

# Indo Count Industries

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
34,951	10,524
Bloomberg	ICNT IN
Equity Shares (m)	197
M.Cap.(INRb)/(USDb)	12.6 / 0.2
52-Week Range (INR)	139 / 53
1, 6, 12 Rel. Per (%)	4/-24/-47
12M Avg Val (INR M)	108
Free float (%)	41.1

## Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	19.6	20.5	21.7
EBITDA	2.6	2.5	2.7
PAT	1.3	1.1	1.3
EPS (INR)	6.4	5.8	6.6
Gr. (%)	-45.7	-9.5	13.6
BV/Sh (INR)	48.4	53.0	58.4
RoE (%)	14.0	11.4	11.8
RoCE (%)	11.9	10.3	10.8
P/E (x)	10.0	11.1	9.7
P/BV (x)	1.3	1.2	1.1

Estimate change

TP change

Rating change



**CMP: INR64**

**TP: INR72(+13%)**

**Neutral**

**Robust volumes without earnings vigor as currency/mix/RM cost haunt**

**Expect continued margin pressure**

- Operating performance disappointing:** ICNT's revenue declined 1.4% YoY to INR4,860m (our estimate: INR5,273m) in 2QFY19. EBITDA fell 30% YoY to INR498m (our estimate: INR770m), with the margin contracting 420bp YoY to 10.2% (our estimate: 14.6%). Adj. PAT declined 39.4% YoY to INR218m (our estimate: INR395m) in the quarter.
- 1HFY19 performance:** Revenue grew by 2% YoY to INR9,429m. EBITDA declined 17% YoY to INR1,139m, with the margin contracting 270bp YoY to 12.1%. Adj. PAT declined 25% YoY to INR506m. In 2HFY19, we expect revenue growth of 11% YoY, with margin contraction of 100bp.
- Steady volume growth, but expect pressure on profitability:** ICNT delivered volume growth of 9% YoY in 2QFY19 and 15% YoY in 1HFY19. The company is well on track to meet its volumes guidance of 58-60m mtrs in FY19, with 30.2m mtrs already achieved in 1HFY19. However, revenue growth and profitability were impacted in 1HFY19 on account of currency volatility (hedged at exchange rate lower than realized translation), product mix changes and raw material (RM) cost pressure. Going forward too, RM cost pressure (cotton prices at INR46k/candy v/s expectation of MSP level prices of 43-44k/candy) and currency volatility are likely to persist.
- Valuation and view:** Due to the strong miss on earnings (45%) in 2QFY19 and the likely gross margins pressure in 2HFY19, we cut our revenue/earnings estimates by 3%/24% for FY19 and by 5%/24% for FY20. We also note that strong volumes have not translated into robust revenue growth and operating performance. We value the stock at 11x FY20E EPS (~10% discount to its five-year average P/E) on account of the continued muted performance and likely pressure on margins. Our target price of INR72 implies a 13% upside. Maintain **Neutral**.

## Standalone - Quarterly Earning Model

Y/E March	FY18				FY19				FY18	FY19E	FY19	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	4,318	4,928	4,600	4,237	4,569	4,860	4,968	4,831	18,083	19,228	5,273	-8
YoY Change (%)	-12.4	-14.5	-8.5	-17.4	5.8	-1.4	8.0	14.0	-13.3	6.3	7.0	
Total Expenditure	3,665	4,216	3,907	3,642	3,928	4,362	4,288	4,183	15,430	16,761	4,503	
EBITDA	653	711	693	596	641	498	681	648	2,653	2,467	770	-35
Margins (%)	15.1	14.4	15.1	14.1	14.0	10.2	13.7	13.4	14.7	12.8	14.6	
Depreciation	75	76	77	77	79	81	95	97	305	352	82	
Interest	82	88	58	99	91	81	83	90	327	345	85	
Other Income	0	0	0	0	0	0	0	0	0	0	0	
PBT before EO expense	496	548	558	420	471	336	503	461	2,021	1,770	603	-44
PBT	496	548	558	420	471	336	503	461	2,021	1,770	603	-44
Tax	177	189	194	152	183	118	171	157	711	629	208	
Rate (%)	35.6	34.5	34.7	36.1	38.9	35.2	34.0	34.0	35.2	35.5	34.5	
Reported PAT	320	359	364	268	288	218	332	304	1,311	1,141	395	-45
Adj PAT	320	359	364	268	288	218	332	304	1,311	1,141	395	-45
YoY Change (%)	-47.0	-42.8	-35.2	-45.1	-9.9	-39.4	-8.9	13.5	-42.5	-12.9	10.0	
Margins (%)	7.4	7.3	7.9	6.3	6.3	4.5	6.7	6.3	7.2	5.9	7.5	

E: MOSL Estimates

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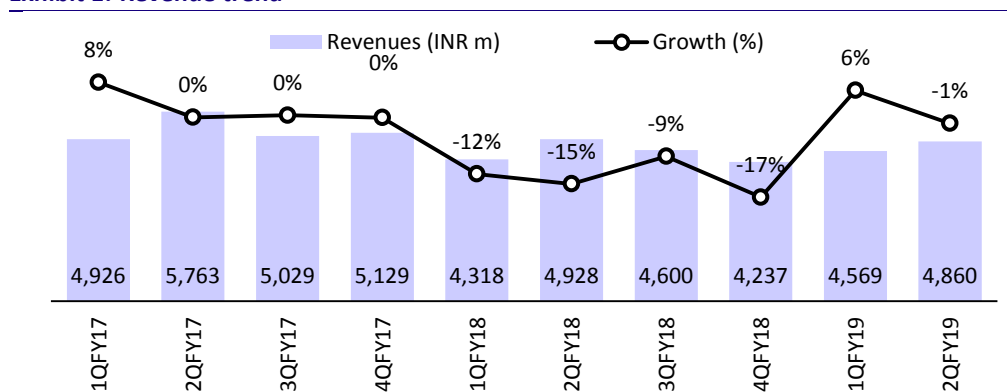
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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

**Results below estimates**

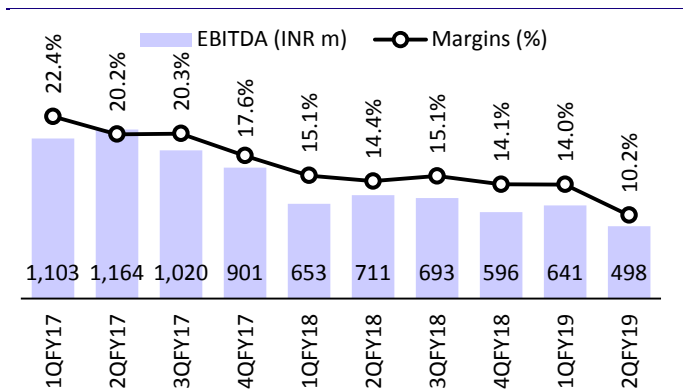
- ICNT’s revenue declined 1.4% YoY to INR4,860m (est. of INR5,273m) in 2QFY19.
- EBITDA margin shrank 420bp YoY to 10.2% (est. of 14.6%), as other expenses increased 400bp YoY to 24.1% of net sales, power and fuel cost increased 90bp to 4.7% and employee cost increased 90bp to 6.5%. Gross margin improved 150bp to 45.4%.
- EBITDA stood at INR498m (est. of INR770m), declining by 30% YoY.
- Adj. PAT declined 39.4% YoY to INR218m (est. of INR395m) in 2QFY19.

**Exhibit 1: Revenue trend**



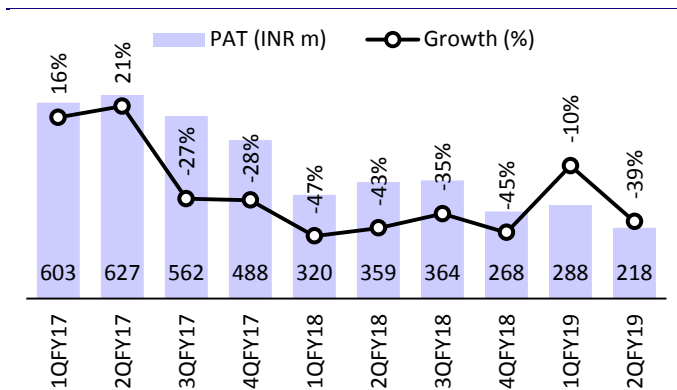
Source: MOSL, Company

**Exhibit 2: EBITDA trend**



Source: MOSL, Company

**Exhibit 3: PAT trend**



Source: MOSL, Company

**Conference call take-away**

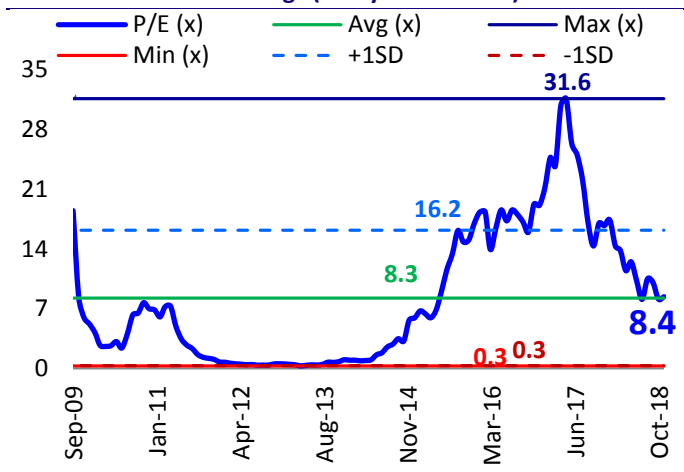
- Major markets of US and EU are showing signs of improvement, as evident by the strong volume performance by the company (9% volume growth in 2QFY19 and 15% growth in 1HFY19).
- The revenue was impacted on account of:
  - Lower government incentives
  - Lower forex realization – most of the hedging was undertaken at the beginning of the financial year at the INR-USD exchange rate of 64 compared to the previous year when the exchange rate was higher. This had an impact on topline in 1HFY19 to the tune of 2.4%.
  - Product mix change.
- The hedging rate for 2HFY19 has been fixed at INR68/USD. In the coming year, this rate is expected to improve by 5-7%.

- Gross debt stood at INR3,500m as on Sept'18 v/s INR3,710m as on Mar'18. Net debt to equity stood at 0.37.
- The company has spent INR300m so far in 1H FY19 as capex; it plans to spend another INR350-400m in 2H FY19.
- Cotton prices hover at INR46k/candy against the expectation of MSP level prices of INR43-44k/candy. This is expected to result in gross margin pressure going forward.
- The share of fashion, utility and institution bedding has marginally improved to 14%.

**Valuation and view**

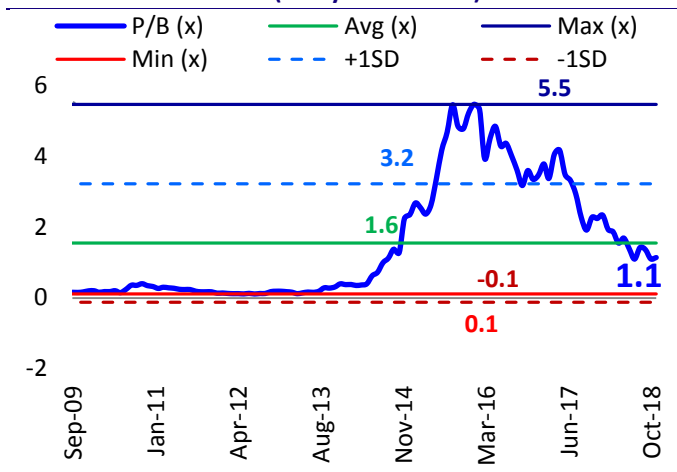
Due to the strong miss on earnings (45%) in 2QFY19 and the likely gross margins pressure in 2H FY19, we cut our revenue/earnings estimates by 3%/24% for FY19 and by 5%/24% for FY20. We also note that strong volumes have not translated into robust revenue growth and operating performance. We value the stock at 11x FY20E EPS (~10% discount to its five-year average P/E) on account of the continued muted performance and likely pressure on margins. Our target price of INR72 implies a 13% upside. Maintain **Neutral**..

**Exhibit 4: Price to earnings (one year forward)**



Source: MOSL, Company

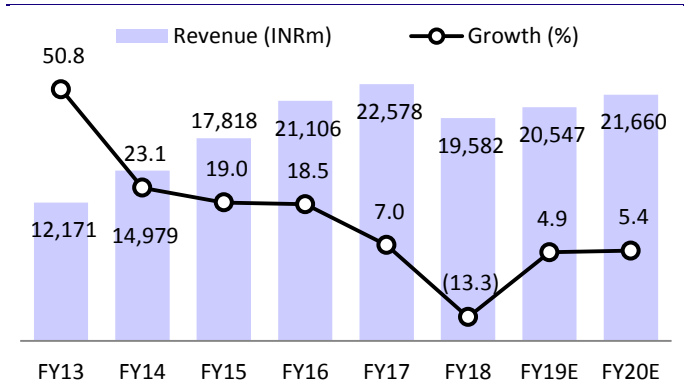
**Exhibit 5: Price to book (one year forward)**



Source: MOSL, Company

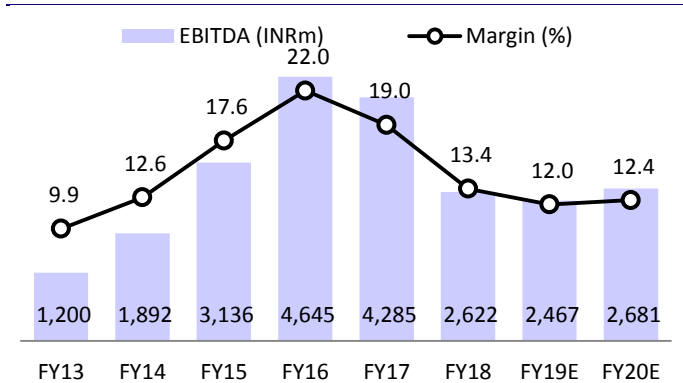
## Story in charts

**Exhibit 6: Expect revenue CAGR of 5% over FY18-20**



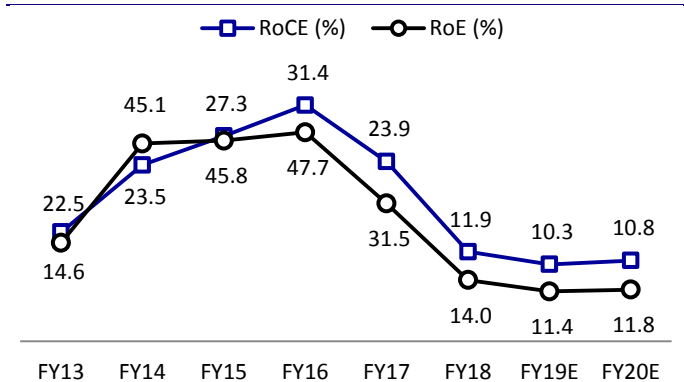
Source: MOSL, Company

**Exhibit 7: Margins to contract 100bp over FY18-20**



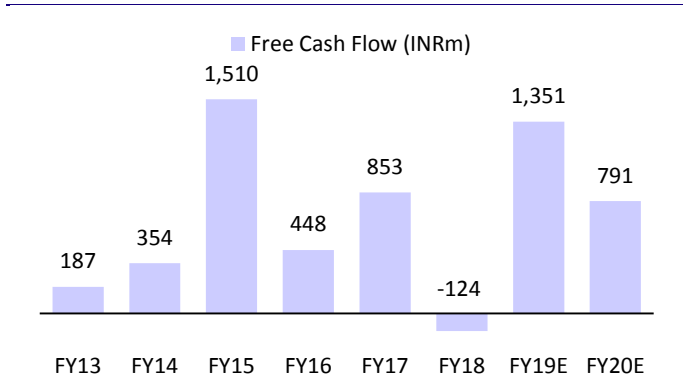
Source: MOSL, Company

**Exhibit 8: RoE to hover around 11.8%**



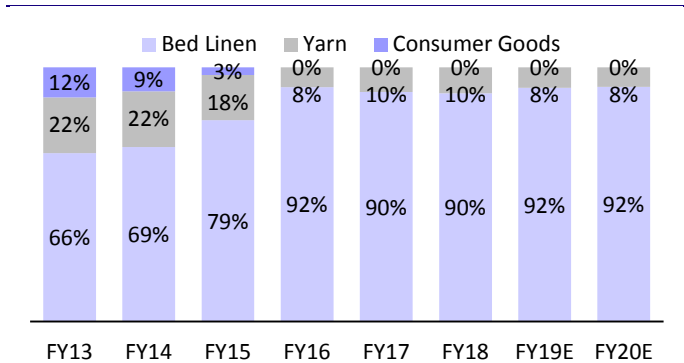
Source: MOSL, Company

**Exhibit 9: Free cash flow generation to pick up**



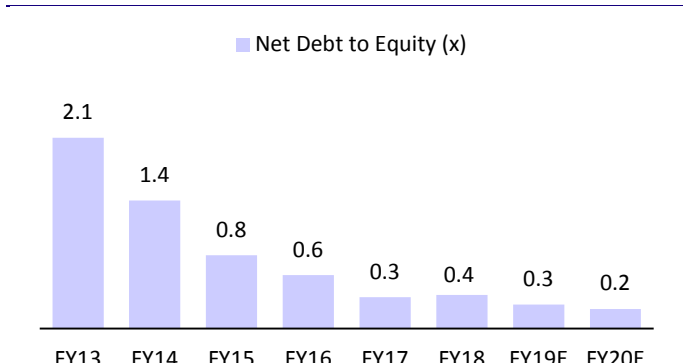
Source: MOSL, Company

**Exhibit 10: Share from bed linen on an uptrend**



Source: MOSL, Company

**Exhibit 11: Surging towards becoming net debt free**



Source: MOSL, Company

## Financials and Valuations

### Consolidated - Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Total Income from Operations</b>	<b>12,171</b>	<b>14,979</b>	<b>17,818</b>	<b>21,106</b>	<b>22,578</b>	<b>19,582</b>	<b>20,547</b>	<b>21,660</b>
Change (%)	50.8	23.1	19.0	18.5	7.0	-13.3	4.9	5.4
<b>EBITDA</b>	<b>1,200</b>	<b>1,892</b>	<b>3,136</b>	<b>4,645</b>	<b>4,285</b>	<b>2,622</b>	<b>2,467</b>	<b>2,681</b>
Margin (%)	9.9	12.6	17.6	22.0	19.0	13.4	12.0	12.4
Depreciation	185	196	160	301	331	331	352	374
<b>EBIT</b>	<b>1,015</b>	<b>1,696</b>	<b>2,977</b>	<b>4,344</b>	<b>3,953</b>	<b>2,291</b>	<b>2,115</b>	<b>2,308</b>
Int. and Finance Charges	498	499	650	551	421	347	345	296
Other Income	0	0	0	0	0	0	0	0
<b>PBT bef. EO Exp.</b>	<b>517</b>	<b>1,197</b>	<b>2,326</b>	<b>3,793</b>	<b>3,532</b>	<b>1,944</b>	<b>1,770</b>	<b>2,012</b>
EO Items	-157	0	-257	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>361</b>	<b>1,197</b>	<b>2,069</b>	<b>3,793</b>	<b>3,532</b>	<b>1,944</b>	<b>1,770</b>	<b>2,012</b>
Current Tax	14	12	506	1,210	898	668	609	692
Deferred Tax	52	81	104	70	314	22	20	23
Tax Rate (%)	18.2	7.8	29.5	33.7	34.3	35.5	35.5	35.5
Less: Mionrity Interest	2	4	2	0	-1.9	-7.6	0	0
<b>Reported PAT</b>	<b>293</b>	<b>1,100</b>	<b>1,456</b>	<b>2,513</b>	<b>2,322</b>	<b>1,260</b>	<b>1,141</b>	<b>1,297</b>
<b>Adjusted PAT</b>	<b>421</b>	<b>1,100</b>	<b>1,638</b>	<b>2,513</b>	<b>2,322</b>	<b>1,260</b>	<b>1,141</b>	<b>1,297</b>
Change (%)	502.5	161.0	49.0	53.4	-7.6	-45.7	-9.5	13.6
Margin (%)	3.5	7.3	9.2	11.9	10.3	6.4	5.6	6.0

### Consolidated - Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	355	355	395	395	395	395	395	395
Total Reserves	1,576	2,537	3,819	5,909	8,067	9,169	10,072	11,140
<b>Net Worth</b>	<b>1,956</b>	<b>2,917</b>	<b>4,239</b>	<b>6,304</b>	<b>8,462</b>	<b>9,564</b>	<b>10,467</b>	<b>11,535</b>
Minority Interest	13	55	57	83	82	74	74	74
Deferred Liabilities	368	368	432	868	1,176	1,200	1,200	1,200
Total Loans	4,110	4,341	3,859	3,914	3,035	3,711	2,854	2,779
<b>Capital Employed</b>	<b>6,447</b>	<b>7,680</b>	<b>8,587</b>	<b>11,169</b>	<b>12,754</b>	<b>14,549</b>	<b>14,595</b>	<b>15,588</b>
Gross Block	6,301	6,422	7,065	8,318	9,142	9,579	10,329	11,039
Less: Accum. Deprn.	2,706	2,958	3,181	3,483	3,814	4,145	4,496	4,870
<b>Net Fixed Assets</b>	<b>3,596</b>	<b>3,464</b>	<b>3,884</b>	<b>4,836</b>	<b>5,328</b>	<b>5,434</b>	<b>5,832</b>	<b>6,168</b>
Capital WIP	18	3	146	107	122	237	187	177
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>4,567</b>	<b>6,511</b>	<b>8,389</b>	<b>8,976</b>	<b>9,789</b>	<b>11,320</b>	<b>11,296</b>	<b>12,091</b>
Inventory	2,458	3,457	3,830	4,564	4,719	5,905	5,460	5,756
Account Receivables	879	1,087	1,270	2,431	3,112	2,872	3,265	3,442
Cash and Bank Balance	86	313	508	294	186	255	167	358
Loans and Advances	1,144	1,654	2,781	1,687	1,772	2,287	2,404	2,534
<b>Curr. Liability &amp; Prov.</b>	<b>2,314</b>	<b>2,797</b>	<b>3,894</b>	<b>2,748</b>	<b>2,485</b>	<b>2,443</b>	<b>2,722</b>	<b>2,850</b>
Account Payables	2,257	2,514	3,163	2,734	1,343	1,916	2,167	2,265
Provisions	57	283	731	15	40	39	41	43
<b>Net Current Assets</b>	<b>2,253</b>	<b>3,714</b>	<b>4,495</b>	<b>6,227</b>	<b>7,304</b>	<b>8,876</b>	<b>8,574</b>	<b>9,241</b>
<b>Appl. of Funds</b>	<b>6,447</b>	<b>7,680</b>	<b>8,587</b>	<b>11,169</b>	<b>12,754</b>	<b>14,549</b>	<b>14,595</b>	<b>15,588</b>

## Financials and Valuations

<b>Ratios</b>								
<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Basic (INR)</b>								
<b>EPS</b>	<b>2.4</b>	<b>6.2</b>	<b>8.3</b>	<b>12.7</b>	<b>11.8</b>	<b>6.4</b>	<b>5.8</b>	<b>6.6</b>
Cash EPS	3.4	7.3	9.1	14.3	13.4	8.1	7.6	8.5
BV/Share	11.0	16.4	21.5	31.9	42.9	48.4	53.0	58.4
DPS	0.0	0.0	0.0	0.0	0.4	0.8	1.0	1.0
Payout (%)	0.0	0.0	0.0	0.0	4.1	15.1	20.8	17.7
<b>Valuation (x)</b>								
P/E		10.3	7.7	5.0	5.4	10.0	11.1	9.7
Cash P/E		8.8	7.0	4.5	4.8	7.9	8.5	7.6
P/BV		3.9	3.0	2.0	1.5	1.3	1.2	1.1
EV/Sales		1.1	0.9	0.8	0.7	0.8	0.7	0.7
EV/EBITDA		8.8	5.1	3.5	3.6	6.1	6.2	5.6
Dividend Yield (%)		0.0	0.0	0.0	0.6	1.3	1.6	1.6
<b>Return Ratios (%)</b>								
RoE	22.5	45.1	45.8	47.7	31.5	14.0	11.4	11.8
RoCE	14.6	23.5	27.3	31.4	23.9	11.9	10.3	10.8
RoIC	13.9	22.8	27.4	30.8	22.4	11.1	9.6	10.2
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.9	2.0	2.1	1.9	1.8	1.3	1.4	1.4
Inventory (Days)	74	84	78	79	76	110	97	97.0
Debtor (Days)	26	26	26	42	50	54	58	58
Creditor (Days)	112	103	122	95	42	67	70	70
<b>Leverage Ratio (x)</b>								
Debt/Equity	2.1	1.5	0.9	0.6	0.4	0.4	0.3	0.2

### Consolidated - Cash Flow Statement

<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
OP/(Loss) before Tax	338	1,174	2,025	3,889	3,532	1,944	1,770	2,012
Depreciation	185	196	160	188	331	331	352	374
Interest & Finance Charges	497	498	649	546	421	347	345	296
Direct Taxes Paid	0	-231	-487	-838	-898	-691	-629	-715
(Inc)/Dec in WC	-772	-1,096	-158	-2,116	-1,185	-1,503	214	-475
<b>CF from Operations</b>	<b>247</b>	<b>540</b>	<b>2,188</b>	<b>1,669</b>	<b>2,201</b>	<b>428</b>	<b>2,051</b>	<b>1,491</b>
Others	-60	-198	174	-2	-509	0	0	0
<b>CF from Operating incl EO</b>	<b>187</b>	<b>342</b>	<b>2,362</b>	<b>1,668</b>	<b>1,692</b>	<b>428</b>	<b>2,051</b>	<b>1,491</b>
(inc)/dec in FA	0	13	-853	-1,220	-839	-552	-700	-700
<b>Free Cash Flow</b>	<b>187</b>	<b>354</b>	<b>1,510</b>	<b>448</b>	<b>853</b>	<b>-124</b>	<b>1,351</b>	<b>791</b>
(Pur)/Sale of Investments	1	-22	0	0	0	-1	0	0
Others	-152	27	-175	17	-2	49	0	0
<b>CF from Investments</b>	<b>-151</b>	<b>18</b>	<b>-1,028</b>	<b>-1,203</b>	<b>-841</b>	<b>-505</b>	<b>-700</b>	<b>-700</b>
Issue of Shares	0	0	40	0	0	0	0	0
(Inc)/Dec in Debt	476	314	-528	-9	-879	676	-857	-75
Interest Paid	-498	-499	-650	-549	-421	-347	-345	-296
Dividend Paid	-1	-1	-1	-96	95	-190	-238	-229
Others	2	54	-1	-25	246	8	0	0
<b>CF from Fin. Activity</b>	<b>-22</b>	<b>-133</b>	<b>-1,139</b>	<b>-679</b>	<b>-959</b>	<b>146</b>	<b>-1,439</b>	<b>-599</b>
<b>Inc/Dec of Cash</b>	<b>15</b>	<b>227</b>	<b>195</b>	<b>-214</b>	<b>-108</b>	<b>69</b>	<b>-88</b>	<b>192</b>
Opening Balance	71	86	313	508	294	186	255	167
<b>Closing Balance</b>	<b>86</b>	<b>313</b>	<b>508</b>	<b>294</b>	<b>186</b>	<b>255</b>	<b>167</b>	<b>358</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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