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DEMOCRATIZING WEALTH CREATION

UPSTREAM PICK

November 2016

THINK DIFFERENT PROFIT MORE

Company Name	:	**INDO COUNT INDUSTRIES**
BSE Code	:	**521016**
Time Duration	:	**2 year**
CMP	:	**₹759 (as on 03 November, 2016)**
Target Price	:	**₹1365**

Our first Upstream Pick for the month of Nov 16 is Indo Count Industries Ltd. Indo Count has shown managerial excellence in the small cap space and has tided over the high leverage it took in FY13 to fund its growth. Company has been successful in reducing its D/E from high of 6.55x in FY13 to 0.5x in FY16. We believe company is investing for growth and plans to undertake CAPEX of Rs 475 cr till FY18 in two phases. With focus on specialised segment in textiles in export markets, higher capacity and better product mix, we see top-line growing by 16% and PAT improving by 19% CAGR over FY16-18. Hence, we recommend a BUY with at least 50 per cent upside in scrip from current level over two year time.

Indo Count manufactures home textile like bed sheets, fashion bedding, utility bedding, institutional linen and yarn. The company exports globally, US being a large export market for the company with 60-65 % of revenue share. With strategic product mix and addition of new clients, the company has achieved growth at five year CAGR of 29% in revenue. Seeping the growth in the bottom line, it witnessed growth at five year CAGR of 85% largely achieved due to reduction in debt. Growing revenue and profit, reducing debt and increasing net worth became one of the major reasons that CARE has upgraded its long term facilities to CARE AA- from CARE A and short term facility to CARE A1+ from CARE A1.

Company Overview

Strengthening portfolio at Global front Indo Count is 2nd largest manufacturer of bed sheets, bed linen and quilts; while 3rd largest supplier of bed sheets to USA from India. Being a global player, it is 11th largest Home Textile Supplier to USA.

Indo Count exports to 54 countries globally while majorly it derives 65% revenue from US markets. Company continues to add 8-10 new clients annually, of which 4-5 clients are from US and rest from other markets like UK, Canada, Europe, MENA and Australia. Recently it got license from Walker Greenbank PLC UK for three new brands- Sanderson, Harlequin and Scion, to cater to UK and Australian markets. This partnership looks forward to expand in North America as well by opening new showroom in New York. We see this brand addition will contribute handsomely to their revenue going forward.

Indo Count is foraying into the Indian market by launching domestic home textile brand “Boutique Living”. It will help company to cater to the untapped market at domestic front.

Growth strategy

Indian textile manufacturers have largely catered to bed linen segment. However, Indo Count has identified a specialised segment of US export market of fashion, utility and institutional bedding which offers US $10 million market opportunity. Currently ICI has 10% of its revenue from US fashion, utility and institutional bedding market. China is a dominant player with highest share of 85% in this market. The company eyes this existent opportunity to increase its market share by increasing its revenue share by 30% over next few years. Indo Count plans to move up the value chain and has been launching home textile brands in US markets.

With these developments ICI is shifting from B2B to B2C. It has sound six month order book visibility as of now. Company is focusing on introducing bed linen brands in India and across the globe, firming up customer mix, improving asset utilisation and margins; and domestic market launch in FY17.

Aggressive Capex plans

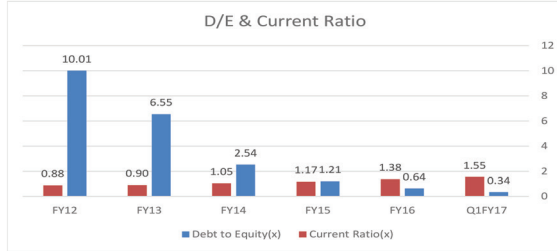
The company plans a capex of Rs 475 crore in next two years to generate 2-2.5x revenue. Overflowing export orders left no choice for Indo Count but to ramp up its capacity. In last five years, ICI has increased its capacity from 48 million meters to 68 million meters and is now eyeing for 90 million meters by FY17. In its first phase of capex of Rs 175 crore, ICI is expanding its textile capacity by 22 million meters/annum by end of FY17 and some part of Rs 175 crore investment (~Rs 105 core) will be invested in RO and water effluent treatment plant. This capacity expansion will enhance its weaving capacity by 15-18 million meters.

Second phase of expansion is largely debt-funded and aimed at technology up-gradation of spinning capacity, investing in weaving capacity and other value added equipments for fashion and utility bedding. This Rs.300 crore expansion will get completed by FY18. ICI expects Rs 900 crore revenue and 23-25% EBITDA margins when it will be fully operational.

To meet global demand ICI is ramping up its capacity with four year average capex/sales ratio of 3.4%, which is less than that of Welspun (13.2%) due to motley offerings and being averse to debt.

Debt restructuring cycle

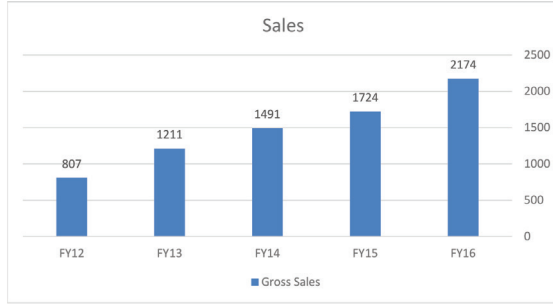
The company has successfully reduced its long term debt of Rs 135 crore in FY13 to Rs 48.5 crore as of now. Short term debt also stood at Rs 213 crore in Q1FY17 vs Rs 228 crore in FY13. ICI reduced its net debt to 230 crore in Q1FY17 from Rs 402 crore in FY13. At the same time it has improved debt to equity ratio to 0.5x in FY16 from 6.55x in FY13. ICI's interest cost stood at Rs 54.91 crore in FY16 vs Rs 49.8 crore in FY13 while interest coverage ratio improved from 1.72x in FY13 to 8.28x in FY16.



Financial Performance

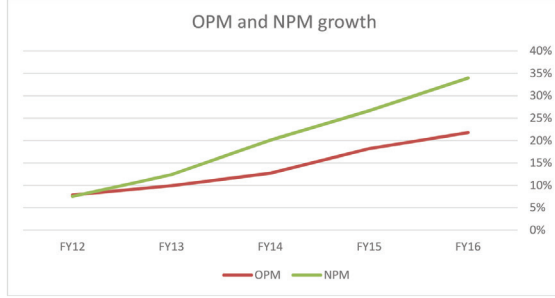
Revenue of the company stood at Rs 2173 crore in FY16 vs Rs 807 crore in FY12. ICI recorded operating profit of Rs 473 crore in FY16 vs Rs 63.02 crore in FY12. PAT grew at five year CAGR of 85% to Rs 264 crore in FY16. The company first time declared 20% of dividend in FY16.

Q1FY17- Revenue grew by 9% to Rs 492.6 crore vs Rs 457 crore in Q1FY16 on a YoY basis. EBITDA of the company increased by 9% to Rs 110.3 crore YoY due to reduction in power and fuel cost plus other expenses. EBITDA margin sustained at 20.7 % in Q1FY17 vs 20.6% in Q1FY16. PAT grew by 16% to Rs 60.3 crore due to reduction in finance cost by 33%. PAT margin expanded by 90 bps to 12.2% YoY.



Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	2173.72	1716.89	1467.63	1186.78	779.71
Total Income	2212.80	1781.80	1497.91	1217.10	807.14
Total Expenditure	1739.26	1468.14	1308.81	1097.05	744.12
PBIDT	473.54	313.66	189.10	120.05	63.02
PAT	264.74	145.87	110.39	29.51	-2.31
Dividend %	20.00	--	--	--	--
Adj. EPS(Rs)	67.04	36.87	30.96	8.24	-0.61



Raw material impact

Company has high sensitivity to changes in raw material prices. Raw material cost is 50% of sales. However, company has sufficient stock of cotton till November 2016. Overall cotton prices have corrected internationally in last few months and this trend is expected to flow in India too. ICI may re-consider its pricing with customers if cotton prices increase after November and pass on price increase to customer. Branded and Egyptian cotton constitute only 10-12% of revenue and Target constitutes less than 5% of revenue for ICI giving it safe cushion.

Valuation

ICI has shown improvement in ROCE from 8.03% in FY13 to 56.15% in FY16 while RONW also grew to 60.44% (from 6.70%). ICI looks undervalued with growing TTM EPS of 67.05, trading at TTM P/E of 12.21x and P/B of 5.77x. Due to unique asset light business model, best capacity efficiency, aggressive capacity expansion, new product mix and debt restructuring we recommend to BUY this scrip in the range of 720-796 (CMP-759) with target price of Rs.1365.