Press Release

Lux Industries Limited

June 12, 2020

Rating Reaffirmed and Outlook Revised to Positive

Total Bank Facilities Rated*	Rs. 375.68 Cr.
Commercial Paper	Rs. 50.00 Cr.
Long Term Rating	ACUITE AA/ Positive (Reaffirmed, Outlook revised to Positive from Stable)
Short Term Rating	ACUITE A1+ (Reaffirmed)

** Refer Annexure for details*

Erratum: In the original PR dated 20th March, 2020, the hyperlink to one of the relevant rating criteria was missing which has now been included in this version.

Rating Rationale

Acuité has reaffirmedthe 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. 425.68Cr bank facilities of LUX INDUSTRIES LIMITED (LIL). The outlook has been revised to **'Positive'** from **'Stable'**.

The revision in outlook factors in the integration in operations post-merger with its group entities, Ebell Fashions Private Limited and J.M. Hosiery & Company Limited.The companies are engaged in ladies innerwear and leggings and men's sportswear and t-shirts respectively. Acuité believes the merger of these entities with LILwilllead to operational synergies anddiversificationand expansion in their product offerings. The wider product range would translate to enhanced cash accruals.

The rating continues to reflect the company's established market position, strong brand recall, wide geographical presence and vast distribution network. The aforementioned strengths are partially mitigated by the company's working capital intensity of operations and a competitive hosiery industry.

Lux Industries Limited (LIL) was incorporated as Lux Hosiery Industries Limited in July, 1995 and subsequently its name was changed to its present name in October, 2007. LIL is engaged in manufacturing and marketing of innerwear, thermals and casuals under various brands, with 'LUX' being its flagship brand. Lux Industries has emerged as one of the largest domestic players in the hosiery business having a market share of ~15 per cent of the organisedsegment. The company has more than 100 products across 15 brands and around 5,000 SKUs under various brands. The company has six manufacturing facilities with a cumulative capacity of 2,000 lakh garment pieces a year. The company's products are available in 4,50,000 retail points spread across India. Lux also has a presence across the globe with exports to 47 countries.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of LIL to arrive at this rating.The management of the company has decided to merge its group companies,Ebell Fashions Private Limited and J.M. Hosiery & Company Limited and the merger is expected to be retrospectively with effect from April 1, 2019. Hence, Acuitéhas also taken into account the merged financials from FY'2020 onwards.

Key Rating Drivers

Strengths

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

Lux has a strong market position in the branded innerwear industry in India with a market share of around 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 1957in Biswanath Hosiery Mills by Mr. GiridharilaljiTodi. 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. The third generation promoters have also been inducted into the 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 Ebell Fashions Pvt. Ltd and men's sportswear through J M Hosiery & Co Ltdwhich would be under the ambit of LIL from the current financial year. Acuité believes that the company'sestablished track record of operations and management experience hashelped the company to develop healthy relationship with its distributors and suppliers.

- **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 2019.In the domestic market, the company has a significant presence in West and CentralIndia 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. 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. Acuité 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.

- **Robustfinancial risk profile**

The financial risk profile of the company is robust marked by strong net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood at Rs. 413.48 crore in FY2019 as compared to Rs. 319.56 crore in FY2018. The net worth improved on account of steady accretion to reserves. The Debt-equity (gearing) stood at 0.44 times in FY2019 as compared to 1.03 times in FY2018. Going forward, the same is likely to improve further, due to reduction of debt. The total debt of Rs. 180.94 Crin FY2019 consists of term loan of only Rs. 8.54 Cr(including current portion of long term debt of Rs.7.47 Cr.), unsecured loans of Rs. 19.63 Crfrom directors and body corporates and working capital loans of Rs. 152.76 Cr. The interest coverage ratio stood at 8.03 times as compared to 6.20 times and DSCR stood strong at 4.35 times in FY2019. The Net cash accruals to total debt (NCA/TD) stood at 0.62 times in FY2019 as against 0.27 times in FY2018. The financial risk profile of LIL is expected to improve further with increased accruals and minimal debt post-merger with its group companies.

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 200 days in FY2019 against 236 days in FY2018. The improvement in GCA days is on account of decrease in debtor days to 112 in FY2019 as compared to 126 days in FY2018. This is due to strict credit terms to its distributors of 90 days in FY2019 brought down from 120 days. The inventory days improved to 89 days in FY2019 as compared to 111 days in FY2018. The high inventory level is because of the nature of the business, wherein the manufacturing cycle is long and the number of stock-keeping units (SKUs) is large. As a result, enough raw material and finished goods inventory need to be maintained to timely meet the customer needs. However, the working capital limit hasbeen utilised 41 per cent utilization in the past twelve months ended Jan, 2020. The team believes that the company's working capital operations to improve 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.

Rating Sensitivity

- Sustained improvement in operating profitability
- Synergies from the merger

Material Covenants

None

Liquidity:

The company's liquidity profile is strong marked by healthy net cash accruals as against its debt obligations. The company generated cash accruals of Rs. 112.57 crore in FY19 to repay its maturing debt obligations of Rs.7.73 crore over the same period. However, the company's operations are working capital intensive as marked by high gross current asset (GCA) days of 200 days in FY2019 against 236 days in FY2018 though dependence on bank borrowings is minimal. The bank lines have been utilized at only 41 percent in the past twelve months ended January 2020. The current ratio stood at 2.02 times as on March 31, 2019. The company maintains unencumbered cash and bank balances of Rs.1.99 crore as on March 31, 2019. The company has announced an interim dividend of Rs.10 per equity share during Q3FY2020.Acuité believes that despite the payment of dividend, the company'scash accruals will remain robust and will boost its liquidity over the medium term.

Outlook: Positive

Acuité believes that the credit profile of LIL would be benefittedfrom the diversification in its product mix post-merger with its group entities along with expected improvement in the scale of operations. Moreover, the operating margins of LIL have also witnessed a steady improvement. The rating may be upgraded if the company registers substantial growth in revenues while maintaining the operating profitability. Also, the financial risk profile of the company would have to be maintained at strong levels. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, weakening of profitability margins or if the financial risk profile deteriorates owing to any debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1208.68	1139.24
PAT	Rs. Cr.	101.32	79.23
PAT Margin	(%)	8.38	6.96
Total Debt/Tangible Net Worth	Times	0.44	1.03

PBDIT/Interest	Times	8.03	6.20

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities -https://www.acuite.in/view-rating-criteria-59.htm
- Commercial Paper- https://www.acuite.in/view-rating-criteria-54.htm

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-April-2019	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 (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A1+(Reaffirmed)
	Commercial Paper	Short Term	100.00	ACUITE A1+ (Assigned)
09-April-2019	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 (Assigned)
	Cash Credit	Long Term	1.50	ACUITE AA (Assigned)
	Proposed Cash Credit	Long Term	1.50	ACUITE AA (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (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 /Positive(Reaffirmed)
Term Loan	Not Applicable	Not Applicable	March,2025	13.74	ACUITE AA /Positive (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	20.44	ACUITE AA /Positive (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A1+ (Reaffirmed)
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1+ (Reaffirmed)

Contacts

Analytical	Rating Desk

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile ACUITE Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

The company's liquidity is adequate marked by moderate net cash accruals against no long term debt obligations. The company has generated cash accruals of Rs.17.23 crore in FY2019 as against cash accruals of Rs.5.49 crore in FY2018. The company's operations are working capital intensive marked by high gross current asset (GCA) of 312 days in FY2019 as against 96 days in FY2018. The current ratio stood at 1.17 times as on March 31, 2019. The company maintains unencumbered cash and bank balances of Rs.1.22 crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of no significant debt.

The operations of the company are working capital intensive marked by high gross current asset (GCA) of 312 days in FY2019 as against 96 days in FY2018. The GCA days are mainly dominated by high loans and advances given to a related party. Inventory days stood at 56 days in FY2019 and debtor days stood at 7 in FY2019 against 20 days in FY2018. The team believes that the company's working capital operations to improve over the medium term.

The profitability stood moderate reflects by the operating margin of 1.52 per cent in FY2019

(Prov.) compared to 1.00 percent in FY2018. The PAT margin stood low at 0.44 per cent in FY2019 (Prov.) as compared to 0.39 per cent in the previous year.