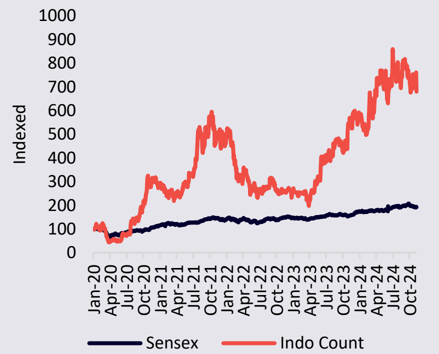
Q2FY25 Result Update
Indo Count Industries

Volumes hit, acquisition-related spends affect margin

- **Revenue for Indo Count Industries (ICNT) rose a muted 3% YoY to INR1,036cr (est. INR1,156cr) on lower-than-expected volumes due to logistics-related issues.**
- **Volume fell 3% YoY to 27.8mn metres which was below our estimates.**
- **Gross margin expanded by 30bp QoQ to 60% due to a better product mix and stable input cost. EBITDA contracted by 3% YoY to INR157cr (est. INR178cr) on lower revenue and higher operating expenses due to upfront HR and marketing-related costs for new acquisitions. As a result, operating margin contracted by 110bp YoY to 15.2%.**
- **PAT declined by 29% YoY to INR82cr (est. INR109cr) on lower EBITDA, higher interest cost, and lower other income**
- **We maintain 'BUY' with a revised TP of INR461 (INR500 earlier) based on 18x FY26E P/E.**

CMP: INR354
Rating: BUY
Target price: INR461
Upside: 30%
Date: November 8, 2024

Bloomberg:	ICNT:IN
52-week range (INR):	255/450
M-cap (INR cr):	7,003
Promoter holding (%)	58.74



Availability of containers still an issue; acquisitions to drive sales in FY26

Volumes came in lower than our estimate, at 27.8mn metres in Q2FY25, due to deferment in shipments on account of container shortages. Shipments worth 2.5mn metres were deferred which resulted in a build-up in inventory to INR1,434cr as against INR1,143cr in March. A higher inventory and longer transit times led to an increase in working capital and interest cost. The share of Indian cotton sheets/pillowcases/bedspreads in US imports rose to 61.6%/58.5%/ 22.5% during January-August from 58.7%/58.7%/21% in 2023. Robust US retail sales in spite of various challenges buttress the management's confidence in meeting the lower end of its FY25 guidance of 110-115mn metres. We have cut our FY25 volume estimate to 110mn metres on muted volumes in Q2.

Acquisitions during the quarter
Fluvitex USA: ICNT acquires 81% stake for USD19.63mn (INR165cr). Annual capacity: 5mn pillows and 1.5mn quilts. Annual revenue potential: USD50mn.
Modern Home Textiles bought for USD11.7mn (INR98cr). Annual capacity: 8mn pillows. Annual revenue potential: USD35mn. *It had acquired the Wamasutta brand for INR85cr in Q1FY25*
The management expects utilisation in both entities to rise to 75% by FY26 resulting in higher sales. With a cut in our FY25 volume estimate and considering utilisation at 50%, we expect both entities to contribute INR350cr in FY26 which results in 19% revenue CAGR over FY24–26.

Margin contracts on higher operating expenses

Margin in Q2FY25 was 150bp lower on higher marketing and employee spends in the newly acquired entities. This should continue in upcoming quarters as well. As ICNT expects traction in new entities in FY26, it is readying the supply chain and raised marketing spends. This will result in lower operating margin than that expected earlier. We expect operating margin to expand to 15.5%/16% in FY25/FY26 on higher contribution from the value-added segment and volumes (resulting in operating leverage), and pick-up in private brands. Margin in the new businesses will be on par with ICNT as it will be saving on logistics despite higher manufacturing costs.

Valuation and view

The Indian home textile market is seeing market share gains in the US. However, shortage of containers is resulting in a near term loss in volume and lower margin. ICNT has multiple levers in place such as: i) adequate capacity to meet incremental demand, ii) scope for margin expansion on positive operating leverage, iii) greater contribution from the high-margin value-added segment, and iv) healthy operating cash flows which will result in lower debt and better return ratios. We expect a revenue/EBITDA/PAT CAGR of 19%/20%/22% over FY24–26. The management aims to double revenue by FY27 from FY23 levels which leaves ample room for an upgrade in our estimates. With slight cut on our margin estimate for and factoring in new acquisitions, we maintain 'BUY' with an upgraded TP of INR461 at 18x FY26E P/E (from INR500 earlier).

Key financials

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY25E	FY26E
Net sales (INR cr)	1,036	1,009	3	941	10	3,557	4,112	5,018
Gross profit	622	545	14	563	11	2,043	2,323	2,835
Gross margin (%)	60.1	54	603.4	59.8	29.8	57.4	56.5	56.5
EBITDA (INR cr)	157	165	(4)	145	9	559	637	800
EBITDA margin (%)	15.2	16.3	(162.6)	15.4	84.9	15.7	15.5	16
Adjusted PAT (INR cr)	82	114	(29)	92	(11)	338	385	507
Adjusted PAT margin (%)	7.9	11.3	(1,072.5)	9.8	(112.8)	9.5	9.4	10.1
P/E ratio (x)	13.3	15.9	6.4	10.4	19.6	20.9	18.3	13.9

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Volumes take a hit; acquisition related spends affect margins

Q2FY25 result highlights

Particulars (INR cr)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY25E	FY26E
Income from operations	1,036	1,009	2.7	941	10	3,557	4,112	5,018
Gross profit	622	545	14.1	563	10.6	2,043	2,323	2,835
Gross margin (%)	60.1	54	603	59.8	30	57	57	57
Employee expenses	106	81	30.5	89	18.4	313	370	447
Other expenses	359	300	19.8	328	9.3	1,172	1,135	1,372
EBITDA	157	165	(4.3)	145	8.5	559	637	800
EBITDA margin (%)	15.2	16.3	(111)	15.4	(21)	16	16	16
Depreciation	25	20	24.1	11	127.1	83	96	102
Interest expenses	30	18	69.2	21	45.2	70	85	91
Other income	9	25	NA	9	NA	44	57	68
Profit before tax	111	151	(26.6)	108	3	450	513	676
Profit after tax	82	114	(28.6)	78	4.8	338	385	507
Extraordinary items	0	0				0	0	0
Adjusted net profit	82	114	(28.6)	92	(11.3)	338	385	507

Revised estimates

	FY25E			FY26E		
(INR cr)	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	4,187	4,112	(1.8)	4,766	5,018	5.3
Other income	57	57		68	68	
Total income	4,244	4,169		4,834	5,086	
EBITDA	691	637	(7.7)	805	800	(0.6)
EBITDA margin (%)	*16.5*	*15.5*		*16.9*	*16*	
PBT	583	513	(11.9)	716	676	(5.6)
PBT margin (%)	*13.7*	*12.3*		*14.8*	*13.3*	
Net profit	437	385	(11.9)	537	507	(5.6)
Adjusted net profit	437	385	(11.9)	537	507	(5.6)
EPS (INR)	22.1	19.4	(11.9)	27.1	25.6	(5.6)
Adjusted EPS (INR)	22.1	19.4	(11.9)	27.1	25.6	(5.6)

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Financials in charts

Exhibit 1: Volumes suffer in Q2FY25

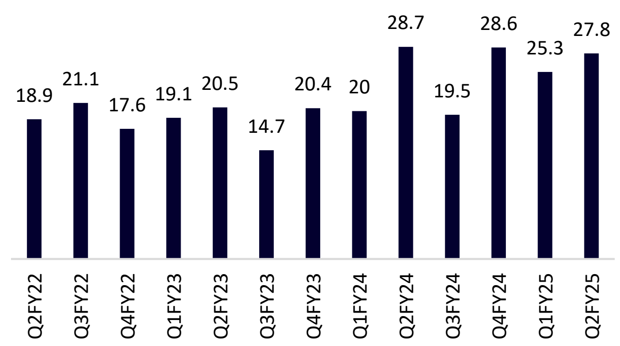


Exhibit 2: Quarterly revenue (INR cr)

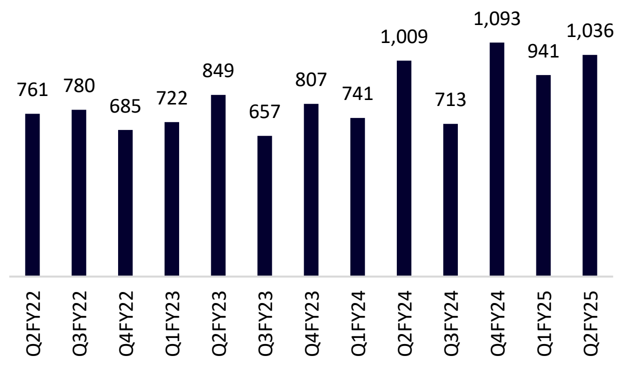


Exhibit 3: Annual revenue continues to inch higher

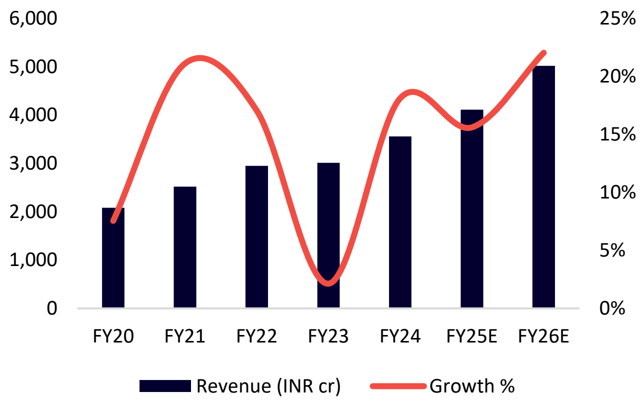


Exhibit 4: Expect operating margin to improve ahead

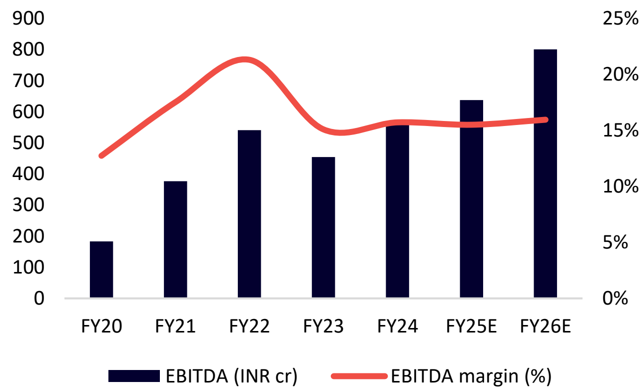


Exhibit 5: Expect healthy return ratios

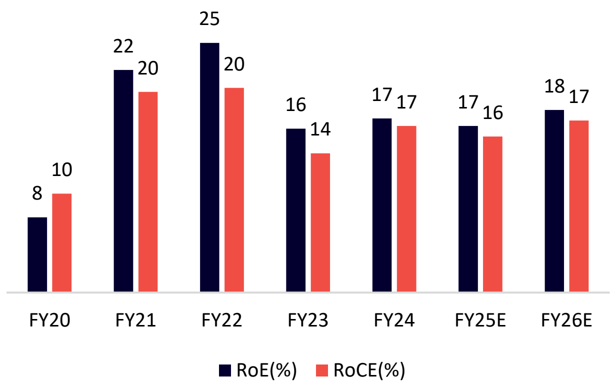
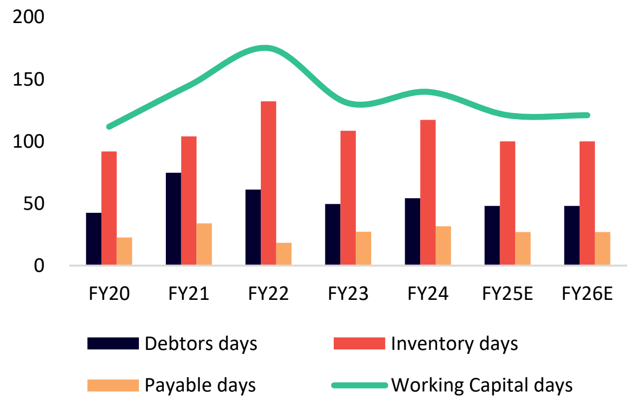


Exhibit 6: See an improvement in the working capital cycle



Source: Nuvama Wealth Research

Volumes take a hit; acquisition related spends affect margins

Previous outlook

Q1FY25: The Indian home textile market is seeing a pick-up in exports and stable inflation. We expect healthy demand in coming quarters led by lower inflation and interest rates cuts. ICNT has multiple levers in place such as adequate capacity to meet incremental demand, scope for margin expansion on positive operating leverage, greater contribution from the high margin value-added segment, and healthy operating cash flows which will lead to lower debt and better return ratios. We are positive on the textile export theme in the medium-to-long term given: i) the US ban on cotton imports from China's Xinjiang region, which fortifies the China+1 strategy; ii) signing of FTAs with Australia and the UAE and a higher likelihood of FTAs with the EU and UK; and iii) various government initiatives to aid textile exports. We expect a revenue/EBITDA/PAT CAGR of 16%/20%/26% over FY24–26. The management aims to double revenue from FY23, which leaves ample room for an upgrade in our estimates. With an improved performance over the years, a strong Balance Sheet, and expectations of healthy growth, we maintain 'BUY' with an upgraded TP of INR500 at 18x FY26E P/E (from 16x earlier).

Q4FY24: Home textile exports are seeing a pick-up in demand on lower cotton prices, smaller inventory, and normalisation of travel. We expect healthy demand in coming quarters led by lower inflation and interest rates. ICNT has multiple levers in place such as: i) adequate capacity to take care of incremental demand, ii) scope for margin expansion on positive operating leverage, iii) greater contribution from the high-margin value-added segment, and iv) healthy operating cash flows leading to lower debt and interest costs. We are positive on the textile export theme in the medium-to-long term given: i) the US ban on cotton imports from China's Xinjiang region, which fortifies the China+1 strategy; ii) signing of FTAs with Australia and the UAE and a higher likelihood of FTAs with the EU and UK; and iii) various government initiatives to aid textile exports. We expect a revenue/EBITDA/PAT CAGR of 15%/20%/26% over FY24–26. We maintain 'BUY' with an upgraded TP of INR433 (16x FY26E P/E).

Q1FY25

Q1FY25 Result Update
Indo Count Industries

Q3FY24

Q4FY24 Result Update
Indo Count Industries

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Financials

Income Statement (INR cr)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Income from operations	2,949	3,012	3,557	4,112	5,018
Direct cost	1,353	1,361	1,514	1,789	2,183
Employee cost	191	268	313	370	447
Other expenses	777	929	1,172	1,316	1,588
Total operating expenses	2,321	2,557	2,998	3,475	4,218
EBITDA	628	454	559	637	800
Depreciation and amortisation	41	65	83	103	116
EBIT	587	390	476	534	684
Interest expenses	47	62	70	85	91
Other income	34	31	44	57	68
Extraordinary items	0	0	0	0	0
Profit before tax	573	359	450	506	662
Provision for tax	127	82	112	127	165
Core profit	446	277	338	380	496
Extraordinary items	0	0	0	0	0
Profit after tax	446	277	338	380	496
Minority interest	-0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	446	277	338	380	496
Equity shares outstanding (cr)	20	20	20	20	20
Basic EPS (INR)	18.2	14.0	17.1	19.2	25.1
Diluted shares (cr)	20	20	20	20	19.8
Fully diluted EPS (INR)	18.2	14.0	17.1	19.2	25.1
Dividend per share	2	2	0	0	0
Dividend payout (%)	11	14	0	0	0

Common size metrics as a percentage of net revenue

Year to March	FY22	FY23	FY24	FY25E	FY26E
Operating expenses	78.7	84.9	84.3	84.5	84.1
Depreciation	1.4	2.1	2.3	2.5	2.3
Interest expenditure	1.6	2.1	2.0	2.1	1.8
EBITDA margin	21.3	15.1	15.7	15.5	16.0
Net profit margin	15.1	9.2	9.5	9.2	9.9

Growth metrics (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Revenue	17.1	2.1	18.1	15.6	22.0
EBITDA	42.3	(27.7)	23.0	14.0	25.6
PBT	40.5	(37.4)	25.6	12.4	30.7
Net profit	38.9	(37.9)	22.1	12.3	30.7
EPS	39.8	(23.0)	22.1	12.3	30.7

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Balance Sheet (INR cr)

As of March 31	FY22	FY23	FY24	FY25E	FY26E
Equity share capital	39	40	40	40	40
Preference share capital	0	0	0	0	0
Reserves and surplus	1,547	1,753	2,049	2,429	2,925
Shareholders' funds	1,587	1,793	2,089	2,469	2,965
Secured loans	1,290	841	914	1,214	1,164
Unsecured loans	11	0	0	0	0
Borrowings	1,301	841	914	1,214	1,164
Minority interest	6	0	0	0	0
Sources of funds	**2,894**	**2,634**	**3,003**	**3,683**	**4,129**
Gross block	1,070	1,549	1,869	2,254	2,324
Depreciation	472	510	592	695	811
Net block	598	1,039	1,276	1,558	1,512
Capital work in progress	24	180	25	25	25
Total fixed assets	622	1,219	1,301	1,583	1,537
Unrealised profit	0	0	0	0	0
Investments	2	149	140	160	180
Inventories	1,068	895	1,143	1,127	1,375
Sundry debtors	494	409	528	541	660
Cash and equivalents	394	108	103	327	468
Loans and advances	33	10	11	12	14
Other current assets	29	57	56	56	56
Total current assets	2,019	1,479	1,841	2,063	2,572
Sundry creditors and others	282	313	399	385	442
Provisions	0	2	3	3	3
Total current liabilities and provisions	282	315	402	388	445
Net current assets	1,737	1,164	1,440	1,675	2,128
Net deferred tax	-66	0	-85	-75	-65
Miscellaneous expenditure	600	102	208	340	350
Uses of funds	**2,894**	**2,634**	**3,003**	**3,683**	**4,129**
Book value per share (INR)	80	91	105	125	150

Cash Flow Statement (INR cr)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Net profit	359	277	338	380	496
Add: Depreciation	41	65	83	103	116
Add: Miscellaneous expenses written-off/other assets	-597	499	-106	-132	-10
Add: Deferred tax	-13	-66	85	-10	-10
Add: Others	-0	0	0	0	0
Gross cash flow	-211	774	399	341	592
Less: Changes in working capital	261	-287	281	12	312
Operating cash flow	-472	1,060	119	329	281
Less: Capex	115	662	165	385	70
Free cash flow	**-587**	**399**	**-46**	**-56**	**211**

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Volumes take a hit; acquisition related spends affect margins

Ratios

Year to March	FY22	FY23	FY24	FY25E	FY26E
RoAE (%)	25.0	16.4	17.4	16.7	18.3
RoACE (%)	20.5	13.9	16.7	15.6	17.2
Debtor days	61	50	54	48	48
Current ratio	7	5	5	5	6
Debt/equity ratio	0.8	0.5	0.4	0.5	0.4
Inventory days	132	108	117	100	100
Payable days	18	27	32	27	27
Cash conversion cycle (days)	175	131	140	121	121
Debt/EBITDA ratio	2.4	1.9	1.6	1.9	1.5
Adjusted debt/equity ratio	0.6	0.4	0.4	0.4	0.2

Valuation parameters

Year to March	FY22	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	18.2	14.0	17.1	19.2	25.1
Y-o-Y growth (%)	*39.8*	*(23.0)*	*22.1*	*12.3*	*30.7*
CEPS (INR)	20.2	17.2	21.2	24.4	30.9
Diluted P/E (x)	*19.5*	*25.3*	*20.7*	*18.5*	*14.1*
Price/BV(x)	4.4	3.9	3.4	2.8	2.4
EV/Sales (x)	*2.7*	*2.6*	*2.2*	*1.9*	*1.5*
EV/EBITDA (x)	14.6	17.0	14.0	12.4	9.6
Diluted shares O/S	*19.7*	*19.8*	*19.8*	*19.8*	*19.8*
Basic EPS	18.2	14.0	17.1	19.2	25.1
Basic PE (x)	*19.5*	*25.3*	*20.7*	*18.5*	*14.1*
Dividend yield (%)	0.6	0.6	0.0	0.0	0.0

Volumes take a hit; acquisition related spends affect margins

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