

## Press Release

Lux Industries Limited

APRIL 26, 2019



### Rating Re-affirmed and Assigned

|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs. 360.68 Cr.                               |
| <b>Commercial Paper</b>             | Rs. 100.00 Cr. #                             |
| <b>Long Term Rating</b>             | ACUITE AA / Outlook: Stable<br>(Re-affirmed) |
| <b>Short Term Rating</b>            | ACUITE A1+ (Re-affirmed)                     |

\* Refer Annexure for details

#The aggregate of Commercial paper and other working capital borrowings shall be within the overall sanctioned draw able fund based working capital limits.

### Rating Rationale

Acuite has re-affirmed long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) and short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) to the Rs. 360.68 crore bank facilities of Lux Industries Limited (LIL). Acuite has also assigned '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs 100.00 crore commercial paper program of LIL. 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 companies in the group are J.M. Hosiery & Co Limited and Ebell Fashions Private Limited engaged in men's innerwear, sportswear and women's leggings.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of LIL to arrive at this rating.

## 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. Giridharilalji 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 women's 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 90-91 per cent of the total revenues while the balance is from exports in FY 2018 and during the current financial year till February'19. 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 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 950 exclusive distributors spread across the country. The distributors have been associated with the 'Lux' brand since more than three decades. Acuite 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. 319.56 crore as on March 31, 2018 as against Rs 240.56 crore as on March 31, 2017. The gearing stood at 1.03 times as on March 31, 2018 as compare to 1.23 times as on March 31, 2017. The improvement in gearing is on account of preference shares being redeemed fully in FY 2018 to the tune of Rs 56 crore. The debt primarily includes working capital borrowing of around Rs. 264 crore, term loans of Rs. 12.66 crore., and unsecured loans of Rs. 52.05 crore from directors and body corporates. The debt protection measures of the group stand at strong levels with interest coverage at 6.20 times and net cash accruals at 0.27 times of total debt as on March 31, 2018. Acuite 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

#### 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 236 days in FY'18 as against 209 days in FY'17. This has been mainly due to receivables of over 100 days in the past two years ended FY'18. 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 100 to 110 days in the past two years ended FY'2018. Acuite believes that the company's working capital intensity would continue over the medium term.

#### 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.

#### Liquidity:

The company has healthy liquidity profile marked by net cash accruals of ~ Rs 90 crore during FY 2018 crore against Rs 15.50 crore of debt obligations during the same period. The operations are working capital intensive marked by gross current asset (GCA) days of 236 in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilised at 80 percent during the last 11 months period ended February 2019. The current ratio of the company stands at 1.54 times as on March 31, 2018.

#### Outlook: Stable

Acuite believes that outlook for LIL will remain 'stable' over medium term on the account of experienced management. The outlook may be revised to 'positive' if the company increases its scale of operations and profitability and improves its working capital intensity, and it could be revised to 'negative' on account of decline in revenue and profitability or deterioration in financial risk profile.

### About the Rated Entity - Key Financials

|                  | Unit    | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 1139.24       | 972.07        | 940.92        |
| EBITDA           | Rs. Cr. | 157.41        | 120.02        | 94.47         |
| PAT              | Rs. Cr. | 79.23         | 62.85         | 51.34         |

|                               |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|
| EBITDA Margin                 | (%)   | 13.82 | 12.35 | 10.04 |
| PAT Margin                    | (%)   | 6.96  | 6.47  | 5.46  |
| ROCE                          | (%)   | 24.74 | 22.67 | 19.36 |
| Total Debt/Tangible Net Worth | Times | 1.03  | 1.23  | 1.58  |
| PBDIT/Interest                | Times | 6.20  | 7.02  | 7.92  |
| Total Debt/PBDIT              | Times | 2.09  | 2.46  | 2.97  |
| Gross Current Assets (Days)   | Days  | 236   | 209   | 187   |

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

**Note on complexity levels of the rated instrument**

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

**Rating History (Upto last three years)**

| Date          | Name of Instrument / Facilities | Term       | Amount (Rs. Cr.) | Ratings/Outlook               |
|---------------|---------------------------------|------------|------------------|-------------------------------|
| 09-April-19   | Cash Credit                     | Long Term  | 340.00           | ACUITE AA/Stable (Reaffirmed) |
|               | Term Loan                       | Long Term  | 13.87            | ACUITE AA/Stable (Reaffirmed) |
|               | Proposed Long term Facilities   | Long Term  | 5.31             | ACUITE AA/Stable (Assigned)   |
|               | Bank Guarantee                  | Short Term | 1.50             | ACUITE A1+ (Reaffirmed)       |
| 15-March-2018 | Cash Credit                     | Long Term  | 198.50           | ACUITE AA (Assigned)          |
|               | Term Loan                       | Long Term  | 6.28             | ACUITE AA (Assigned)          |
|               | Proposed Term Loan              | Long Term  | 3.40             | ACUITE AA (Assigned)          |
|               | Term Loan                       | Long Term  | 9.50             | ACUITE AA (Assigned)          |

|  |                      |            |       |                          |
|--|----------------------|------------|-------|--------------------------|
|  | Cash Credit          | Long Term  | 70.00 | ACUITE AA<br>(Assigned)  |
|  | Cash Credit          | Long Term  | 1.50  | ACUITE AA<br>(Assigned)  |
|  | Proposed Cash Credit | Long Term  | 1.50  | ACUITE AA<br>(Assigned)  |
|  | Bank Guarantee       | Short Term | 1.50  | ACUITE A1+<br>(Assigned) |

**\*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 | 340.00                      | ACUITE AA/Stable<br>(Reaffirmed) |
| Term Loan                     | Not Applicable   | Not Applicable | Not Applicable | 13.87                       | ACUITE AA/Stable<br>(Reaffirmed) |
| Proposed Long Term Facilities | Not Applicable   | Not Applicable | Not Applicable | 5.31                        | ACUITE AA/Stable<br>(Reaffirmed) |
| Bank Guarantee                | Not Applicable   | Not Applicable | Not Applicable | 1.50                        | ACUITE A1+<br>(Reaffirmed)       |
| Commercial Paper              | Not Applicable   | Not Applicable | Not Applicable | 100.00                      | ACUITE A1+<br>(Assigned)         |

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**About Acuite Ratings & Research:**

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