

Back from the Brink

Indo Count Industries went into corporate debt restructuring in 2008; today, the company has roared back into business, and is one of the most valuable companies in India. By MAHESH NAYAK

Five years ago, Warren Buffett, the world's biggest investor, had said his worst investment was the textile mill that went by the name Berkshire Hathaway. It was a name that he famously used to invest in several other businesses, although he closed the mill after a while. But if Buffett had encountered Indo Count Industries, he would probably have changed his mind about textiles. In the past 18 months, the share price of the home textile company has jumped 20-fold, from ₹44 per share in April 2014 to over ₹900 in October 2015.

And if you think it's just a stock thing, well, it's not. In the past five years, the company, which makes bedsheets for exports, has demonstrated strong all-round performance. On a standalone basis, its top line grew

from ₹666 crore in 2010/11 to ₹1,680 crore in 2014/15. In the same period, its net profit rose from ₹9 crore to ₹139 crore. Among its peers, it has the highest return on capital employed and the lowest debt to equity ratio (see *Magic Numbers*). This, after it got itself into a mess in 2008, which resulted in the company going in for a corporate debt restructuring (CDR) exercise, which it got out of in March 2015, four years ahead of schedule.

No wonder investors have been left enamoured. The stock's performance has also meant that Indo Count Industries has made a comeback into the exalted *BT 500* after 22 long years. It had the biggest jump in ranking – by 511 places to rank 366 in the pecking

order, thanks to an almost 650 per cent jump in average market capitalisation – April to September 2015 – to ₹2,748 crore, compared to ₹350 crore in 2014.

Comeback Company

The journey to reach the top 500 companies wasn't easy for Indo Count Industries. In August 2008, it had to go in for CDR following a ₹150-crore loss on account of a forward derivative contract – at that time, its revenue was ₹290 crore. "It was a mistake, and we had to pay a huge price for it," says R. Sundaram,

CFO and Company Secretary. "When the rupee was at ₹41 per dollar, we took a forward contract that the rupee

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Anil Kumar Jain, CMD, Indo Count Industries

PHOTOGRAPHS BY RACHIT GOSWAMI

would appreciate to ₹35 per dollar, but it went to ₹55 per dollar. Due to the huge currency loss, our debt to equity was close to 1:8."

Adds Anil Kumar Jain, Chairman and Managing Director of Indo Count Industries: "We were left with two options – survive or suicide. Rather than fighting with the banks that got us into trouble due to the currency loss, we decided to get back strongly and grow the business such that today, without taking a hair cut, we have repaid every penny to the banks."

What helped was that the company had sowed the seeds for growth before the 2008 crisis. In 2006, it entered the home textile business – earlier, it was into spinning and exporting yarn and in consumer durables – triggered by the US ending its quota regime in 2005. Today, home textiles account for 81 per cent of its revenues.

"Strategy of forward integration into home textile has been the game changer for Indo Count Industries," says Rajesh Kothari, Managing Director of AlfAccurate Advisors, who has been an investor in Indo Count Industries since last October. "Unlike its peers (Alok Industries and Welspun) that went for backward integration, Indo Count Industries remained asset light, which has helped them record impressive returns on their capital employed."

The company focused on investing in processing capacities and outsourced two-thirds of its spinning and weaving activity. "This was a conscious strategy and probably we will be the only company in the world to adopt such a model," says Anil Kumar Jain. Adds Manish Bhandari, Managing Director of Vallum Capital Advisors, "There are three reasons why the stock of Indo Count Industries was attractive and a buy. First, the business revival due to the shift in dynamics from China to India in the home textile business; second, the declining raw material prices of cotton; and third, the under utilisation of capacity of the company."

MAGIC NUMBERS

	INDO COUNT INDUSTRIES	WELSPUN	TRIDENT	ALOK INDUSTRIES
Total income (₹ crore)	1,687.19	4,671.15	3,834.47	22,719.56
Profit (₹ crore)	139.04	510.14	117.82	348.76
RONW (%)	58.09	41.11	9.88	6.44
ROCE (%)	22.79	13.99	3.45	1.66
Debt to equity (times)	1.08	1.72	1.77	2.87
One year stock returns (%)*	418%	152.50%	32%	-44%

* (as 9 October 2015) Full Year financials on standalone basis as on 31 March 2015; Source: CMIE Prowess

