Business Standard

Indo Count: The next SYMPHONY

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Indo Count Textiles appreciated 5,600 per cent in the past couple of years, even as I kept saying 'The stock will technically correct,' but never did it happen. Welspun saw tenfold rise from its bottom levels. Himatsingka Seide stayed so terribly sluggish for months between Rs 80 and Rs 90 that just when one gave up, the stock doubled in four weeks.

It appears India's domestic textiles segment is being re-rated. Indo Count has been reporting stronger margins - 12.6 per cent in the last quarter of 2013-14 to 17.6 per cent in the last quarter. It has been reporting higher returns on employed capital - 7.6 per cent in 2010-11 to 34.5 per cent in 2014-15 (twice its largest competitor). It has transformed its bottom line from Rs 10.66 crore in 2010-11 to Rs 145.88 crore in 2014-15.

It would be simplistic to ascribe this to the 'textile cycle'. There is something deeper at work here.

In this capital-intensive sector, Indo Count graduated towards asset-lightness. The company began to experiment successfully with outsourcing (buying grey fabric from other companies) over insourcing (backward integration) and focusing on grey fabric processing over manufacturing everything under one roof. The result: a superior return on employed capital in a capital-intensive sector translated into a consistent increase in profitability.

Even as the company was a part of the corporate debt restructuring programme, it expanded processing capacity from 36 million metres per annum to 45 million metres per annum and 68 million metres per annum - through accruals. In 2015, Indo Count will implement incremental expansion at a substantially lower cost (processing capacity increase 88 per cent at 40 per cent of the original greenfield processing cost), expected to generate an unprecedented payback.

Concurrently, Indo Count graduated from the low-mid product segment to the mid-to-high (marked by progressively higher thread counts), expanded horizontally (from an erstwhile bed sheet focus to fashion bedding, utility bedding and institutional bedding), graduated from 'made to stock' to 'made to order', increased inventory turns and committed to capital investments only after receiving reasonable purchase commitments by customers.

The result is that Indo Count exited from its corporate debt restructuring plan four years ahead of schedule, after paying a recompense amount of Rs 26 crore to banks in 2015 in lieu of the preponed exit.

One would assume the big play in Indo Count would be over. Yes and no. Yes, because it would be unrealistic to expect similar percentage returns in market cap growth from this point onwards. No, because the company is likely to generate far more cash (following its low cost expansion) than it can hope to consume, helping

pare (or even eliminate) working capital.

When you have a topline of about Rs 3,000 crore, earnings before interest, taxes, depreciation, and amortisation margin of even 15 per cent (I am a pessimist) and no debt on your books, you have people willing to price you differently.

Wonder if this could be the next SYMPHONY

The author is a stock market writer, tracking corporate earnings and investor psychology to gauge where markets are not headed