region (the province contributes 87% of overall Chinese cotton production and 20% of global cotton production) by the US and consumers' focus returning to home décor amid the WFH scenario.

We have listed below ICIL's strong growth catalysts:

- The latest holiday season in the US saw retail growing by 8.3% (the highest rise of 100%+ seen over the last five years). Expenditure on home improvement shot up by 14%, which implies increased focus on homes. The US retail market (including home textiles) is robust as ever and should lead to a copious order book for the company.
- Consolidation in the US retail market has benefitted large box retailers. ICIL has long established relationships with these retailers, and hence, the company should see its order book surge. Some of the retailers ICIL caters to are Walmart, Target, Bed Bath & Beyond and JC Penney.
- New product launches and addition of value-added categories in Health, Wellness and Hygiene should attract good traction over the medium term.

ICIL clocked quarterly volumes of 22-23mn metres each in Q2FY21 and Q3FY21 (higher than previous quarterly volume run-rate of 14-17mn metres). With multiple tailwinds, prospective quarterly volume run-rate should average ~20mn metres

Exhibit 7: Quarterly volume (in mn metres):



Source: Edelweiss Wealth Research

II. 'China Plus One' strategy to spur demand for home textiles

Globally manufacturers are now moving away from China to diversify and shift manufacturing to other competitive nations. This initiative is known as the 'China Plus One' strategy. Manufacturers are avoiding concentration on any one geography and diversifying production for more long-term stability. Also, the Covid-19 induced supply-chain disruptions coupled with the US-China trade tensions have accelerated the pace at which companies are diversifying their base.

Manufacturers are looking for replacements mainly in South-East Asia, and India is the most obvious alternative to China due to an abundance of raw materials and resources, cheap labour, improving 'ease of doing business,' and large manufacturing infrastructure. In fact, Indian cotton is 30% cheaper than Chinese cotton and Indian labour is 3x less expensive than China. Thus, global manufacturers do not view China as the cost-effective haven anymore.

Further, India is the largest producer of cotton in the world. With abundant raw materials, India is already a leader in exports of bed sheets and terry towels to the US. China has 39% share in global home textiles exports, followed by India with 11% share; thus, India is a suitable 'Plus One' as it is the second largest home textiles exporter.

Revisiting the topic of the US banning any imports of products where the cotton can be traced back to China's Xinjiang region is a thorn in China's neck. This move can be gauged by the OTEXA data, which clearly indicates that China is continuously losing market share across all cotton segments, especially in home textiles, where its share has shrunk from 30% in CY19 to 26% in CY20.

Indian cotton is 30% cheaper than Chinese cotton and Indian labour is 3x less expensive than China. India is the second largest home textiles exporter with 11% share and the largest producer of cotton in the world, making it a suitable 'Plus One'

Exhibit 8: Decline in China market share in US imports (%)

CHINA		
Category	**CY19**	**CY20**
Pillow Cases	19%	16%
Bed Sheets	19%	14%
Bed Spreads	58%	52%
Terry Towels	24%	21%
Cotton Non-Apparels	32%	28%

INDIA		
Category	**CY19**	**CY20**
Pillow Cases	53%	54%
Bed Sheets	50%	52%
Bed Spreads	17%	18%
Terry Towels	39%	42%
Cotton Non-Apparels	31.7%	32.4%

Lost China market share has been picked up by India followed by Pakistan
Source: Edelweiss Wealth Research

We believe the 'China Plus One' strategy spells a huge opportunity for Indian players as companies in the US are now on the verge of routing their orders to India, Pakistan, Bangladesh, Vietnam, etc., which in turn would enable ICIL to fetch larger orders in the near term.

III. Capex plans to augment volumes in FY23 and aid de-bottlenecking

Recent capex plan to de-bottleneck operations, increase revenue by INR 600cr over a period of two years on expected uptick in demand

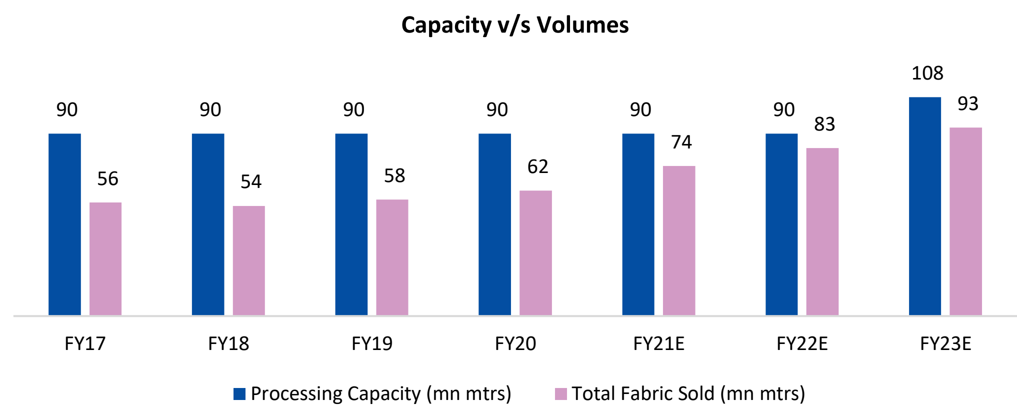
ICIL has recently announced brownfield capacity expansion plans for bed linen (from 90mn metres to 108mn metres) by debottlenecking and balancing its facilities at a total capex of INR200cr, which will be funded via a mix of internal accruals and debt. While INR150cr would be utilised to enhance capacity of bed linen and top bed products, the balance INR50cr will be used to modernise its spinning unit with compact spinning technology. Post modernisation, capacity from the spinning unit will also cater to ICIL's home textiles' captive consumption.

The enhanced capacities are expected to become operationalised by H2FY22. Post commissioning, the same would increase the company's revenue by INR600cr over a period of two years.

Currently, ICIL's home textiles plant is operating at almost full capacity. However, if heightened demand persists, management is open to outsource production in the short term to cope with the growing demand and orders.

We expect ICIL to deliver volumes of 74mn metres in FY21, followed by 83mn metres in FY22 due to the growing demand for bed linen, and 93mn metres in FY23 owing to expectations of increased capacity.

Exhibit 9: With higher demand and increased capacity, we expect volume growth of 12% each in FY22E and FY23E



Source: Edelweiss Wealth Research

IV. New bedding segment to aid ICIL’s revenue and boost margins

Fashion, Utility and Institutional beddings have increased ICIL's addressable market by over 3x to USD14bn

Over the last five years, ICIL’s focus revolved around bed sheets and the segment contributed >90% of its overall business during the same period. In 2017, the company moved up the value chain by foraying into new bedding segments, which includes **Fashion bedding** (Decorative bedding), **Institutional linens** (catering to high-end hotels, resorts and cruises), and **Utility bedding** (basic white bedding). **With this initiative, ICIL expanded its addressable market by 3x from USD4bn to USD14bn.** Fashion, Utility and Institutional beddings currently contribute ~15% of ICIL’s overall revenue. This contribution is expected to increase to ~20% in the medium term. **The WFH culture has also given rise to a trend in Fashion bedding. The segment is attracting greater demand as people are spending more time at home.**

Exhibit 10: Market size (in USD bn)

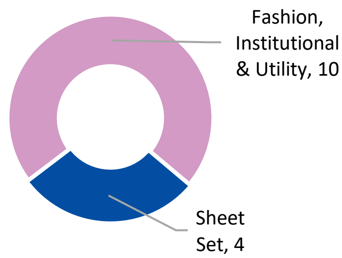
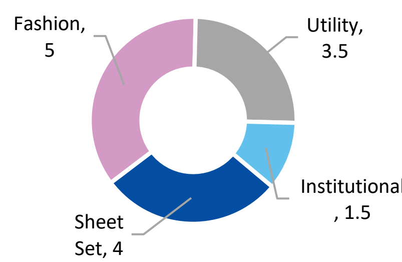


Exhibit 11: Market size (in USD bn)



Source: Edelweiss Wealth Research

Man-made Fibre (MMF) is extensively used in Fashion, Utility, and Institutional beddings. **China is the dominant player in MMF, and due to economies of scale, the country enjoys 20-25% cheaper raw material as compared to other MMF producing nations. China has 85% market share in the Fashion, Utility and Institutional bedding segment while India only has ~7% share.** However, India is witnessing an uptick in this segment recently.

India could become a worthy alternative to China with a sizeable shift happening towards manufacturing of the new bedding segment due to the global adoption of the ‘China Plus One’ strategy and if the Indian government rationalises duty on MMF. The same would become a huge opportunity for ICIL as the company is well poised to scale up in these areas.

ICIL is aggressively marketing products from the new bedding segment and we believe its efforts to grow this segment, would reap benefits in the longer run. Further, **this segment enjoys higher EBITDA margins (~20%) unlike regular bed sheets. Also, Fashion and Utility beddings are highly differentiated, customized, and incorporate patented technologies. Hence, these beddings are not commoditised and could command a greater premium. Therefore, increasing share in this segment will turn out to be margin accretive for ICIL.**

V. Duty drawback expected to be restored

The Indian government has announced a new duty drawback scheme – Remission of Duties and Taxes on Export Products (RoDTEP) – from 1st Jan'21. RoDTEP would compensate exporters of made ups (items stitched from any type of cloth, other than a garment such as bed sheets, cushion covers, lamp shades, etc.) for input taxes that are not reimbursed under existing schemes, including embedded levies (such as mandi tax, stamp duty, VAT on fuel used in transportation, duty on electricity used during manufacturing, etc.).

Up to 2019 the government offered incentives under two major schemes, namely Rebate of State Levies (ROSL) and Merchandise Exports for India Scheme (MEIS). MEIS was withdrawn as a WTO panel banned it on account of reimbursement rates not being calculated strictly based on input taxes paid. During 2020, the government replaced ROSL and MEIS with Rebate of State and Central Taxes and Levies (ROSCTL) scheme. Currently, all these schemes have been withdrawn and the industry is awaiting final duty drawback rates under the new scheme RoDTEP.

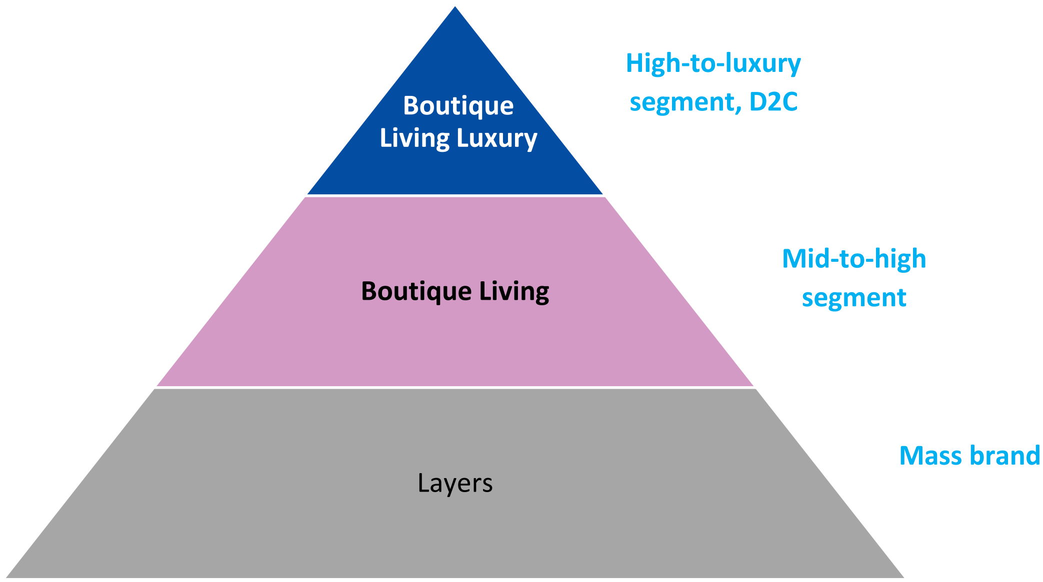
Duty drawback rate of 9.5% should be restored under RoDTEP

ICIL's duty drawback (as % of revenue) under RoSCTL worked out to 9.5%. The home textiles sector expects the same duty drawback to be restored under RoDTEP. This would not only remove uncertainties related to the percentage of duty drawback but would also restore profit margins of home textile companies.

Once RoDTEP rates are finalized, we believe Indian home textile players would become more competitive against countries such as Pakistan and Bangladesh that enjoy duty benefits under the Free Trade Agreement with European countries. Companies from Pakistan and Bangladesh pay zero duty against the 9.6% duty that Indian players pay in Europe.

VI. Building domestic market through B2C/D2C brands

Exhibit 12: B2C/D2C brands across segments



Source: Edelweiss Wealth Research

To tap the growing domestic market, ICIL has developed the B2C brand 'Boutique Living' (with in-house knowhow and production). Positioned as an aspirational mid-to-high segment brand, 'Boutique Living' offers high-quality bed linen with thread count (TC) ranging between 300-1,000. Products are available in 140 designs and themes and retail from INR2,000/bedsheet set, while prices in the premium category go up to INR8,000/bedsheet set.

In addition to 'Boutique Living', ICIL has launched two more brands to target all stratums of society. Its mass B2C brand 'Layers' is focused on the value market as the affordable housing segment has picked up really well recently. To target the high-end market, ICIL has introduced a D2C premium brand 'Boutique Living Luxury'.

Barring some advertising and promotion spends, management does not expect these B2C/D2C brands to burden the company's capital expenditure.

The company is creating a pan-India distribution network for these brands through multi brand outlets (MBOs) and large format stores (LFS) such as Shoppers Stop and Home Centre. Further, to increase visibility of its brands, ICIL is using omni-channels, e-commerce and digital campaigns. 'Boutique Living' is currently present in over 500 touchpoints in India. **With increased focus by consumers on home décor due to the work from home (WFH) scenario alongwith revival in the real estate market, we believe there is a great opportunity for ICIL to grow its brand in the Indian market.**

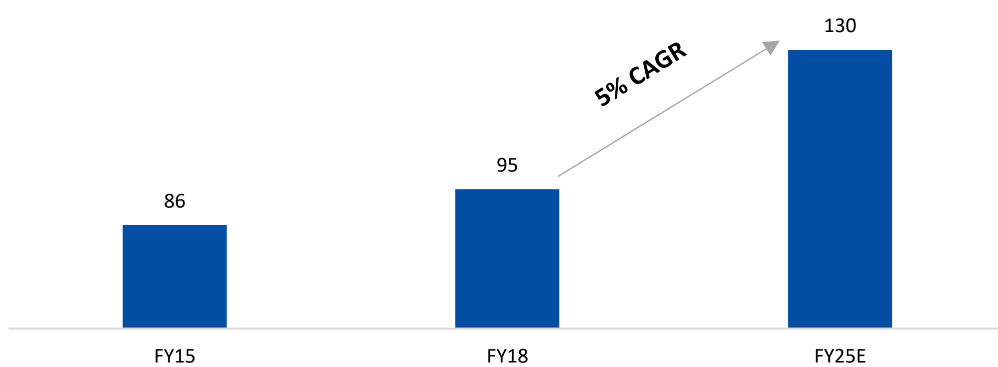
ICIL's B2C business generated less than 1% of its total revenue as at FY20; however, the company expects the B2C segment to contribute 5% of its overall revenue over the next five years. The company **We believe ICIL's entry into the domestic market through its own brands would create value for the company over the long term.**

Industry Section

Global home textiles market

Home textiles form a major segment of the overall textile industry. It consists of a wide range of categories such as sheets and pillowcases, blankets, terry towels, table-cloths, carpets, and rugs. The global home textiles market size was valued at ~USD95bn in 2018 and is expected to register ~5% CAGR to reach ~USD130bn over CY19-25.

Exhibit 13: Global home textiles market size (in USD bn)

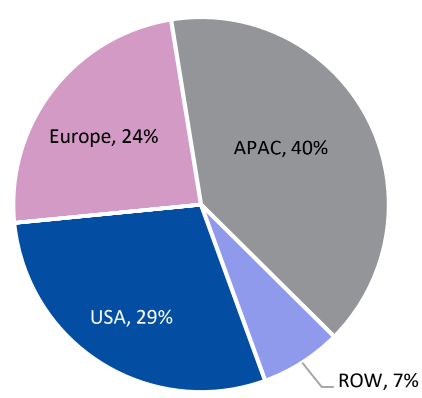


Source: Edelweiss Wealth Research

The US and Europe contribute significant chunk to global home textiles market

The US and Europe are the biggest consumers, constituting ~53% of home textile imports, with nations like India, China and Pakistan being among the key suppliers. Most Indian home textile players target the export markets (mainly the US and Europe) as large retail giants such as Walmart, Target, JC Penney, etc. source products from low-cost labour countries such as China, India, Pakistan, etc.

Exhibit 14: Global home textile market region-wise share



Source: Edelweiss Wealth Research

Home textiles – an attractive market for India

India's home textile market is estimated at USD5bn and projected to grow at 8.3% CAGR over the medium term. India is the third largest home textile market in Asia Pacific after China and Japan. China's home textile market size currently stands at ~USD30bn.

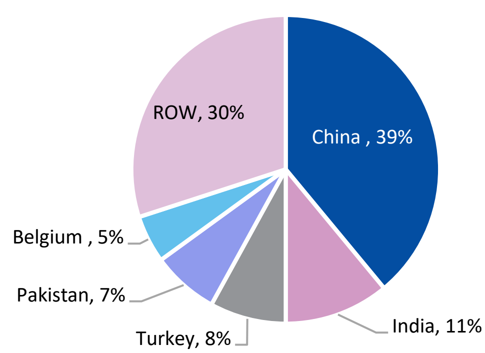
Because of superior product quality, Indian home textile manufacturers have gained market share in the global market over the last few years. However, India still accounts for only 5% of the global home textile trade, leaving significant headroom for growth. We believe growth in domestic home textiles would come on account of favourable demographics, increasing household income, rising population, growth in end-use sectors like Housing, Hospitality and Healthcare and the 'China Plus One' trend taking shape.

India and China are the dominant players in the US' home textile imports. The US imports items such as cotton sheets, cotton bedspreads and quilts, cotton terry towels, MMF floor coverings and other cotton products (table and kitchen linens, curtains, and upholstery).

India commands a significant position (11% market share) in the global home textile exports, particularly in cotton-based home textile products. This is largely due to multiple competitive advantages that India has over its competitors, which puts it in a unique spot over other competing nations like Pakistan, Bangladesh, and Vietnam.

Exhibit 15: India – second largest exporter of home textiles globally and third largest market in Asia

Share of home textile exports (%)



Source: Edelweiss Wealth Research

India is the second largest exporter of home textiles globally with 11% share while China ranks first with 39% share. Over the past five years, India has steadily increased its market share from 9% to 11% (4% CAGR) while China's growth rate has remained relatively stagnant (CAGR of ~0.7%). China's growth rate is expected to remain subdued due to 'China Plus One' trend and ban on Xinjiang cotton. Further, India's home textile industry has a major advantage in the form of having the entire value chain in the country – right from natural fibre production to processing and manufacturing of finished products – thus, India can capture a good chunk of China's lost market share.

Around 70% of India's home textile market is unorganized in nature, which offers tremendous opportunity for big and organised players to capture market share in this segment as well. Bed linen is the largest product category constituting almost half of India's home textile market, followed by bath linen and other products like flooring and upholstery.

Home textile market in US

The US' home textile market is valued at USD28bn; of this, bed linen accounts for roughly 50% shares at USD14bn.

Exhibit 16: Bed Linen Segment market size

Bed Linen Segment	Size (USD bn)
Sheet Set	4
Fashion	5
Utility	3.5
Institutional	1.5

Source: Edelweiss Wealth Research

Currently, India has 50% market share in sheet sets. The institutional bedding segment has slowed due to the pandemic owing to hotels having lower occupancies or being shut; however, the segment is expected to pick up once the pandemic is under control.

US – a crucial market for India

The US is the biggest and most crucial geography for Indian home textile players due to (a) the country being the largest consumer market in the world, (b) sheer size of its economy, (c) the large proportion of organised retail in the country, and (d) homogeneity in consumer tastes. While Europe is also an equally big market, heterogeneity in consumption due to sharp differences in buying habits makes it a difficult market to cater to. Additionally, preferential tariffs given to competing countries like Pakistan and Bangladesh by Europe puts Indian players at a disadvantage.

The US' retail sector has seen an uptick due to quick implementation of pandemic protocols and retailers taking measures to enable e-commerce. It was an opportune period for big players with strong balance sheets to gain market share in a consolidating market.

Also, the latest holiday season in the US showed strong retail growth of 8.3%, which was more than double of the average holiday increase in the previous five years. Expenditure on home improvement was up 14.1%, which implies the increased focus of consumers on homes.

The US is a homogenous market, and thus, an extremely attractive market. This explains the high concentration of Indian players targeting the US.

Breaking down OTEXA data

In terms of home textile exports to the US, India's share stood at 40% for CY20 (dominating in bed linen, terry towels and pillow-cases) while China's share was 26% during the same period. Therefore, India is in now in an important position with regards to Home Textile imports to the US.

Exhibit 17: Terry towels - India's exports to US (USD mn)

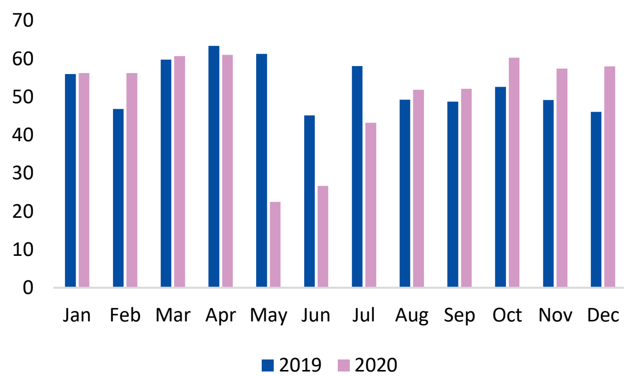
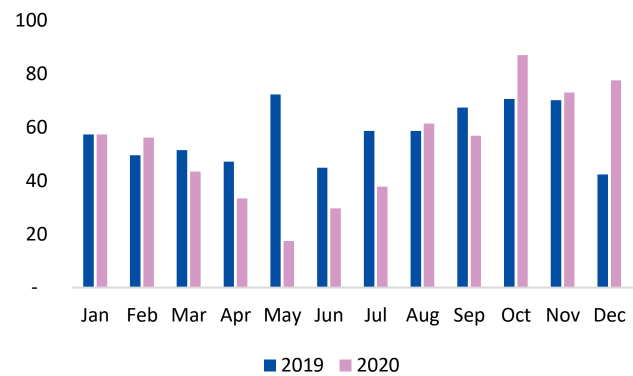


Exhibit 18:Bed sheets - India's exports to US (USD mn)



Source: Edelweiss Wealth Research

India's bed sheets and terry towel exports to the US soared in Q3FY21. With exports exceeding pre-Covid monthly levels, disruptions caused by the Covid-19 pandemic has finally been overcome.

Exhibit 19:India's home textile exports to US - market share

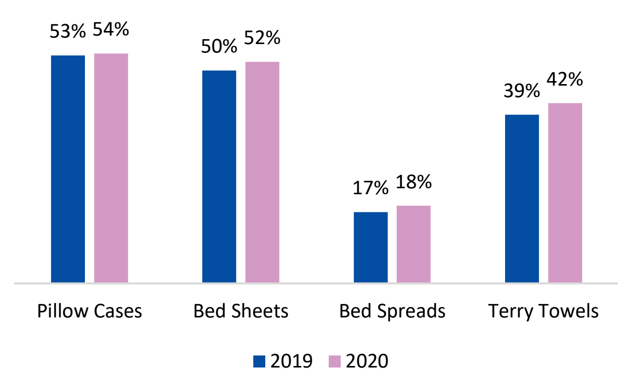
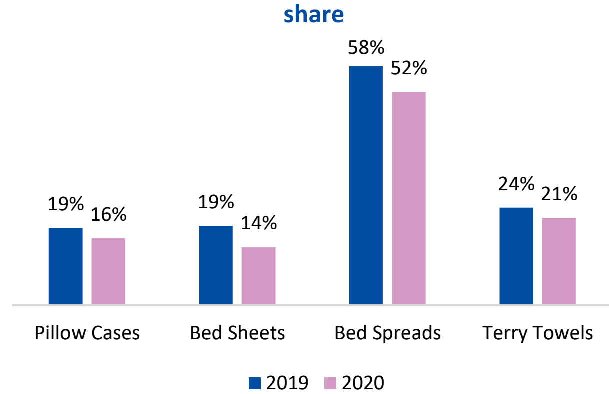


Exhibit 20: China's home textile exports to US - market share



Source: Edelweiss Wealth Research

CY20 was an opportune year for India as the country managed to increase its share of exports in US' home textiles indiscriminately across segments while China's share declined steeply in all segments. In Jan'21, China's share of total home textile exports to the US further declined YoY to 23% from 29% while India's share rose to 46% from 42%.

The growing preference for India and away from China is evident and the trend is likely to continue if the Indian government incentivises the home textiles industry by making key inputs cheaper and aiding in setting up good infrastructure.

Government initiatives

India’s textile industry, being an integral part of the country’s development, foreign exchange earnings and employment generation, benefits from central and state government policies, which are conducive for the industry’s growth. In wake of the Covid-19 pandemic, the Indian government announced a special INR20,00,000cr stimulus package under the ‘Aatmanirbhar Bharat’ scheme to boost the economy through technological adoption and by building world class infrastructure.

Various policies devised by the Indian government to boost growth of India’s textile sector are as follows:

1) Amended Technology Upgradation Fund Scheme (ATUFS): Under this scheme, the government provides credit linked capital investment subsidy to augment investments, productivity, and employment in the textile sector. The percentage of subsidy depends on the type of machinery purchased.

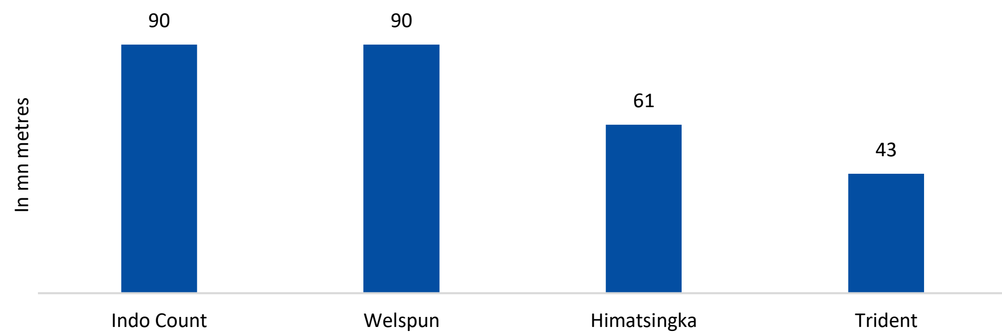
2) Abolition of anti-dumping duty on Purified Terephthalic Acid (PTA), which is a critical input for man-made textile fibre and yarns.

3) The Union Budget raised import duty on cotton from nil to 10% to aid local farmers and duty was reduced on nylon raw materials.

4) Scheme for Integrated Textile Park (SITP): This scheme provides support to set up textile units along with focus on creating world-class infrastructure facilities. The grant is up to 40% of the project cost with ceiling limit of INR40cr for each textile park.

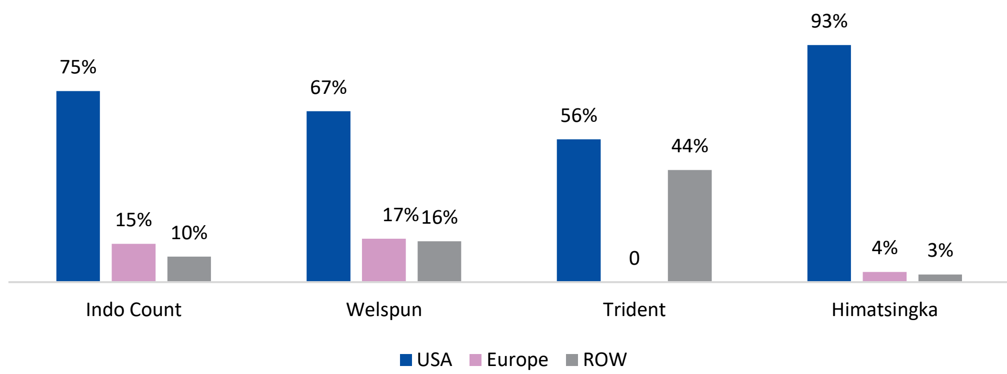
Indo Count and Welspun currently have the highest capacity among home textile players in bed linen at 90mn metres with utilisation levels of 74% and 69%, respectively. However, with its capacity expansion underway, Indo Count will have the largest bed linen manufacturing capacity amongst peers, which would benefit the company in a growing demand scenario

Exhibit 21: Installed capacity



Source: Edelweiss Wealth Research

Exhibit 22: Geographical distribution



Source: Edelweiss Wealth Research

The US being a homogenous region with big box retailers, remains a crucial geography for all home textile players.

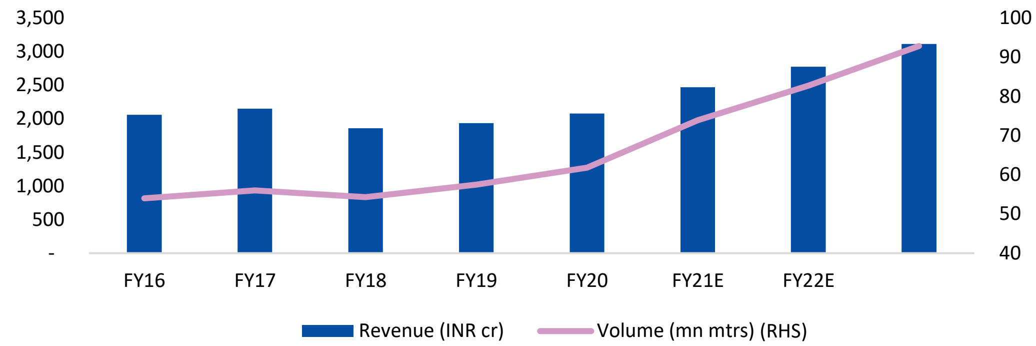
Exhibit 23: Financial highlights

Financial Snapshot (FY20)	Indo Count	Welspun	Trident	Himatsingka
Revenue (INR cr)	2,080	6,741	4,728	2,358
EBITDA Margin (%)	8.8%	18.0%	17.9%	17.6%
PAT (INR cr)	73	507	340	85
D/E (x)	0.4	0.9	0.8	1.6
W.C. days	86	96	117	148
OCF/EBITDA (x)	0.4	0.6	1.4	1.0
RoE (%)	7.5%	17.9%	11.6%	10.0%
RoCE (%)	9.9%	13.4%	10.3%	8.6%

Source: Edelweiss Wealth Research

With steady volume growth over FY20-23E on the back of rise in bed linen demand, we expect ICIL's margin profile and cash flows to improve significantly hereon.

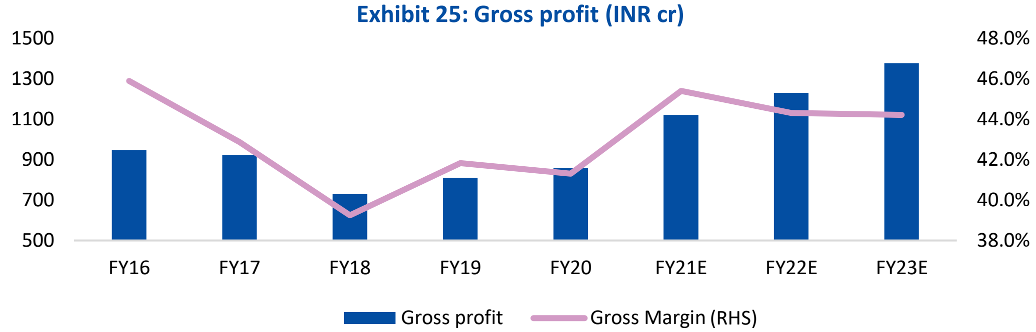
Exhibit 24: Revenue (INR cr) & Volumes (mn metres)



Source: Edelweiss Wealth Research

Volumes are expected to maintain growth momentum of 12% post FY21E. Revenue CAGR of 14% is expected over FY20-23E.

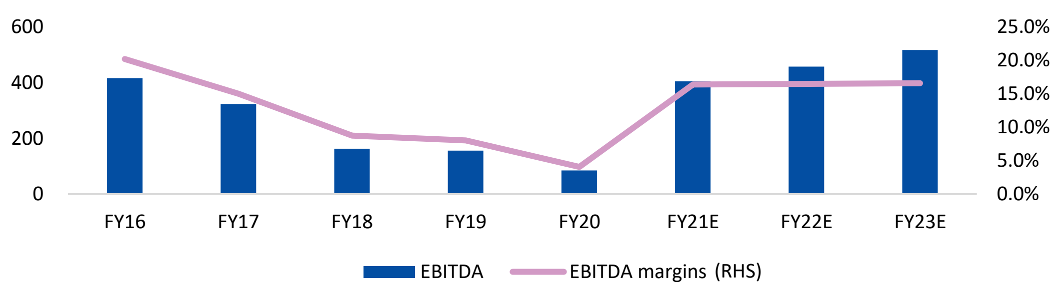
Exhibit 25: Gross profit (INR cr)



Source: Edelweiss Wealth Research

Cotton prices have been rising steadily since Aug'20. Since the price rise is a global phenomenon, management believes that majority of the costs can be passed on. However, there is still some uncertainty related to cotton prices 3-4 months down the line, and the same could lead to slight margin deterioration in FY22E.

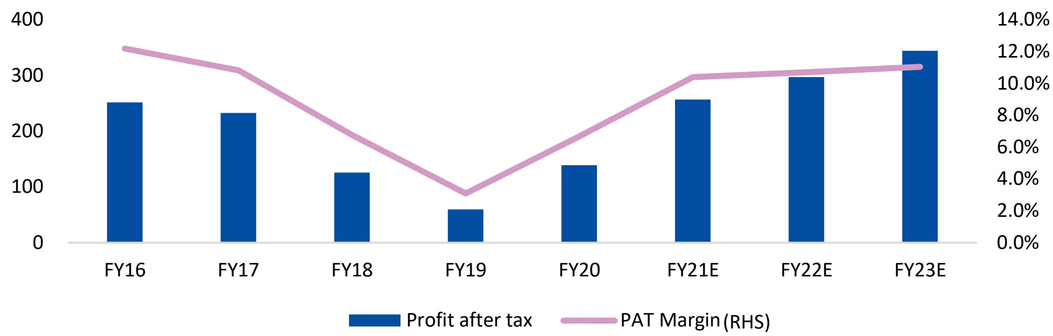
Exhibit 26: EBITDA (INR cr)



Source: Edelweiss Wealth Research

With reasonable volume growth in sheet sets and increased contribution from high margin Fashion/Utility/Institutional and B2C segments, we expect EBITDA margins to sustain in the range of 16-17%.

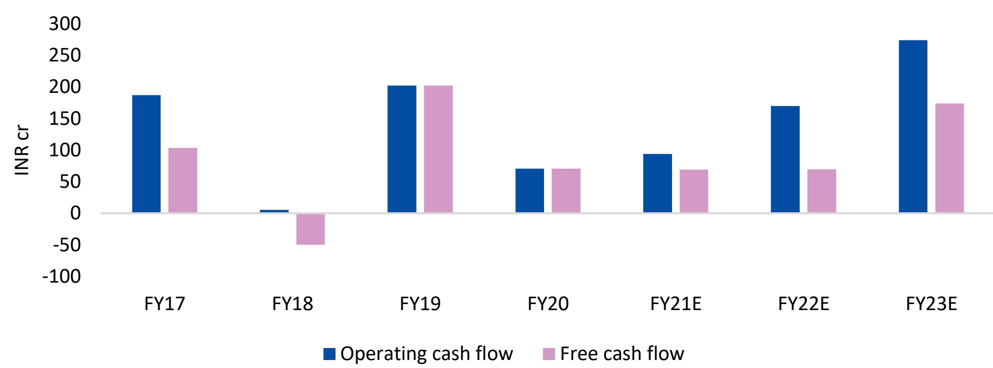
Exhibit 27: PAT (INR cr)



Source: Edelweiss Wealth Research

With steady revenue growth and improvement in margins, we expect robust PAT CAGR of 35% over FY20-23E.

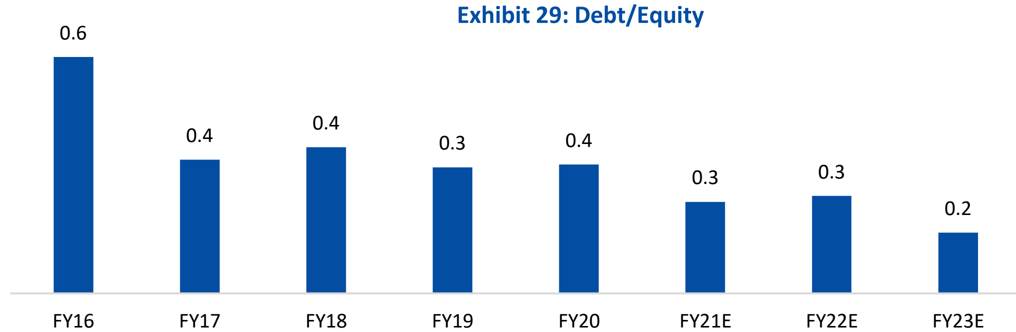
Exhibit 28: Operating cash flow and Free cash flow (INR cr)



Source: Edelweiss Wealth Research

With improvement in profitability, operating cash flows and free cash flows should show steady growth in the future.

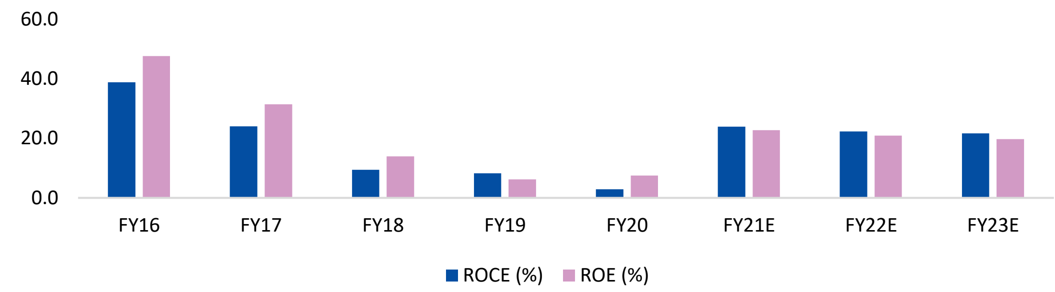
Exhibit 29: Debt/Equity



Source: Edelweiss Wealth Research

Balance sheet should remain strong. Ongoing capex of INR200cr would be funded via mix of internal accruals and debt..

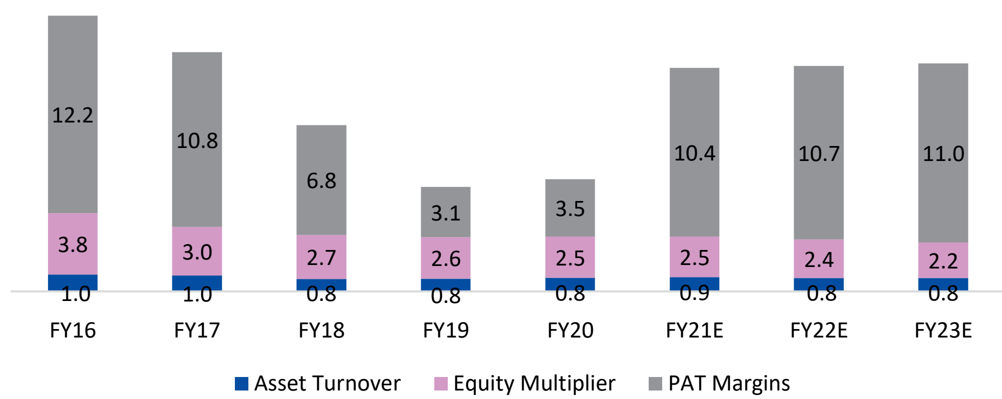
Exhibit 30: Return ratios



Source: Edelweiss Wealth Research

ICIL's high return ratios should bounce back to erstwhile levels.

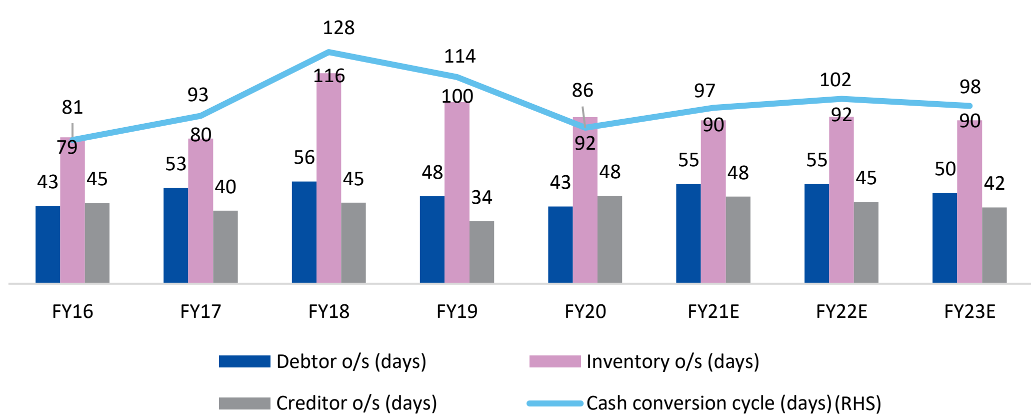
Exhibit 31: Dupont Analysis



Source: Edelweiss Wealth Research

Higher PAT margins coupled with stable asset turnover ratios to improve RoE in future.

Exhibit 32: Workig capital days



Source: Edpelweiss Wealth Research

Working capital days to remain broadly in the same range.

Outlook

The global home textile industry is currently in a sweet spot amid the WFH scenario. The pandemic has created an opportunity for big Indian players with strong balance sheets to increase their market share globally. In this backdrop, ICIL is well poised to capitalise on the current trends and achieve higher demand.

Anticipating higher demand, ICIL recently announced brownfield capacity expansion plans of 18mn metres. The company is gaining good exposure in the US market, owing to favourable trends and the ban on Xinjiang cotton. ICIL intends to grow its business further in the future with increased contribution from niche segments such as Fashion, Utility and Institutional beddings, which has a huge market size of USD10bn (China commands 87% market share in this segment). The company is also working to onboard some big clients in Institutional bedding, which is good due to the sticky nature of the income generated from this segment. The 'China Plus One' trend should also see retailers shift orders to India, which could again benefit ICIL in a big way.

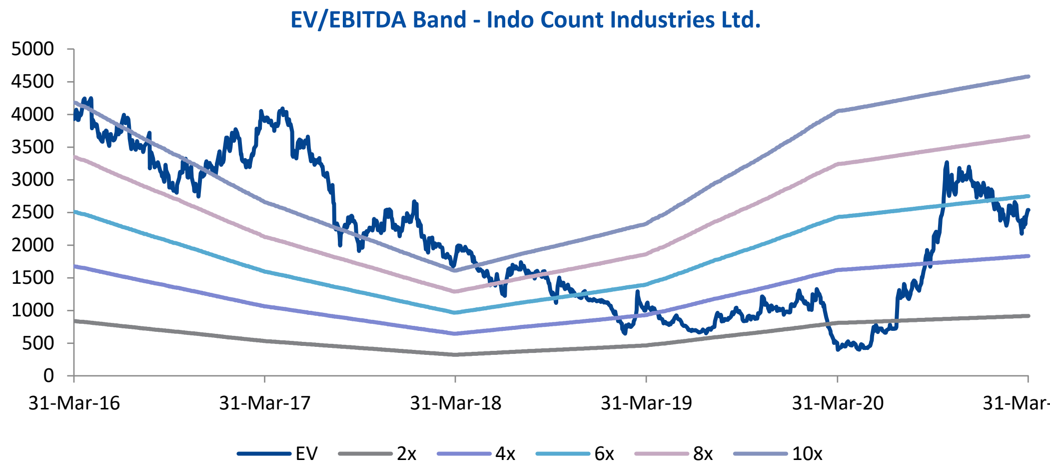
With multiple tailwinds such as (a) higher demand for home textiles, (b) strong clientele, (c) expanding product bouquet, (d) shift in product mix towards premium products, and (e) 'China Plus One' strategy taking shape, we expect the company's revenue/EBITDA/PAT to witness CAGR of 14%/83%/35% over FY20-23E.

Valuation

At CMP, ICIL is trading at 7x FY23E earnings estimates. We believe the company will be able to sustain quarterly volumes of 20mn metres for a couple of years at least on account of improved home textiles demand. Its focus on alternate bedding segments (Fashion, Utility, Institutional beddings) and domestic market expansion should provide ICIL with significant growth opportunities considering the shift towards organised retail and e-commerce in India. We initiate a tactical BUY on ICIL and assign a P/E of 12x to our FY23E EPS to arrive at a target of INR209/share.

PE Band - Indo Count Industries Ltd.

Source: Edelweiss Wealth Research



Source: Edelweiss Wealth Research

Exhibit 33: Valuation matrix

Companies	Mcap (INR crore)	Rating	CMP Price (INR)	Target Price (INR)	P/E (x) FY20	FY21E	FY22E	FY23E	EV/EBITDA (INR) FY20	FY21E	FY22E	FY23E	RoE %	RoCE %
Indo Count	2,752	Buy	145	209	18.1	11.1	9.6	8.3	14.9	7.5	6.5	5.4	7.5	9.9
Welspun	8,465	Not Rated	84	N.A.	4.3	15.2	11.9	10.7	4.1	8.1	7.4	6.6	18.2	13.3
Trident	7,074	Not Rated	14	N.A.	6.2	19.6	15.2	11.4	4.4	9.3	7.7	6.6	11.3	10.2
Himatsingka	1,514	Not Rated	154	N.A.	44.2	N.A.	8.9	6.7	6.7	12.2	6.6	5.9	1.8	7.7

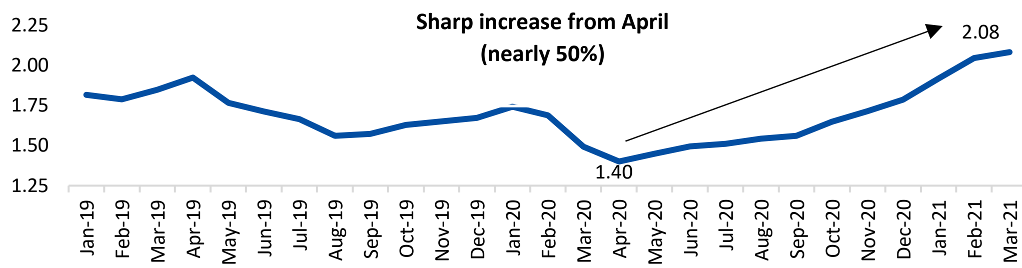
*Welspun, Trident & Himatsingka valuation estimates from Bloomberg
Source: Company, Edelweiss Wealth Research

Risk Factors

Burgeoning cotton prices

Cotton prices in India started rising in H2CY20 owing to the strict pandemic lockdown restrictions, which led to inventories drying up and demand-supply mismatches. Also, heavy export demand from China, Bangladesh and Vietnam for Indian cotton further led to supply shortages in the country. The price of woven cotton yarn (per kg) in India increased by ~38% to INR267 in Jan'21 from INR194 in Aug'20. Also, cotton prices globally have surged due to anticipation of lower world cotton output and improved stock-usage ratio.

Exhibit 34: Global cotton prices (USD/kg)



Source: Company, Edelweiss Wealth Research

We expect domestic cotton prices to gradually soften once mills resume operations after the lockdown ends. ICIL has contracts in place for cotton prices, which would help the company counter another 3-4 months of price volatility; however, an extended rally in prices could hurt margins in FY22.

Execution on the 'China Plus One' strategy

The 'China Plus One' strategy presents an opportunity for all home textile companies in India, Pakistan, Bangladesh, Vietnam, and other manufacturing countries. While management is confident of capitalising on the 'China Plus One' trend and increasing its market share, the company's execution ability and visibility are important factors on this front. However, if the ban on cotton from China's Xinjiang region is reversed then Chinese players will aggressively try to regain lost share. This may impede growth of Indian home textile players.

Sustained demand essential for better financials during capex programme

ICIL has recently announced INR200cr capex plan to increase capacity by 20% to 108mn metres, and thus, we expect ICIL to deliver robust volume growth for a year or two. However, if the company fails to deliver on the volume front, negative operating leverage might kick in and impact the company's margins. ICIL has faced such a situation in 2017 as well, when it increased capacity to 90mn metres but failed to achieve volume growth, resulting in margins getting impacted significantly.

Currency and geographical concentration

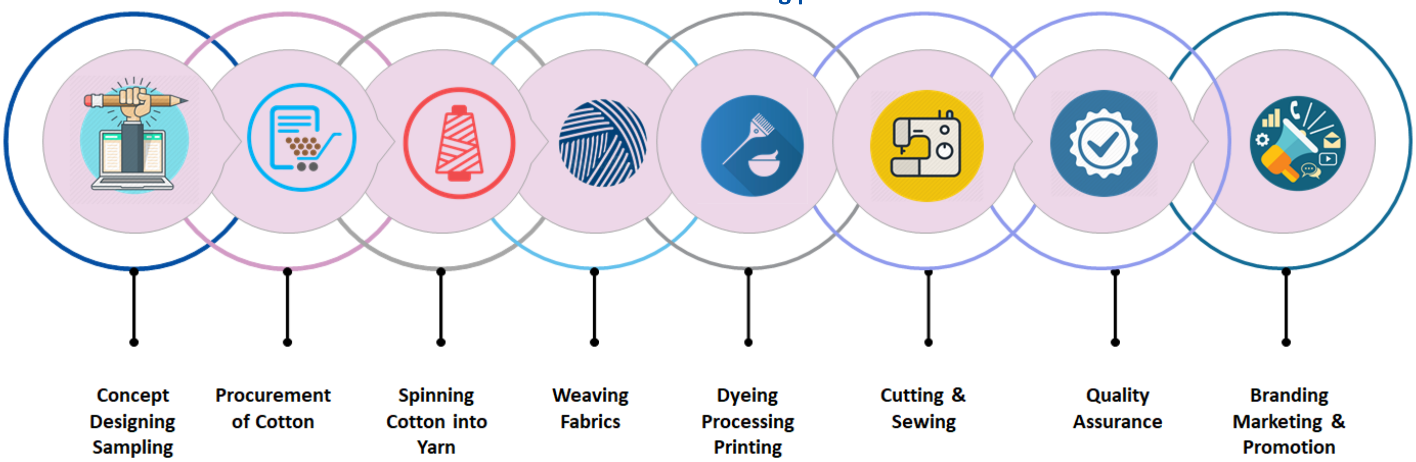
The company derives 93% of its revenues from exports, and thus, any major volatility in currencies would negatively impact profitability of ICIL's exports business. Though the company hedges 65-70% of foreign exchange, any steep volatility could negatively impact earnings. The US accounts for ~75% of ICIL's sales, and therefore, demand slowdown or any change in government policy in the region could directly impact the company's revenue growth.

Company Description

ICIL, traditionally a yarn spinning business, forward integrated into home textiles in 2007. Over the years, home textiles became the crown jewel of ICIL's business on account of higher demand and better margin profile. Share of revenue from home textiles has consistently increased over the years (58% in FY12, 80% in FY15 and 93% in FY20) and will continue to rise as ICIL's existing yarn capacity is being modernised for captive consumption rather than sales.

Revenue contribution from its other segment, Yarn Spinning, is on a decline (42% in FY12 v/s 7% in FY20) as the company has made a conscious effort to not focus on this segment due to its commodity-like nature and low margins.

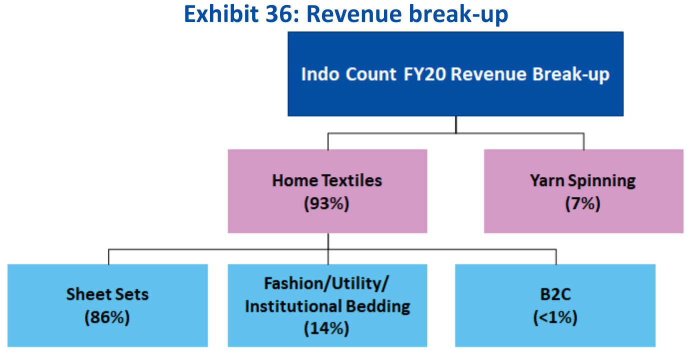
Exhibit 35: Manufacturing process:



ICIL forayed into high margin segment - Fashion, Utility and Institutional beddings in FY17. The company has been increasing share in this new segment consistently over the years (7% in FY18 v/s ~14% in 9MFY21).

The company recently also ventured into B2C products such as 'Layers' (catering to the value segment), 'Boutique Living' (catering to mid-to-high segment), and a D2C product 'Boutique Living Luxury' (catering to high-to-premium segment).

Exhibit 36: Revenue break-up



Source: Company, Edelweiss Wealth Research

Home Textiles Product Segment		Description
Bed Sheets		Flat Sheet, Fitted Sheets, Pillow-Cases
Fashion Bedding		Comforters and Duvets, Shams and Decorative Pillows, Quilts, Coverlets
Utility Bedding		Mattress Pads, Protectors, Pillows, Down Alt Comforters
Institutional Bedding		Basic white sheets, Shams & Pillows, Bed Skirts, Duvet covers

Exhibit 37: ICIL's brands

Layers	WHOLISTIC
BOUTIQUE LIVING	SLEEP·Rx
BOUTIQUE LIVING Luxury	Pure
PURITY HOME	color sense
THE COTTON EXCHANGE	KIDS CORNER

Licensed brands

Sanderson HARLEQUIN

Business Structure

Business Model	The company is a leading player in the global home textiles industry with a focus on bedding and bed linen. While it had originally started its operations with yarn spinning, it has since forward integrated into full-fledged manufacturing of home textiles.
Geographic Presence	Primarily exports driven, 75% of its revenues is from the US, 15% from Europe and the remaining 10% is from its presence in other geographies like India, the Middle East, Australia, Brazil, etc.
Key Customers	It supplies to global retail giants like Walmart, Target, Bed Bath & Beyond and JC Penney. In India, it is present in large format stores like Home Centre and Shoppers Stop.
Competitive Position	The company is a leader in bed linen exports to the USD14bn bed linen market in the US. 12% of all bed sheets imported by the US are exported by ICIL, which is more than half of the bed sheet exports from entire China.
Brands	The company sells both 'white label' bed linen as well as its own brands. It covers the entire value chain with its three brands – '**Layers'** (value segment), '**Boutique Living'** (mid-to-high segment), '**Boutique Living Luxury'** (high-to-premium segment).
Key Competitors	Welspun, Trident and Himatsingka Seide
Financial Structure	The company has seen declining debt-to-equity over the years – from 0.9x in FY15 to 0.4x in FY20. It has has INR350cr in gross debt and has been operating cash flow positive since FY15.
Value Proposition	With growing volumes and robust order book, the company is ready to move to the next phase and out of the 50-60mn metres volume levels where it stagnated for many years. The US market is seeing an uptick and the company is now focussing more on the margin lucrative Fashion, Utility and Institutional bedding and B2C segments in India. With the macro trends in its favour, we believe the company will witness double-digit revenue growth with improving margins.
Existing Plants and Facilities	ICIL produces 14,000 tons of combed cotton yarn p.a. and uses state-of-the-art equipment and processes in their three spinning plants. All their plants are in Kolhapur. The home textile plant has 80,000 spindles, the Gokul Shirgaon plant has 59,520 spindles and the Pranavaditya Spinning mill has 20,500 spindles.

Management Profile

Name	Designation	Profile
Mr. Anil Kumar Jain	*Executive Chairman*	Mr. Anil Kumar Jain is the promotor of the company with 40+ years of experience in the textile industry. He holds a B.Com. degree and has vast business and corporate strategy experience.
Mr. Mohit Jain	*Executive Vice Chairman*	Mr. Mohit Jain is also a promotor with 22+ years of experience in Global Marketing, Economics and Finance & Entrepreneurship. He holds a Bachelor's in Science from Babson College, USA.
Mr. Kailash Lalpuria	*Executive Director & CEO*	Mr. Kailash Lalpuria is a Chartered Accountant and has more than 37 years of experience in the textiles sector. He has previously worked at Welspun and Bombay Dyeing in executive positions.
Mr. Kamal Mitra	*Director (Works)*	Mr. Kamal Mitra has 30+ years of experience in the textile industry. He holds a Bachelor's degree in Textile Engineering. He is responsible for the manufacturing operations of the group's spinning facilities.

Source: Company, Edelweiss Wealth Research

Key Management Personnel

Person	Position
Anil Kumar Jain	Executive Chairman
Mohit Jain	Executive Vice Chairman
Kailash Lalpuria	Executive Director & CEO
Kamal Mitra	Director (Works)
K Murlidharan	CFO

Key Shareholders

Shareholder's name	% of holding
Promoter group	58.9%
FII	
Elm Park Fund	5.05%
Long Term India Fund	2.28%

Income statement					(INR crs)
Year to March	FY19	FY20	FY21E	FY22E	FY23E
Income from operations	1,934	2,080	2,469	2,775	3,116
Direct costs	1,125	1,221	1,348	1,545	1,739
Employee costs	135	136	131	142	162
Other expenses	519	540	585	630	698
Total operating expenses	1,778	1,897	2,065	2,317	2,599
EBITDA	156	183	405	458	517
Depreciation and amortisation	35	43	39	46	50
EBIT	120	140	366	412	468
Interest expenses	36	39	22	26	18
Other income	10	55	0	10	10
Extraordinary items	0	98	0	0	0
Profit before tax	95	57	343	397	460
Provision for tax	36	-16	86	100	116
Core profit	60	73	257	297	344
Extraordinary items	-0	66	0	0	0
Profit after tax	60	139	257	297	344
Minority Interest	0	1	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	60	140	257	297	344
Equity shares outstanding (cr)	20	20	20	20	20
EPS (INR) basic	3.0	7.1	13.0	15.0	17.4
Diluted shares (Cr)	20	20	20	20	20
EPS (INR) fully diluted	3.0	7.1	13.0	15.0	17.4
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics- as % of net revenues

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Operating expenses	91.9	91.2	83.6	83.5	83.4
Depreciation	1.8	2.1	1.6	1.6	1.6
Interest expenditure	1.8	1.9	0.9	0.9	0.6
EBITDA margins	8.1	8.8	16.4	16.5	16.6
Net profit margins	3.1	6.7	10.4	10.7	11.0

Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	4.1	7.5	18.7	12.4	12.3
EBITDA	(4.2)	17.6	120.9	13.1	13.0
PBT	(50.9)	(40.6)	505.7	15.5	16.0
Net profit	(52.2)	22.2	251.3	15.6	16.0
EPS	(52.4)	132.2	83.9	15.6	16.0

Balance sheet					(INR cr)
As on 31st March	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	39	39	39	39	39
Preference Share Capital	0	0	0	0	0
Reserves & surplus	935	947	1,229	1,526	1,870
Shareholders funds	975	986	1,269	1,566	1,910
Secured loans	314	329	290	390	290
Unsecured loans	23	20	29	29	29
Borrowings	337	349	319	419	319
Minority interest	7	7	7	7	7
Sources of funds	**1,319**	**1,342**	**1,595**	**1,992**	**2,236**
Gross block	999	1,019	1,044	1,144	1,244
Depreciation	425	462	501	547	597
Net block	574	556	542	596	647
Capital work in progress	16	6	6	6	6
Total fixed assets	591	562	548	602	653
Unrealised profit	0	0	0	0	0
Investments	46	0	80	80	80
Inventories	531	524	609	699	768
Sundry debtors	255	242	372	418	427
Cash and equivalents	34	150	136	306	380
Loans and advances	159	188	224	257	296
Other current assets	0	18	18	18	18
Total current assets	978	1,123	1,359	1,699	1,889
Sundry creditors and others	183	276	325	342	359
Provisions	0	0	0	0	0
Total CL & provisions	183	276	325	342	359
Net current assets	796	847	1,034	1,356	1,530
Net Deferred tax	-109	-57	-57	-47	-37
Misc expenditure	-5	-10	-10	0	10
Uses of funds	**1,319**	**1,342**	**1,595**	**1,992**	**2,236**
Book value per share (INR)	49	50	64	79	97

Cash flow statement					(INR crs)
Year to March	FY19	FY20	FY21E	FY22E	FY23E
Net profit	60	7	257	297	344
Add: Depreciation	35	43	39	46	50
Add: Misc expenses written off/Other Assets	5	5	-0	-10	-10
Add: Deferred tax	-11	-51	0	-10	-10
Add: Others	0	1	0	0	0
Gross cash flow	90	5	296	322	374
Less: Changes in W. C.	-113	-66	202	153	100
Operating cash flow	202	71	94	170	274
Less: Capex	0	0	25	100	100
Free cash flow	**202**	**71**	**69**	**70**	**174**

Ratios

Year to March	FY19	FY20	FY21E	FY22E	FY23E
ROAE (%)	6.2	7.5	22.8	20.9	19.8
ROACE (%)	8.3	9.9	24.0	22.3	21.7
Debtors (days)	48	43	55	55	50
Current ratio	5	4	4	5	5
Debt/Equity	0.3	0.4	0.3	0.3	0.2
Inventory (days)	100	92	90	92	90
Payable (days)	34	48	48	45	42
Cash conversion cycle (days)	114	86	97	102	98
Debt/EBITDA	2	2	1	1	1
Adjusted debt/Equity	0.3	0.2	0.1	0.1	(0.0)

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Diluted EPS (INR)	3.0	7.1	13.0	15.0	17.4
Y-o-Y growth (%)	*(52.4)*	*132.2*	*83.9*	*15.6*	*16.0*
CEPS (INR)	4.8	5.9	15.0	17.3	20.0
Diluted P/E (x)	*45.6*	*19.7*	*10.7*	*9.2*	*8.0*
Price/BV(x)	2.8	2.8	2.2	1.8	1.4
EV/Sales (x)	*1.6*	*1.4*	*1.2*	*1.0*	*0.9*
EV/EBITDA (x)	19.6	16.1	7.2	6.2	5.2
Diluted shares O/S	*19.7*	*19.7*	*19.7*	*19.7*	*19.7*
Basic EPS	3.0	7.1	13.0	15.0	17.4
Basic PE (x)	*45.6*	*19.7*	*10.7*	*9.2*	*8.0*
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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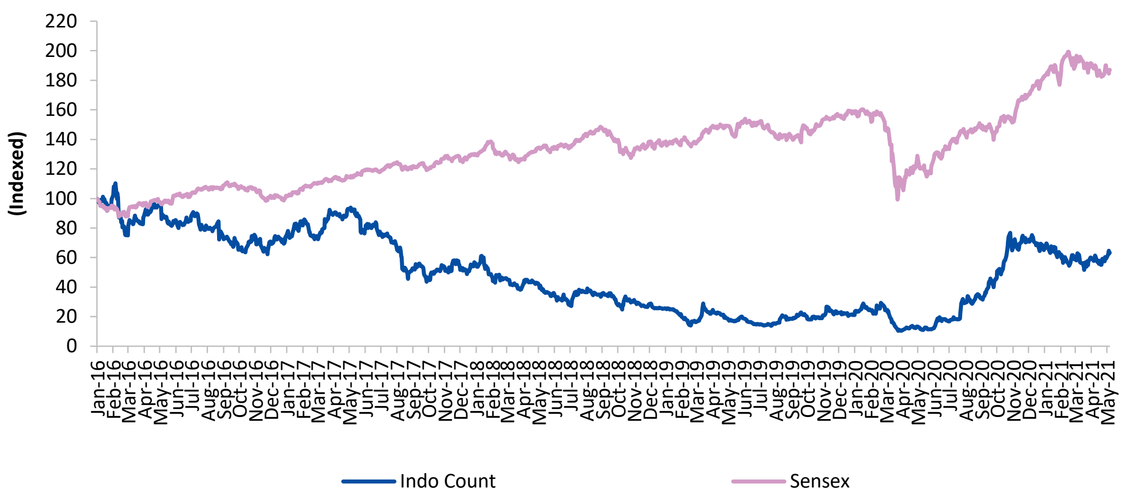
Date: 2021.05.07 21:38:23 +05'30'

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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