

Press Release

Lux Industries Limited (LIL)

March 15, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 360.68 Cr.
Long Term Rating	SMERA AA/ Outlook: Stable
Short Term Rating	SMERA A1+

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **SMERA AA (read as SMERA double A)** and short term rating of **'SMERA A1+' (read as SMERA A one plus)** to the Rs. 360.68 crore bank facilities of Lux Industries Limited. The outlook is **'Stable'**.

Lux Industries Limited (Lux) was incorporated as Lux Hosiery Industries Ltd in July, 1995 and subsequently its name was changed to its present name in October, 2007. The company is engaged in manufacturing and marketing of innerwear, thermals and casuals, under the brand name of 'Lux'. This is the flagship company of the group. The other associate companies in the group are J.M. Hosiery & Co Ltd and Ebell Fashions Pvt. Ltd which are also engaged in men's innerwear, sportswear and women's leggings.

Key Rating Drivers

Strengths

- **Strong market position backed by long track record and management experience**

Lux has a strong market position in the branded innerwear industry in India with a market share of 14-15 per cent in the organised sector. While the company commenced operations under its erstwhile name in 1995, the manufacturing of innerwear started in the group much earlier in 1957 in Biswanath Hosiery Mills by Mr. Giridharilaji Todi. Currently, his sons Mr. Ashok Todi and Mr. Pradeep Todi are actively involved in the business. The current promoters have an experience spanning over three decades in the hosiery business. Lux is primarily into manufacturing of men's innerwear but the product profile of the group is wider with manufacturing of womens' leggings through its associate concern, Ebell Fashions Pvt. Ltd and men's sportswear through J M Hosiery & Co Ltd.

- **Diversified geographical presence**

The company has a diversified presence across geographies. Lux's sales in the domestic market accounted for around 91 per cent of the total revenues while the balance is from exports in the year ended FY'2017. In the domestic market, the company has a significant presence in West and North India with presence in states such as Maharashtra, Gujarat, Uttar Pradesh, Uttarakhand, Delhi Himachal Pradesh among others. The company exports mainly to Africa, Middle East, Australia and Europe.

- **Strong brand equity and wide distribution network**

The company sells all its products under the brand of 'Lux' which has an established brand equity among the hosiery brands in India. The company sells around 100 products under the umbrella brand of 'Lux' catering to various segments such as Mass (Lux Venus); Mid (Lux Cozi) and Premium (Lux Onn) along with presence across various price points ranging from Rs. 38 to Rs. 1,350. Lux spends around 8 per cent of its revenues towards brand promotion.

The company also has a wide distribution network consisting of more than 900 exclusive distributors spread across the country. The distributors have been associated with the 'Lux' brand since more than three decades. SMERA believes that Lux's strong brand equity and its widespread distribution network along with the long standing relationship with its distributors will continue to support its business profile and help it to enhance its market share further.

• Healthy financial risk profile

The financial risk profile of the company is healthy with strong net worth base, moderate gearing levels and robust debt protection metrics. The net worth levels of the company stood at around Rs. 240 Cr. as on March 31, 2017. The gearing levels have been between 1.2 to 1.6 times in the past two years ended FY'2017. The debt primarily includes working capital borrowing of around Rs. 186 Cr, limited term loans of Rs. 12.75 Cr., preference share capital of Rs. 56 Cr. and unsecured loans of Rs. 25.53 Cr. from directors and body corporates. The debt protection measures of the group stand at strong levels with interest coverage at 7.02 times and net cash accruals at 0.24 times of total debt as on March 31, 2017. SMERA believes that the financial risk profile of the company will continue to be at healthy levels over the medium term backed by steady accruals and no major debt funded capex plans.

Weaknesses

• Intense competition in the hosiery industry

The hosiery industry is largely fragmented and is characterised by the presence of many players in the unorganised segment and is largely dominated by this segment.

On the other hand, in the organised segment, the company faces competition from players with strong brands such as Page Industries Ltd, Dollar Industries Ltd and Rupa & Company Ltd. However, the company's strong brand, extensive distribution network and pan India reach partly mitigates the risk arising from competition.

• Working capital intensive nature of operations

The operations of the company are working capital intensive as marked by high gross current asset (GCA) days of 209 days in FY'17 as against 187 days in FY'16. This has been mainly due to receivables of over 100 days in the past two years ended FY'17. The high debtors have been primarily on account of the credit period extended to its vast distribution network. The inventory days of the company have also been relatively high ranging between 86 to 100 days in the past two years ended FY'2017. SMERA believes that the company's working capital intensity would continue over the medium term.

Analytical Approach

SMERA has considered standalone business and financial risk profiles of Lux Industries Limited.

Outlook: Stable

SMERA believes Lux Industries Limited will continue to maintain a stable business risk profile over the medium term. The company will continue to benefit from its strong market position and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and significant improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's operating profit margin, or in case of further elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	972.07	940.92	909.01
EBITDA	Rs. Cr.	120.02	94.47	81.38
PAT	Rs. Cr.	62.85	51.34	45.23
EBITDA Margin	(%)	12.35	10.04	8.95
PAT Margin	(%)	6.47	5.46	4.98
ROCE	(%)	22.67	19.36	36.02
Total Debt/Tangible Net Worth	Times	1.23	1.58	2.60

PBDIT/Interest	Times	7.02	7.92	4.61
Total Debt/PBDIT	Times	2.46	2.97	4.21
Gross Current Assets (Days)	Days	209	187	200

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	198.50	SMERA AA / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.28	SMERA AA / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.40	SMERA AA / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	SMERA AA / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	SMERA AA / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	SMERA AA / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA AA / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A1+

Contacts

Analytical	Rating Desk
Suman Chowdhury President-SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Pooja Ghosh Associate Vice President - SMERA Bond Ratings Tel: 033-6620-1203 pooja.ghosh@smera.in	

ABOUT SMERA

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