

Indo Count Industries Ltd (ICL)

No. of shares (m)	39.5
Mkt cap (Rs crs/\$m)	4141/622.6
Current price (Rs/\$)	1049/15.8
Price target (Rs/\$)	1365/20.5
52 W/H (Rs.)	1254/402
Book Value (Rs/\$)	120/1.8
Beta	1.7
Daily volume (avg. monthly)	46820
P/BV (FY17e/18e)	5.0/3.6
EV/EBITDA (FY17e/18e)	8.2/7.3
P/E (FY17e/18e)	13.3/11.5
EPS growth (F17e/18e)	19.3/15.7
OPM (FY16e/17e/18e)	20.7/20.2/19.6
ROE (FY16e/17e/18e)	61.9/46.0/36.2
ROCE(FY16e/17e/18e)	37.6/36.2/34.1
D/E ratio (FY16e/17e/18e)	0.6/0.2/0.0
BSE Code	521016
NSE Code	ICIL
Bloomberg	ICNT IN
Reuters	ICNT.BO

Shareholding pattern	%
Promoters	59.0
MFs / Banks / FIs	1.7
FII	13.3
Govt. Holding	0.0
Public & Others	26.0
Total	100.0

As on Mar 31, 2016

Recommendation

BUY

Analyst

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Company Brief

ICL manufactures bed sheet sets, fashion bedding, utility bedding, institutional linen and yarn.

Highlights

- For most of its business, Indo Count counts on the burgeoning US bed linen market (\$14 bn) which is estimated to grow by 2-3% annually. Part of it is also manifested in US unquenchable demand for Indian cotton sheets. According to OTEXA, US has imported Indian cotton sheets at an annual pace (average) of 15% in six years ending 2015, greatly outpacing arch-rivals China and Pakistan - resulted in envy-invoking market share of 48% (up 10% in six years). India's reach in US bed spreads imports ballooned too: touched \$117m in 2015 from just \$62 m in 2009.
- To bolster its overseas presence, ICL has disclosed plans to increase its home textile capacity to 90 mn meters by end of 2016. Its capex plans - totaling some Rs 175 crs - also include setting up an effluent treatment plant (outlay: Rs 50 crs) and automating the stitching unit (Rs 50 crs). Expansion plans of Rs 300 crs to be executed by Mar 2018 are on the drawing board.
- It managed to add spin to its home textiles product portfolio by foraying in fashion bedding, utility bedding and institutional linen. This holds good for two reasons. First, it would cut its reliance on the bed sheet segment, which forms ~90% of total sales volumes. Second, it would aid margins for there is ample scope to add value in fashion and utility bedding.
- Needless to mention, ICL has thrived on a bustling export market over the years, most pertinently the US home textile market. Resultantly, overall export share (all businesses included) to turnover (standalone) soared to some 90% in FY15. Record shipments to US explain much of that flamboyance. To buttress growth of its new products in US, it added three new brands to its home textiles portfolio in March. Other growth propping initiatives include peddling wares through e-platforms like Amazon.com, Wayfair, overstock.com and appointing designers in UK and US to help roll out its own collection of home textiles.
- The stock currently trades at 13.3x FY17e EPS of Rs 78.68 and 11.5x FY18e EPS of Rs 91. Beset by base effect, earnings would grow no more than 18% (annualized) and sales 17% over FY16-18 period. Yet Indo Count's peppy pipeline of valued added products (read: fashion bedding, utility bedding and institutional linen) would pad margins. Impact of government sops on Indian textile manufacturers is insurmountable to say the least. We recommend a buy on the stock with target of Rs 1365 based on 15xFY18e earnings (peg ratio: 0.9), over a period of 9-12 months.

(Figures in Rs crs)	FY14	FY15	FY16e	FY17e	FY18e
Income from operations	1467.63	1716.89	2155.26	2534.20	2930.14
Other Income	30.27	14.81	24.32	24.92	27.04
EBITDA (other income included)	189.10	287.92	469.63	536.85	600.53
Profit after EO	111.60	164.35	260.43	310.62	359.26
EPS(Rs)	31.45	44.06	65.97	78.68	91.00
EPS growth (%)	159.4	40.1	49.7	19.3	15.7

Company Profile

Incorporated in 1988, Indo Count Industries is one of India's leading exporters of bed linen to global retail chains across 49 countries in 5 continents. Its home textiles division, which was set up in 2006, manufactures bed sheet sets (flat sheet, fitted sheet and pillow cases), fashion bedding (comforters, sleeping bags, quilts and coverlets etc), utility bedding (mattress pads, protectors, comforters) and institutional linen (white bedding, duvet covers & shams). It is one of India's leading vertically integrated textile manufacturing companies (from yarn manufacturing to production of finished made-ups) with its plant in Kolhapur (Maharashtra) equipped to handle operations starting from spinning to processing to cutting & sewing and final packaging. In line with growing demand for textiles, Indo Count ramped up its spindle capacity to over 80000 by acquiring M/s Pranavaditya Spinning Mills Ltd (with capacity of ~ 20500 spindles) in 2008 - thus taking its combed yarn annual capacity to 14000 tons.

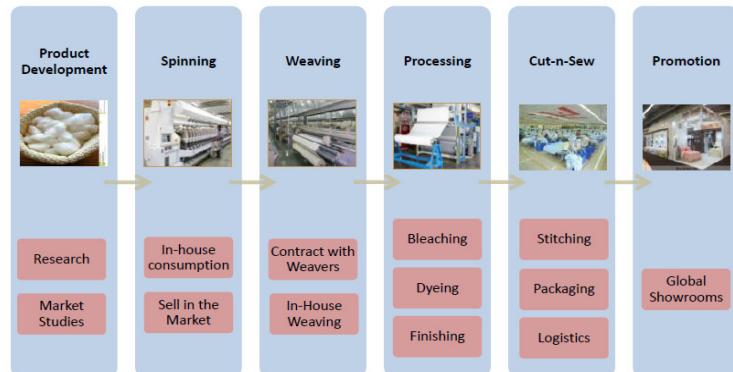
Exports, which accounts for nearly nine-tenths of total revenues, nearly trebled in three years ending fiscal 2015. Shipments to US account for nearly two-thirds of its total turnover; other prominent export markets include UK, Canada, Europe, MENA and Australia. Indo Count growing focus on US market has catapulted it among the top 3 bed sheet suppliers in US - and eleventh largest global home textiles supplier to the US (source: Home & Textiles Today, Feb 2016). In addition to textiles, Indo Count also forayed in electronics, producing color television, refrigerators, air conditioners, washing machines etc; but this division has now been shelved off.

Vertical Integration

Home textiles global reach



Source: Indo Count



Source: Indo Count

Product Portfolio

Spinning

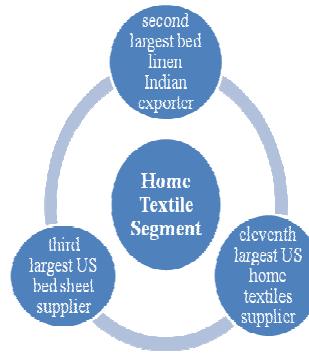
Equipped with textile machines from global majors - Rieter (Switzerland), Schlafhorst (Germany), Mayer & Cie (Germany) and LMW (India) - Indo Count's spinning division is one of the Group's most strategic business unit with annual spinning capacity of 14000 tons (over 80000 spindles installed). It produces combed yarns and knitted grey fabrics.

Home Textiles

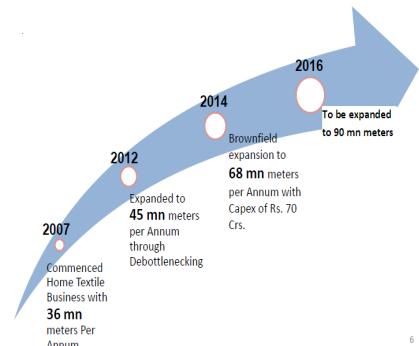
Indo Count's home textiles division, the company's largest and most profitable, churns out bed sheet sets, pillow cases, duvet covers, bed skirts, comforters, quilts, fashion bedding, utility bedding and institutional linen from its vertically integrated plant in Kolhapur (Maharashtra). Fitted with equipments from world renowned suppliers such as Benninger (Switzerland), Tsudakoma (Japan), Mathis (UK), Zimmer (Austria) and Airol (Italy), textile division has gradually doubled its installed capacity of bed linen to 68 mn meters in last few years (see chart below). Export remains its main focus with large presence in US, Canada, Germany, Austria, Spain and France.



Source: Indo Count



Source: Indo Count

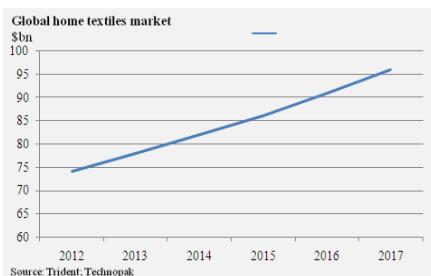


Source: Indo Count

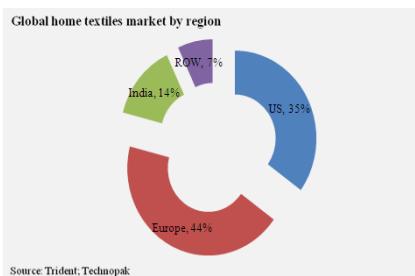
Investment Thesis

Home textiles industry

The global textile industry has undergone massive geographical transitions over the years with the industry being dominated by US, Germany and Japan in 1970s, Taiwan, Korea, Indonesia and Thailand in 1980s and China, India and other developing nations in 1990s. It is widely anticipated that the current set up would continue at least for few more years. The global home textile industry is currently in sweet spot for it is estimated to grow to \$96 bn by 2017 from \$74 bn in 2012, implying an average annual growth of 5% (Source: Technopak). Little wonder, US & Europe together would contribute most to the tally for they together account for nearly 80% of the global home textiles market (see chart below); followed by India at 14%.

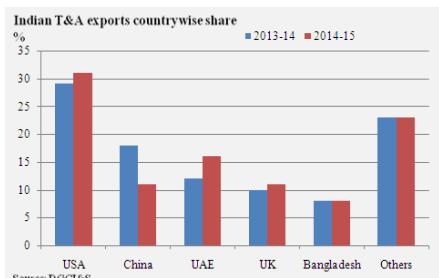


Source: Trident; Technopak

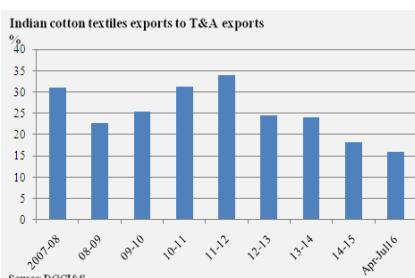


Source: Trident; Technopak

The US & Europe are also largest markets for Indian textile exports - accounting for two-thirds of the total- US alone lapped up 31% of India's T&A exports in 2014-15 (see chart below). Industry reports suggest that India's textile & apparel exports (T&A) would zoom to \$82 bn by 2021 from \$31 bn in 2011 (2016e: \$50bn), while textile exports would grow at a CAGR of 10.2% in 2011-21 period. Part of that peppiness is reflected in gradually rising T&A export share - 13.6% in 2014-15 from 11.1% in 2010-11.



Source: DGCI&S

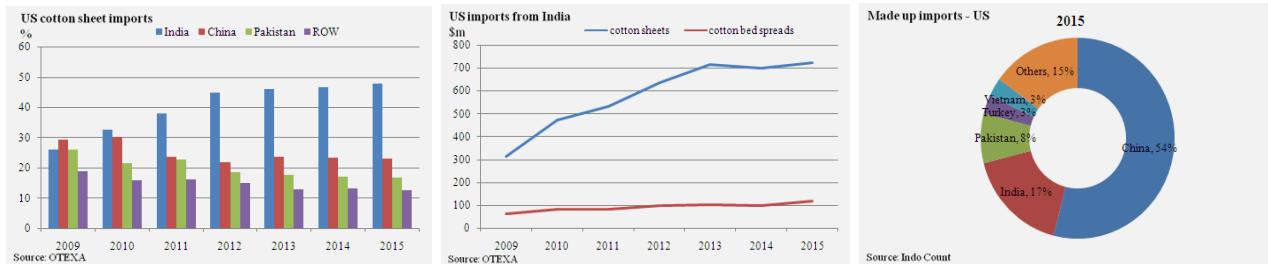


Source: DGCI&S

INPUT COST COMPARISON							
Parameters	Bangladesh	Pakistan	India	Indonesia	Egypt	China	Turkey
Labor wages(\$/month)	87	127	135	226	226	328	839
Power rate (US cents/month)	8.13	10.62	11.29	8.51	3.49	12.29	10.24
Raw water cost (US cents/m ³)	29.26	25.67	39.57	49.19	10.48	53.26	30.73
Steam (US cents/kg)	1.3	1.24	1.44	1.16	1.75	1.64	2.1

Source: Gherzi

For Indo Count the US market is doubtlessly the largest foreign market. US imported some 54% of its total made ups from China and 17% from India in 2015. For US cotton sheet imports the data is skewed on the reverse: India raked in some 48% share of US total cotton sheet imports in 2015, thus gaining ten percentage points market share in four years. Put differently, India's shipments of cotton sheets to US has grown by 15% (annual) in last six years ending 2015, when the overall imports have grown by just 3.9%; China's have shrunk by 1.2% to \$348 mn from \$352m in 2009. Recent trends are favorable too: US made up imports grew by 4.8% in volume terms in Jan -Nov 15, while US made up imports from India rose by 9.2%. India's highly skilled labour, ability to supply quality products and integrated manufacturing favour its home textile pursuits in US.



Exports

Indo Count is going full hog to boost its offshore presence, particularly in developed markets - US, UK and Australia. Beside opening offices in Australia and UK, it has forged a joint venture with an Australian home textile supplier and floated a subsidiary in UK. Buttressed by a buoyant US home textile market, Indo Count's export growth has relentlessly grown (nearly six fold in six years ending fiscal 2015) in last few years (bar 12% decline in FY12). Pertinence of the US market cannot be gainsaid for it accounts for two-thirds of revenues - not least relevant is its newly earned pre-eminence as the eleventh largest home textile supplier to US. As recently as last month, Indo Count launched three new brands (boutique living; revival; the pure collection) to its home textile portfolio in US. Yet this trend of rising footprint in US resembles a broader trend. For many years now, US and EU has sucked a big chunk of India's textile exports.



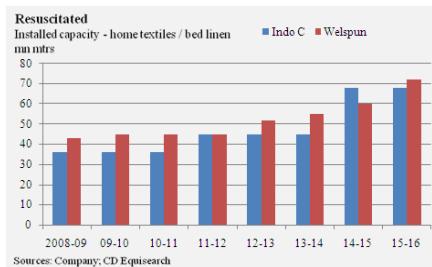
Welspun India's - an Indian textile manufacturer - story is not much different. It exports nearly 95% of its production to many prominent countries - US, UK, Canada to name a few. It reckons that Indian textile exporters would immensely benefit if EU Free Trade Agreement (FTA) goes through, in line with the FTAs signed with Japan, Korea and SAARC nations. Besides being present in more than 50 countries across the globe, Welspun India has unremittingly added new markets - it gained foothold in Latin America, Central America and Ireland in FY15.

New launches

To rev up its product range of home textiles, Indo Count forayed in value added segment of home textiles market - fashion bedding; utility bedding; institutional linen in FY15. Diversification also holds key for the bed sheet volumes accounted for 90% of the total volume sales in FY15; it targets to prune it to 70% in the next few years. Resultantly, the new bed linen categories would contribute to at least a quarter of total revenues from just 5% now. Margins would increase too not least due to mammoth scope of value addition in fashion and utility bedding - Indo Count has appointed designers in US and UK which would help it develop its own collection of home textiles. Thanks to orders from a couple of large institutional customers, Indo Count's institutional linen segment volumes gathered steam in last few quarters.

Capex

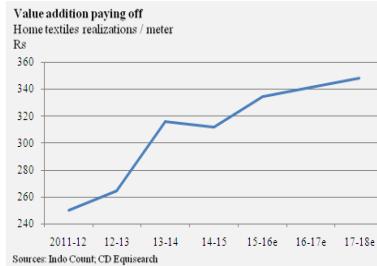
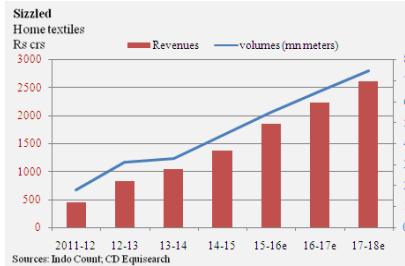
To meet rising demand for its home textiles globally (particularly in US), Indo Count resorted to installing new capacities of home textiles in last few years - 68 mn meters now from 45 mn meters in 2012; plans are afoot to further enhance it to 90 mn meters (outlay: Rs 75 crs) to be commissioned by the end of current calendar year. Further expansion plans include setting up an effluent treatment plant (would help in recycling water) with outlay of Rs 50 crs and automating the stitching unit (Rs 50 crs). Expansion plans of nearly Rs 300 crs - to be executed by March 2018 - are yet to get board approval.



Welspun India too has been on the asset building binge: has consistently increased bed linen capacity (see chart) in last four years (72 mn meters in FY16 from 45 mn meters in FY12). Indo Count's recent capacity ramp up to 68 mn meters has helped it roll out valued added products like fashion bedding, utility bedding and institutional linen. Capacity utilization has risen too - reflected in fixed asset turnover ratios (see chart). Most interestingly, Indo Count has hiked its capacities at minimal cost by resorting to either debottlenecking or brown field expansions.

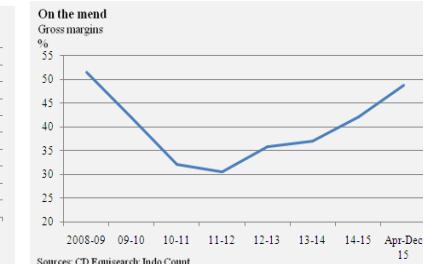
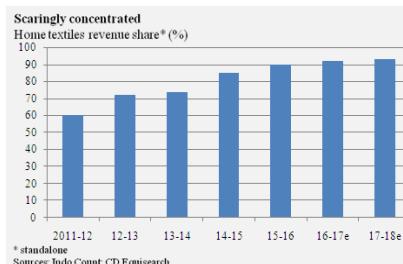
Financials & valuation

Opportunities proliferate for Indian textile exporters for overseas shipments of textiles and are estimated to climb to \$38 bn by 2021 from \$26 bn in 2016 (8% CAGR). India's conducive trade policies and rising demand for premium home textiles would further galvanize this trend. Implementation of FTAs with Europe and Canada would also do its bit to widen reach. Patently, Indo Count would savour such headways. Over the years it has managed to carve out a niche in the US bed linen market, aptly manifested by its gut-wrenching growth (both volume & value) in home textiles (see chart below). Its home textile business has defied gravity for its volumes have trebled in last four years and is estimated to be bigger by a third in next two years.

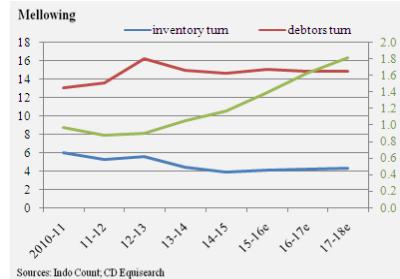
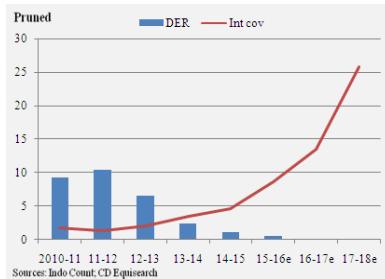
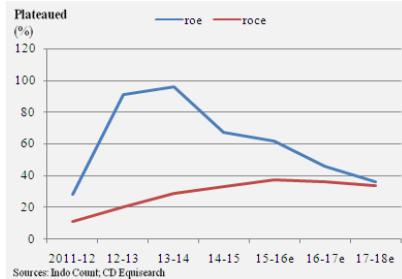


Yet ICL's over reliance on the US market (accounts for nearly two-thirds of revenues) cannot be dismissed hastily. Its most new product launches have also been focused on the US market. Pending India's signing of FTAs with Europe and Canada, reduction in Indo Count's market concentration has now become more serendipitous. Despite India gaining market share from arch-rivals, broader US import trends of cotton sheets invoke caution - imports have shrunk by 2.9% (in nominal terms) in last two years. By some estimate, the \$14 bn US bed linen market is growing by a dismal 2-3% annually.

With growing revenue base Indo Count needs to punch above its weight to stay competitive. Slowdown in sales is apparent: revenues in Q3 grew at the lowest rate in at least four quarters; revenues projected to grow by 16.6% (annual) over the next two years.. So value addition holds the key. It unveiled new categories of home textiles - fashion bedding, utility bedding and institutional bedding - in FY15. Better product mix partly showed up in jaw-dropping gains (+690 bps) in operating margins in 9MFY16; other factors which supported margins include higher capacity utilization, prudent raw material sourcing and benefits of operating leverage. Yet gains would be difficult to sustain not least due to increasing competition (Welspan India has recently ramped up its bed linen capacity by 12 mn meters to 72 mn meters and plans to further increase it to 90 mn meters by FY17) and base effect.



For Indo Count tapping the \$8 bn domestic home textile market (49% of that is bed linen) holds no less importance. It plans to vigorously foray in the Indian branded retail market over the next few years (earmarked Rs25 crs investment for three years). Optimizing working capital and increasing capacities in phases remain its overriding priorities. Some of that is palpable in its increasing operating cash flows and stable inventory and debtor turnover ratios. Financial risk would subside too thanks to its knack of retiring debt with large dollops of cash (see chart).



The stock currently trades at 13.3x FY17e EPS of Rs 78.68 and 11.5x FY18e EPS of Rs 91. Thanks to base effect, earnings would grow no more than 18% (annualized) and sales 17% over FY16-18 period. All that would rub off in its sobering return on capital (see chart). Still operating margins would find a 'new normal' at 19-20%, partly bolstered by Indo Count's entry into most prized fashion bedding. Impact of fiscal sops for the textile sector - most notably package scheme of incentives of Government of Maharashtra for Mega Projects & GOI's TUFS- is no less mean. On balance, we reckon that the stock is undervalued and therefore advise buying with a target of Rs 1365 based on 15x FY18e earnings (peg ratio:0.9) , over period of 9-12 months.

Risks and Concerns

Exports

Since Indo Count relies a lot on developed economies of North America, Europe and UK for business, acute slowdown in these markets could adversely impact its business. To mitigate this risk, Indo Count has taken some corrective actions: forayed in institutional & fashion bedding; expand in other markets like Australia, New Zealand and Canada.

Raw material risk

Increased volatility in prices of cotton - key raw material for yarn - could suppress margins. Thanks to increased value addition, Indo Count gross margins have ceaselessly surged in last few years (see chart). A part of input gains have also accrued from its resilient material procurement policy.

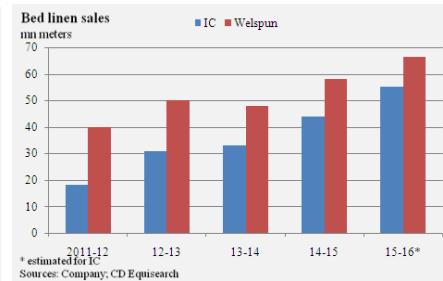
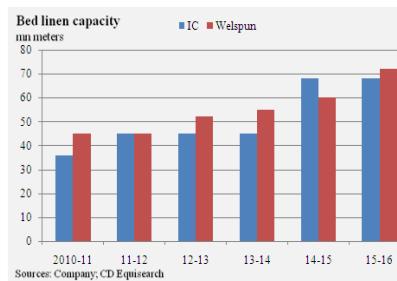
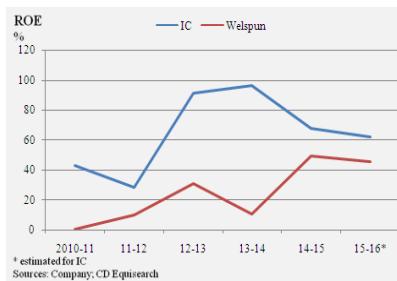
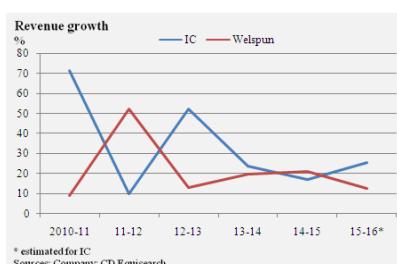
Cross Sectional Analysis

Company	Equity*	CMP (Rs)	Mcap*	Inc. from ops*	Profit*	OPM (%)	NPM (%)	Int cov.	ROE (%)	DER	Mcap / IO	P/BV	P/E	EV/EBITDA
Indo Count	39	1049	4141	1969	231	22.4	11.7	7.2	63.3	0.5	2.1	8.7	17.9	10.4
Trident	509	51	2616	3685	213	19.3	5.8	2.7	13.8	1.6	0.7	1.6	12.3	6.8
Welspun India	100	100	10042	5979	703	26.0	11.8	5.4	45.9	1.4	1.7	5.5	14.3	7.5

*figures in crores; calculations on ttm basis

ROE of IC adjusted for revaluation reserves; book value adjusted for goodwill & revaluation reserves wherever applicable

Current portion of long term debt not considered in DER



Financials

Quarterly Results - Standalone

	Q3FY16	Q3FY15	% chg.	9MFY16	9MFY15	Figures in Rs crs % chg.
Income from operations	496.82	413.12	20.3	1524.97	1171.04	30.2
Other Income	5.80	15.24	-61.9	20.77	52.22	-60.2
Total Income	502.62	428.36	17.3	1545.74	1223.26	26.4
Total Expenditure	394.23	346.02	13.9	1209.13	1009.09	19.8
PBIDT	108.39	82.34	31.6	336.61	214.17	57.2
Interest	9.31	14.11	-34.0	39.66	45.92	-13.6
Depreciation	4.52	4.35	3.9	13.08	11.58	13.0
PBT	94.56	63.88	48.0	283.87	156.67	81.2
Tax	31.13	20.26	53.7	99.14	45.65	117.2
PAT	63.43	43.62	45.4	184.73	111.02	66.4
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	63.43	43.62	45.4	184.73	111.02	66.4
EPS (F.V. 10)	16.07	12.01	33.7	46.79	30.58	53.0

Consolidated Income Statement

	FY14	FY15	FY16e	FY17e	FY18e	Figures in Rs crs
Income from operations	1467.63	1716.89	2155.26	2534.20	2930.14	
<i>Growth (%)</i>	23.7	17.0	25.5	17.6	15.6	
Other Income	30.27	14.81	24.32	24.92	27.04	
Total Income	1497.91	1731.70	2179.58	2559.13	2957.18	
Total Expenditure	1308.81	1443.78	1709.95	2022.27	2356.66	
EBITDA	189.10	287.92	469.63	536.85	600.53	
Interest	49.89	65.02	52.42	38.04	22.13	
EBDT	139.20	222.90	417.21	498.81	578.40	
Depreciation	19.56	15.97	18.76	23.60	28.72	
Tax	9.26	61.05	137.86	164.42	190.19	
Reported PAT	110.39	145.88	260.59	310.79	359.49	
Minority Interest	0.43	0.21	0.16	0.17	0.23	
PAT after MI	109.96	145.67	260.43	310.62	359.26	
Extraordinary item	-1.64	-18.68	-	-	-	
Adjusted Net Profit	111.60	164.35	260.43	310.62	359.26	
EPS (Rs.)	31.45	44.06	65.97	78.68	91.00	

Consolidated Balance Sheet

Figures in Rs crs

	FY14	FY15	FY16e	FY17e	FY18e
SOURCES OF FUNDS					
Share Capital*	37.98	41.98	39.48	39.48	39.48
Reserves & others	253.68	381.90	621.27	906.07	1234.76
Total Shareholders Funds	291.67	423.88	660.75	945.55	1274.24
Minority Interest	5.45	5.66	5.82	5.99	6.22
Long term debt	97.24	67.15	62.44	30.07	20.43
Total Liabilities	394.36	496.69	729.01	981.61	1300.89
APPLICATION OF FUNDS					
Gross Block	642.18	706.54	821.11	891.11	1016.11
Less: Accumulated Depreciation	295.83	318.13	348.45	383.61	423.90
Net Block	346.35	388.41	472.66	507.50	592.22
Capital Work in Progress	0.33	14.57	2.00	2.00	2.00
Investments	0.00	0.00	0.00	0.00	0.00
Current Assets, Loans & Advances					
Inventory	345.68	383.03	444.32	515.41	577.26
Sundry Debtors	108.66	127.02	158.77	184.18	211.80
Cash and Bank	31.33	50.81	82.03	119.63	158.69
Loans and Advances	159.66	266.43	335.16	504.54	700.71
Total CA & LA	645.32	827.28	1020.28	1323.76	1648.47
Current liabilities	587.51	635.09	569.60	464.89	374.63
Provisions	28.35	70.84	162.64	349.86	535.76
Total Current Liabilities	615.86	705.93	732.24	814.75	910.39
Net Current Assets	29.46	121.36	288.04	509.01	738.07
Net Deferred Tax	13.13	-37.05	-43.25	-43.25	-43.25
Other Assets (Net of liabilities)	5.09	9.40	9.55	6.35	11.85
Total Assets	394.36	496.69	729.01	981.61	1300.89

Consolidated Cash Flow Statement

Figures in Rs crs

	FY14	FY15	FY16e	FY17e	FY18e
Net Income (a)	109.96	145.67	260.43	310.62	359.26
Non cash exp. (b)	5.92	79.60	9.31	7.73	11.12
Depreciation	19.56	15.97	18.76	23.60	28.72
Interest income	-0.15	-0.15	-0.55	-0.78	-2.50
Vat refund	-21.59	-7.95	-15.10	-15.10	-15.10
Exceptional item	-	25.74	-	-	-
Deferred taxes & others	8.11	46.00	6.20	-	-
Change in working capital & others (c)	-123.34	-56.04	-93.83	-52.32	-77.52
Inventory	-99.87	-37.35	-61.29	-71.09	-61.85
Debtors	-20.74	-18.36	-31.75	-25.40	-27.63
trade payables	12.25	-10.96	11.33	16.01	15.13
Others assets	-51.03	-112.65	-68.89	-166.18	-201.68
Other liabilities	36.05	123.30	56.77	194.34	198.49
Operating cash flow (a+b+c)	-7.45	169.24	175.90	266.03	292.86
Capex	-19.25	-86.23	-102.00	-70.00	-125.00
Interest income	0.15	0.15	0.55	0.78	2.50
Vat refund	21.59	7.95	15.10	15.10	15.10
Changes in MI	4.13	0.21	0.16	0.17	0.23
Exceptional item	-	-25.74	-	-	-
Others	-0.67	1.05	-	-	-
Investing cash flow (d)	5.95	-102.61	-86.19	-53.96	-107.17
Net borrowings	23.08	-50.78	-51.13	-169.72	-132.37
Preference dividends	-0.12	-0.12	-0.12	0.00	0.00
Equity dividends (cdt included)	-	-	-4.75	-4.75	-14.26
Redemption of preference capital	-	-	-2.50	-	-
Proceeds from equity issue & warrants	1.25	3.75	-	-	-
Financing cash flow (e)	24.22	-47.15	-58.51	-174.47	-146.63
Net change (a+b+c+d+e)	22.72	19.48	31.21	37.61	39.06

Key Financial Ratios

	FY14	FY15	FY16e	FY17e	FY18e
Growth Ratios (%)					
Revenue	23.7	17.0	25.5	17.6	15.6
EBIDTA	59.0	64.1	49.9	14.3	11.9
Net Profit	159.4	47.3	58.5	19.3	15.7
EPS	159.4	40.1	49.7	19.3	15.7
Margins (%)					
Operating Profit Margin	11.0	17.4	20.7	20.2	19.6
Gross Profit Margin	9.6	14.5	19.4	19.7	19.7
Net Profit Margin	7.6	9.6	12.1	12.3	12.3
Return (%)					
ROCE	29.2	33.3	37.6	36.2	34.1
RONW	96.1	67.6	61.9	46.0	36.2
Valuations					
Market Cap / Sales	0.1	0.9	1.8	1.6	1.4
EV/EBIDTA	2.8	5.8	8.7	8.2	7.3
P/E	1.3	8.6	14.7	13.3	11.5
P/BV	0.8	4.7	7.3	5.0	3.6
Other Ratios					
Interest Coverage	3.4	4.6	8.6	13.5	25.8
Debt-Equity Ratio	2.5	1.2	0.6	0.2	0.0
Current Ratio	1.0	1.2	1.4	1.6	1.8
Turnover Ratios					
Fixed Asset Turnover	6.4	6.7	6.5	6.3	6.2
Total Asset Turnover	6.2	5.2	4.2	3.3	2.8
Debtors Turnover	14.9	14.6	15.1	14.8	14.8
Inventory Turnover	4.4	3.9	4.1	4.2	4.3
Creditors Turnover	6.7	7.3	8.8	9.7	10.5
WC Ratios					
Debtors Days	24.4	25.1	24.2	24.7	24.7
Inventory Days	82.6	93.8	88.3	86.6	84.6
Creditors Days	54.1	50.0	41.5	37.6	34.7
Cash Conversion Cycle	53.0	68.8	71.0	73.7	74.6
Cash Flows (Rs crs)					
Operating Cash Flow	-7.5	169.2	175.9	266.0	292.9
FCFE	17.1	41.1	35.8	42.2	53.1
FCFF	40.1	139.9	121.2	236.8	199.9

Financial Summary – US dollar denominated

million \$	FY14	FY15	FY16e	FY17e	FY18e
Equity capital	5.9	6.3	6.0	5.9	5.9
Shareholders funds	28.4	50.4	79.4	123.7	174.9
Total debt	72.2	61.2	50.1	24.4	4.5
Net fixed assets (incl CWIP)	57.7	64.4	71.6	76.6	89.3
Investments	0.0	0.0	0.0	0.0	0.0
Net current assets	4.9	19.4	43.4	76.5	111.0
Total assets	65.6	79.4	109.9	147.6	195.6
Revenues	242.6	280.8	329.2	381.0	440.5
EBITDA	31.6	51.2	71.7	80.7	90.3
EBDT	23.3	40.6	63.7	75.0	87.0
PBT	20.1	38.0	60.9	71.4	82.6
PAT after EO	18.4	26.9	39.8	46.7	54.0
EPS(\$)	0.52	0.72	1.01	1.18	1.37
Book value (\$)	0.8	1.3	2.0	3.1	4.4
Operating cash flow	-1.2	27.0	26.5	40.0	44.0
Investing cash flow	1.0	-16.4	-13.0	-8.1	-16.1
Financing cash flow	4.0	-7.5	-8.8	-26.2	-22.0

Historical income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections (FY17&18) at current rates

All dollar denominated figures are adjusted for extraordinary items.

Recommendation

Indian home textiles exporters relish emerging trends in global home textiles industry for the industry is projected to grow by a third to \$96 bn in five years ending 2017. Economic conditions in US and Europe would guide much of this industry for they together gobble some four-fifth of the global output. Estimates of Indian home textile export market also tally with this global trend: projected to reach \$6bn by 2017 from \$4 bn in 2012 (implied CAGR of 8.4%). Over the last few years India has outclassed other major Asian peers like China and Pakistan to corner higher market shares of US imports of terry towels and cotton sheets.

India's defining headways in US buttressed shipments of Indo Count and Welspun India, to name a few. Indo Count reported three fold jump in total home textile volumes (US accounts for nearly two-thirds of its total volumes) in last three years whereas Welspun grew annually by 9.8% (though on a higher base). India's business fortitude in US home textiles market is more secular in nature: for cotton sheets its share has advanced to 48% in 2015 from 26% in 2009; for terry towels respective figures are 38% and 30%.

Yet Indo Count's strong affinity to US market does not bode well for it makes its business highly susceptible to still fragile US housing market. Sensing the threat the company has drawn out plans to expand in Australia and UK. It has widened its product portfolio too: forayed into value added segments of home textiles namely fashion bedding; utility bedding; institutional linen. Effect of these new products on the margins have started to show up - OPMs expanded by 690 bps in 9MFY16, though other factors like higher capacity utilization , better raw material management also contributed to margin swell.

Indian home textile majors are lining up capacities to tap this incredible opportunity. Indo Count has published plans to boost its home textiles capacity to 90 mn meters by the end of 2016. After having increased its bed linen capacity to 72 mn meters last fiscal, Welspun India announced plans to add 18 mn meters to its tally in the current fiscal; of terry towels to be hiked by 18000 MT and rugs & carpets by 2m sq meters.

Despite its geographical diversification, Indo Count would continue to gravely rely on US retailers like Walmart, Bed Bath and Beyond, Macy's, Sam's Club and J.C Penney for business. Most of its new launches (unveiled three new brands in US in March) are essentially focused on North America's largest economy. Home textiles designers have been piled up in US for it to roll out its own collection of products. Indo Count's domestic retail strategy is yet to see the light of the day. Uncertainty looms on India's FTA with Europe and Canada.

The stock currently trades at 13.3x FY17e EPS of Rs 78.68 and 11.5x FY18e EPS of Rs 91. Vitalized by record home textile volumes (75 mn meters by FY17; implied growth in FY16-18: 16.6%), post tax earnings would on an average grow by 17.5% over the next two years. Thanks to its foray in high valued segments of home textiles, operating margins would stabilize in high teens. Impact of fiscal sops for the textile sector - most notably package scheme of incentives of Government of Maharashtra for Mega Projects & GOI's TUFS- is no less mean. Yet there is no denying the fact that its revenue growth would be overly export dependent. On balance, we reckon that the stock is undervalued and therefore advise buying with a target of Rs 1365 based on 15x FY18e earnings (peg ratio:0.9) , over a period of 9-12 months.

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