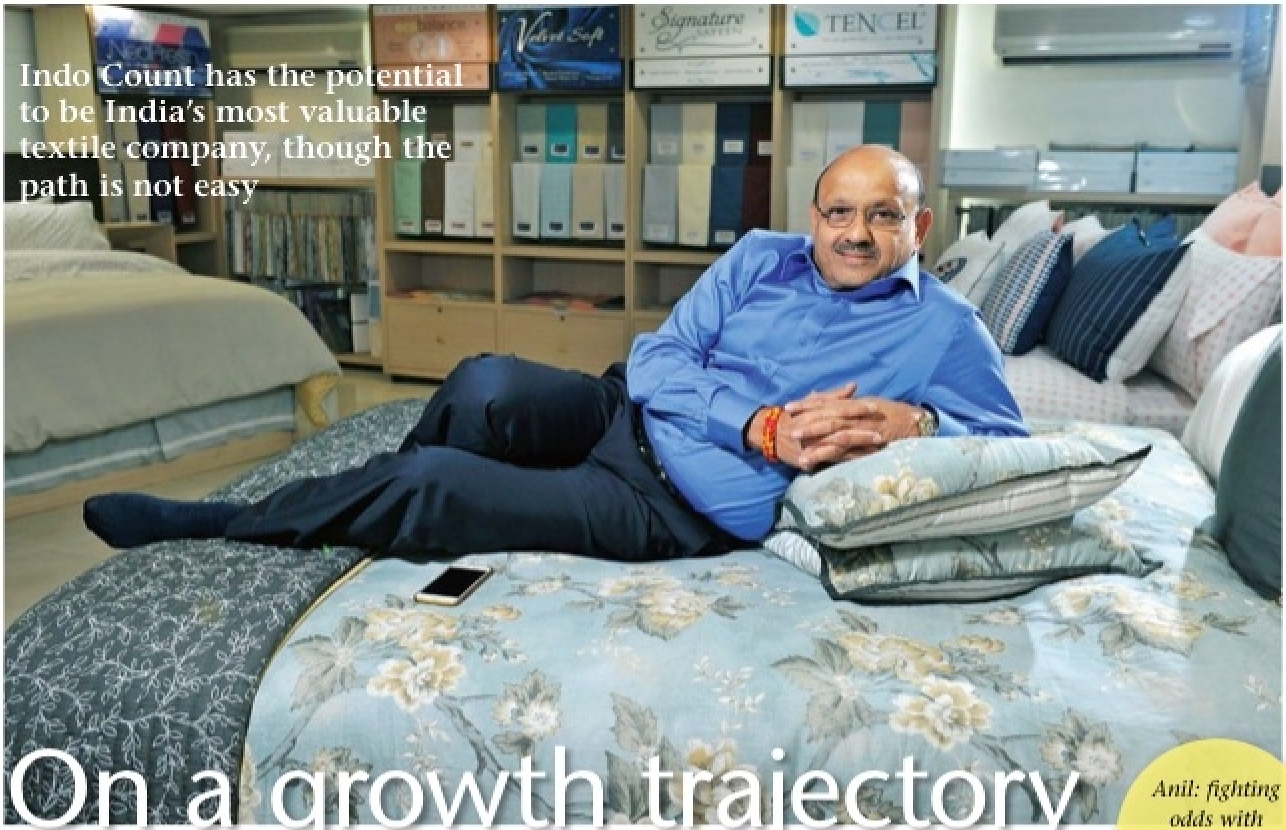

PHOTOS: SANJAY BORADE

Indo Count has the potential to be India's most valuable textile company, though the path is not easy

On a growth trajectory

Anil: fighting odds with determination and fortitude

In 1973, when Anil Jain graduated from college in Kolkata, little would he have imagined that he would run a textile business; nor had he imagined that he would head a company that would be the second largest exporter of bed linen from India. His family was not in the business of textiles. Neither did he have any prior experience in textiles. "I started my career as godown keeper-cum-accountant in Kolkata, in our joint family business of MS pipes and tubes," informs the 63-year-old Anil Jain, chairman & managing director, Indo Count Industries.

Two years after his graduation, Jain was asked by his family to move to Mumbai to manage production at Hindustan Beverages – a company that used to make the then famous 'Bombay Beer'. It was a semi-sick company and Jain's mandate was to turn it around, which he did in two years' time. "The company had a lot of debt in its books, which we repaid in two years by improving its efficiency and, thus. turned it around," claims Jain.

Turning around businesses seems to be in Jain's blood; and repaying debts too, as soon as possible. Indo Count Industries – which Jain started in 1991 as a 100 per cent EOU of cotton yarn, with a capacity of 26,208 spindles – ran into trouble, when its call on forex derivatives went wrong in 2008. Due to this, the company was forced to book losses worth ₹80 crore on derivatives for 2008-09, though it was making money at the operational level at that time. But this was only one of the problems Indo Count had to face then. Also, in 2007, as a part of forward integration, the company had gone into bed sheets business, thinking that demand from the US would be robust.

But, by the time the company went into commercial production of bed linen, the global financial crises had hit the US economy hard, which resulted in lower than expected demand from the US – the main market for Indo Count. "Due to the US crisis, the capacity, which we thought would get consumed in three years, actually took 5-7 years to sell," informs Mohit, son of Anil Jain (his two daughters are married and not active in the business of Indo Count). As if this double whammy was not enough, Pranavaditya Spinning Mills (a listed entity under BIFR, with a present market cap of ₹62 crore), which the company had acquired in 2007, drained its resources further.

All these encumbrances forced Indo Count to apply for CDR in 2009. This was a challenging time for the company, admits Anil Jain. But all through this crisis, Jain did not lose hope and made efforts to come out unscathed. "Our bankers really helped us too," says Jain gratefully. In March 2015, four years ahead of schedule, the company moved out of the CDR – something unusual for any company in the Indian textile industry. "We were determined to move out of the CDR ahead of schedule and, hence, focussed on efficiencies and scale. We paid the bankers ₹26 crore as a right to recompense," says Lalpuria, a textile veteran, who joined Indo Count in 2010 as executive director. This shows how Jain had weathered the storm and come out successfully.

It also reflects the true character of Jain, who knows how to fight odds and emerge a winner. Sushil Jiwarajka, an independent director of the company, describes Jain as humble and hardworking. "I have found him to be astute, down-to-earth and hard working. He is driven by a passion to excel and create world class facilities and aspires to be a global leader in the field of bed linen". There are many Indian corporates, which are still trying to resolve the debt trap they fell into after the 2008 financial debacle, while Jain came out with flying colours.

Mohit: investing in product innovations

Towards growth

The company, which was fighting hard to serve its debt all along, is today on an expansion drive. Not only is it financially stable, but it is generating enough cash and ploughing it back to expand capacities. Indo Count is charting a growth path, where it has doubled its bed linen capacity from 36 million metres to 68 million metres in the last three years. "After the current expansion, our capacity will increase to 90 million by, say, November 2016," informs Mohit. The latest expansion is incurring a cost of ₹150 crore, of which ₹101 crore comes from internal accruals, while only ₹49 crore has been raised through debt.

The effects of sound financial discipline and thoughtful expansion are conspicuous by their presence on the company's financials. Its top line is moving up and so is the bottom line. The company's turnover has gone up from ₹802 crore for the year ended March 2012 to ₹1,781 crore by the year ended March 2015. Its profit has gone up even better than the top line – climbing from losses of ₹2.32 crore for March 2012 to a handsome ₹146 crore by March 2015. This momentum in growth has been maintained even in the first 9 months of the current year, where sales have touched ₹1,546 crore and net profit, ₹185 crore – up by 26 per cent and 66 per cent respectively – over the same period last year.

Despite the huge expansion, its debts are at a decent level, with a debt-equity ratio of 0.52 times, which, the company claims, is the lowest in the industry. It had a net debt of ₹292 crore as on 31 December 2015, of which long-term loans amount to only ₹60 crore. What is good for the company is the fact that the average cost of borrowing is just 7 per cent, which is due mainly to the interest subvention scheme run by the state and Central governments for the textile sector, which is into exports.

The shareholders, who remained steadfast with Indo Count during its downturn, have been rewarded well, with the company coming back to the dividend list after many years and paying 10 per cent interim dividend in November 2015.

Apparently, the stock market has enjoyed watching this turnaround. The scrip, which had gone below par in 2009, is today commanding a handsome price of ₹1,000. Even in May 2014, Indo Count's shares were changing hands for less than ₹50. In other words, in less than 24 months, while the Indian stock market was going nowhere, this company's share price was surging more than 20 times – making it one of the top wealth creators on the Indian stock market. Today, Indo Count's is among the six most valuable companies in the textile pack, with a market cap of ₹4,000 crore. What is more impressive is that Indo Count's RoCE and RoNW are handsomely positioned, at 61 per cent and 66 per cent, which is unusual in the textile industry.

Why did Jain leave the beer business, which he had turned around? Jain admits that he had no prior experience of running the beer business either. He would not have quit the beer business, except for the fact that, when the joint family split, as per an agreement, he had to leave that business in 1987.

Even then, why textiles? Jain's brother-in-law was in the textile business in Manchester and got Jain excited about textiles too – so much so that he plunged into the business without any prior knowledge,

Financials

Year	2015	2014	2013	2012	2011
Sales	1,782	1,498	1,217	807	733
NP	146	110	30	-2.31	10.66
Efficiency parametres					
Details	2015	2014	2013	2012	2011
EBDITA margin (%)	17.6	12.6	9.9	7.8	9.9
ROE (%)	40.8	45.3	15.8	1.2	5.5
Total Debt to Equity (x)	**0.81**	**1.36**	**1.86**	**1.78**	**1.76**

Share price movement

01 Jan 2015 - 04 June 2016


Lalpuria: empowering women as well

in 1988. The company's plant was set up in Kolhapur in southern Maharashtra. That was the time India was in need of foreign exchange badly and, hence, the government was encouraging companies to set up export-oriented units, which could bring foreign exchange into the country. It was also giving incentives to set up EOUs.

Following footsteps

Since Jain had no prior experience, he emulated the example of Rajaram Jaipuria, a doyen in the field of textiles, who was also setting up his own 100 per cent EOU at the same time under the name Ginni Filaments. "My godfather was Rajaram Jaipuria," admits Jain. "I followed Jaipuria in selecting machines, installing technologies, as also other steps taken to set up the unit," he adds. Indo Count appointed Gherzi Eastern – a Swiss company – to set up the plant and do a feasibility study. The plant went on stream in 1991, at a time when India was in the middle of a forex crisis. "We received our first order for cotton yarn from Thailand," recalls Jain. But, for the next five years, the company served only one customer – Cogetex from Switzerland – who used to buy Indo Count's products and sell them abroad.

When the US abolished the quota system in 2005, Indo Count decided to enter the exports of value-added textiles. The company saw a big opportunity here, as a new avenue for exports was opening up. The quota regime had restricted a country's opportunities by fixing the quantity it was allowed to export to the US, through what was then called a multi-fibre agreement (MFA). In 1995, WTO announced the abolition of MFA, demarcating a 10-year window to phase out quota. Thus, the quota regime came to an end in the textile sector in the US, as well as Europe, on 1 January 2005.

While many Indian textile companies branched out to shirts and trousers, to cater to new demands from the US and Europe, Indo Count restricted itself to bed linen. "We wanted to go in for a large business, where the fashion did not change every 4-6 months," explains Mohit Jain. "Bed linen perfectly fitted that criterion". The company started with a 36 million metre capacity and a capex of ₹225 crore. This was one of the most cost-effective projects of that time, Jain claims. The company's trial production of bed linen began in 2006 and, by March 2007, it had also started commercial production.

It would be interesting to note that, while some of the competitors of Indo

India's leading bed linen manufacturers

Company	Annual Capacity (mtrs)	Addition (Mn) 2016 of Capacity	Total Capacity (Current + Expanded)
Alok Industries Limited, Silvassa, Vapi	105 mn	NIL	105 mn
Indo Count Industries, Kolhapur	68 mn	22 mn	90 mn
Welspun India, Anjar	60 mn	12 mn	72 mn
Trident, Bhopal	-	40 mn	40 mn
GHCL, Tamil Nadu	36 mn	NIL	36 mn
Bombay Dyeing, Shirur,	36 mn	NIL	36 mn
Century Textiles, Jhaghadia	23 mn	NIL	23 mn
Himatsingka, Gujarat*	22 mn	22 mn	44 mn
Total	**350 mn**	**74 mn**	**424 million**

*Himatsingka will expand its capacity by 22 mn in 2017.

Count – Welspun, Alok and Trident – have diversified into products like terry towels, Indo Count handles only the bed linen business, which gives them a better focus on the business. Today, 90 per cent of the company's revenue comes from the bed linen business, while only 10 per cent is accrued from yarn. In that sense, it has been a metamorphosis for Indo Count – shifting from yarn to bed sheets.

But what separates Indo Count from others, since most Indian players are white label suppliers? How one does create one's own niche? "Indo Count has spent an immense amount of time on product innovations," says Mohit Jain, explaining the company's strategy. "While our competitors develop 2-3 new products every year, we at Indo Count come out with 15-20 new products, well backed up by consumer research. In November 2015, for example, we came out with temperature-controlled bed sheets that adjust 2-3 degrees of body temperature, depending upon the body heat. We sell the same at $349 per set and we have received a good response".

The same way, the company has developed a patented mattress cover called 'True grip', which fits perfectly on mattresses, irrespective of their size. Another strategy Indo Count has developed, which reflects well on its RoCE, is that it has chosen to be asset light. About 70 per cent of the grey fabrics that go into making bed sheets are outsourced. "There is plenty of spare capacity available for grey fabrics in the market," says S.K. Mohanty, senior VP, Operations, home textiles, explaining the logic behind the move. "This is a low-margin business and, hence, it makes little sense to engage our own capacities in it".

Mitra: concern about the environment

De-risking, the new mantra

The company sells its products to retailers, like Wal-Mart, JC Penny, Target and so on, mostly under white label. But, as a strategy, the company is now moving into branded stuff. In that sense, it's expanding its business to the B2C segment too. In March 2016, it announced three brands for the US – Boutique Living, Revival and Pure Collections. While Boutique Living's target audience is successful and educated professionals, who travel often, Revival brand, a classic design, offers the urban style with modern themes. Revival's target audience is college students and professionals. And, Pure Collections, organic in nature, meet the need of health-conscious buyers.

Indo Count also sells its products online to retailers like Amazon, under the brand name Color Sense. But this is not a focus area for the company at present. Another major step the company has taken is that it's expanding its product range from mere bed linen to other categories like utility bedding, designer bedding and institutional bedding – a $10 billion market in the US, as against $4.5 billion for bed linen. Also, India's contribution to the new categories is minuscule, as it is dominated by China, unlike the bed linen business, where India has the upper hand, with a market share of 48 per cent. The company is now focussing on this new segment, to drive revenue.

"At present, 10 per cent of the revenue comes from new categories, but we want to increase it to 25 per cent in the next 24-36 months," says Mohit. At the same time, the

CDR to CSR

Normally, a company, which was on CDR may not think of CSR. But Indo Count has moved into this space briskly. Not only does the company's management think it is part of its core responsibility, it has also allocated dedicated resources for the same. To begin with, Indo Count has made a conscious decision to increase the number of women employees in the company. Today, out of its 2,600 employees, the tally of women is as high as 600. In 2011, there were only 39 women employees in Indo Count. "Offering a job to a woman is the best way to empower her," says Lalpuria.

The company is equally concerned about the environment. Since textile processing involves a high requirement of water, it has set up an effluent treatment plant on its premises at a cost of ₹50 crore, which can treat 5 million litres of water per day. This is not counting the common effluent plant available in the industrial area. "We wanted to ensure that we are sufficient in water requirements. With this ETF plant, we can reuse 90 per cent of the water that has flowed out, reducing the pressure on our water demands, especially when there is a water crisis in Maharashtra," says Kamal Mitra, director, Indo Count, who is in charge of CSR activities of the company.

Today, Indo Count has taken up 45 schools near its factories, where it is providing e-learning to 16,000 students in government-aided schools. Not only are the audio-visual aids making the learning process interesting for the students, but they are also getting exposed to new ways of learning. Many of these schools are now powered with Wi-Fi, which opens the windows to the outside world for the students. Going forward, Indo Count wants to build toilet blocks for the slum areas in Kolhapur. It also wants to set up a RO water plant in the villages, whereby people can have access to pure drinking water.

The company plans to double its CSR spending next year. It has been making a beeline in progress – from CDR to CSR. ◆

Mohanty: the way forward in a low margin business is to be asset light

company is also entering the domestic business, through a JV – with Aseem Dalal of Bombay Stores fame – where Indo Count will hold 80 per cent stake, leaving 20 per cent for Dalal. This venture would sell mid-to-high range bedding products, mainly through retail stores. "We want to cater to aspiration brands where each bed sheet would be not less than 300 counts (a higher counts means better quality), and at good prices. We can leverage on our in-house production with export quality bed sheets to drive the domestic business," informs Dalal. "We are aiming for ₹400-500 crore in revenue in the next five years and also want to expand outside India, like in saarc countries."

Mohit Jain denies any plan to take the inorganic route, as some of the existing players, passing through tough times, are doing. "Acquisition is something we are not looking at now," he says. "But we may explore such options when our balance sheet is strong enough. Right now, we would like to conserve our resources." The company is unlikely to enter into bath products either, in the near future.

Potential road blocks

Though Jain has been a role model for corporate players struggling to manage their debt, he also needs to keep his eyes wide open. In the last few years, Indian players have increased capacities of bed linen manifold, as everyone believes that the demand for bed linen would be robust, going forward. While Indo Count has also increased its capacities from 45 million metres to 90 million metres, Welspun is not far behind, with its capacity going up from 60 million metres to 72 million metres. Some sources even suggest that the latter may also increase it to 90 million metres, going forward. Trident, a new entrant, has also come in with a bed linen capacity of 40 million metres last September.

India's largest capacity, of 105 million metres, is still with Alok Industries, but it is under SDR (strategic debt restructuring) and operating at less than 50 per cent capacity. If its banks decide to bring in a new management team, then there is a high possibility that Alok's spare capacity can also flow into the market, creating more competitive pressures. Anyway, one can be sure that competition is going to increase in the field, though Lalpuria is confident that there would be enough demand for whatever the Indian textile manufacturers would produce. Right now, Indo Count has explored only one channel – to cater to the market in the US, which include big retailers like Wal-Mart, JC Penny, Target and so on. But more channels can be pursued to increase sales, for example, through furniture stores and so on.

India's top 10 exports destination of Bed linen-country wise

Country	US $ Million
United States	783.16
United Kingdom	51.34
Germany	50.06
United Arab Emirates	39.46
Canada	26.86
Tanzania	18.93
Nigeria	18.66
Australia	17.98
France	15.63
Italy	15.41

Data for the year Jan-Dec 2015

The US is the largest market for Indo Count (as is the case with many other Indian players) and contributes 65 per cent of the company's turnover, while Europe and the UK account for 15-17 per cent of exports. Indo Count has been shipping its products to 49 countries, including the Middle East and African regions.

Right now, the US charges 6.7 per cent import duty on India's bed linen. If, for some reason, it decides to increase the duty, such a move could impact Indo Count, as also other Indian players, rendering India's products less competitive. China's devaluation of its currencies can impact Indian companies' margins too.

Right now, Indo Count is on an upswing, meeting the expectations of analysts and fund managers. Many believe that this company will continue to expand its profits at great speed. We feel the management has to moderate these expectations, as we have seen how cruel the stock market can be, when expectations are not met, though the company may have been doing well. So, the management has to play a proactive role here.

While Indo Count is on a growth trajectory, what is important for Anil Jain is to ensure that its new initiatives like the B2C business in the US and domestic ventures gain traction. This is a real test for Anil Jain, as these businesses are more competitive and challenging. If he can scale these businesses, Indo Count has the potential to be India's most valuable textile company. But the path to that goal is not easy.

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