Press Release

Lux Industries Limited

March 10, 2021

Rating Upgraded and Outlook Revised

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Short Term Rating	ACUITE A1+ (Reaffirmed & Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating of '**ACUITE AA**' **(read as ACUITE double A)** to **'ACUITE AA+' (read as ACUITE double A plus)** and reaffirmed the short term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs. 375.68 Cr bank facilities of Lux Industries Limited (LIL). The outlook has been revised to **'Stable'** from **'Positive'**.

Acuité has also withdrawn the short term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs. 50.00 Cr Commercial Paper Programme of Lux Industries Limited (LIL). The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

The rating upgrade is on account of consistent improvement in the business risk profile of the group, as reflected in a substantial growth in revenues and operating profits in 9MFY21 as compared to same period last year despite the COVID-19 pandemic. Moreover, gradual shift in demand from unorganised sector to organised sector continues to support the increasing market share of LIL. Further, Acuité believes that the proposed merger of LIL with its group companies, Ebell Fashions Private Limited and J.M. Hosiery & Company Limited will lead to operational synergies along with an expansion in their product offerings, thereby diversifying the product mix. Acuité also derives comfort from the solid financial risk profile of the group marked by healthy networth, comfortable gearing and strong debt protection metrics.

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 a West Bengal based company 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 ~14-15 per cent of the organized segment. 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. The company has been promoted by Mr. Giridharilalji Todi and is currently managed by his sons, Mr. Ashok Todi and Mr. Pradeep Todi.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Lux Industries Limited, Ebell Fashions Private Limited and J.M. Hosiery & Company Limited 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 with effect from April 1, 2021. The merger was earlier expected to be with effect from April 1, 2019 (FY20). Accordingly, Acuite has also consolidated the financials from FY20. The group is now being referred to as the Lux group. Extent of Consolidation: Full

Key Rating Drivers

Strengths

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

Lux Industries continues to enjoy strong market position in the branded innerwear industry in India with a market share of around 14-15 per cent in the organised men's innerwear segment. While the company commenced operations under its erstwhile name in 1995, the manufacturing of the 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. 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 includes manufacturing of womens' leggings through Ebell Fashions Private Limited and men's sportswear through J M Hosiery & Company Limited, which would be under the ambit of LIL from the next financial year. Acuité believes that the group's established track record of operations and vast experience of the management has helped the group to establish healthy relationship with its distributors and suppliers.

- **Healthy improvement in revenues and operating profitability**

The group's revenues increased to Rs. 1412.09 Cr. in 9MFY21 (Prov) as compared to Rs.1363.00 Cr. in 9MFY20 (Prov), marking a growth of 3.60 per cent. Revenues of Lux Industries Limited increased by 10 per cent to Rs. 1012.11 Cr. in 9MFY21 as compared to Rs.918.49 Cr. in 9MFY20. The increase in revenue is on account of improvement in sales volume growth across mass and medium segments driven by pent-up demand. There has been a shift in demand from unorganised sector to organised sector owing to choices of end consumers who are moving from unbranded to branded products. Majority of the growth has been from the rural sector as the impact of the pandemic has been relatively lower as compared to urban sector. The company's revenues stood flattish in FY20 at Rs 1203.00 Cr. as compared to Rs. 1208.68 Cr, affected due to nationwide lockdown in the last week of March 2020. Acuité believes that the company's ability to sustain the growth momentum in its business going forward would be key rating sensitivity.

The group's operating profitability stood healthy at 18.74 per cent in 9MFY21 (Prov). Lux Industries Limited has itself witnessed healthy operating margins of 19.45 per cent in 9MFY21 as compared to 15.51 per cent in 9MFY20. EBITDA for 9M FY2021 stood at Rs. 196 Cr. as compared to Rs. 142 Cr. in 9MFY2020, registering a strong growth of 38 per cent on a year-on-year basis. The improvement in profitability margins is on account of an increased share of value-added products due to better product mix and cost rationalization measures undertaken by the company, majorly on advertising and marketing expenses. Advertisement expenses lowered to around 4-5 per cent of the revenues at Rs. 41 Cr. in 9MFY21 as against 7-8 per cent earlier. Going forward, however, advertising spends is expected to be 7-8 per cent of total revenues of the group.

Further, PAT margin of Lux Industries Limited stood high at 13.74 per cent in 9MFY21 as compared to 10.39 per cent in 9MFY20. The improvement in revenues and profitability has resulted in overall improvement in cash accruals for Lux Industries Limited which stood at Rs. 149.15 Cr. in 9MFY21as against Rs. 104 Cr. in 9MFY20. Acuité believes that the group will maintain a healthy profitability owing to its established brand name coupled with operational synergies after the merger.

- **Strong brand equity, wide distribution network across diverse geographies**

The group sells its products under the brand of 'Lux' which has established brand recall 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. 41 to Rs. 1,350. The group 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. Products of other entities in the group are also sold through common distribution channels. The group also has a diversified presence across various geographies. Around 90-91 per cent of the total revenues of the group is derived from the domestic market and the balance is from exports. In the domestic market, the group has a significant presence in West and Central India with presence in states such as Maharashtra, Gujarat, Uttar Pradesh, Uttarakhand, Delhi, Himachal Pradesh, among others. The company currently exports mainly to Africa, Middle East, Australia and Europe and is trying to explore newer geographies.

Acuité believes that Lux's strong brand equity and its widespread distribution network across geographies 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.

- **Robust financial risk profile**

The financial risk profile of the group is healthy marked by strong net worth, comfortable gearing and strong debt protection metrics. The net worth of the group stood at Rs. 747.25 Cr. in FY2020. The Debt-equity (gearing) stood comfortable at 0.29 times in FY2020. Going forward, the same is likely to improve further due to reduction of short term debt. The total debt of Rs. 219.29 Cr. in FY2020 consists of working capital loans of Rs. 190.49 Cr., term loan of Rs.11.29 Cr (including current portion of long term debt of Rs.3.99 Cr.) and unsecured loans of Rs. 17.52 Cr. from directors and body corporates. The interest coverage ratio stood comfortable at 13.64 times and DSCR stood strong at 9.17 times in FY2020. The Net cash accruals to total debt (NCA/TD) stood at 0.70 times in FY2020. Financials for FY19 is based on standalone approach and hence not comparable. Acuité believes that the financial risk profile of the group will continue at healthy levels over the medium term backed by steady accruals and no major debt funded capital expenditure plans.

Weaknesses

- **Moderately working capital intensive**

The operations of the group are moderately working capital intensive as marked by gross current asset (GCA) days of 212 days in FY2020. The high GCA days is on account high inventory days of 118 days in FY2020. High inventory level is maintained due to 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 meet the customer needs timely. Debtor days stood at 93 days in FY2020 due to strict credit terms to its distributors as against 120 days earlier. However, the working capital limit utilization remained low at 21 per cent in for the twelve months ended Dec, 2020. Acuité believes that the group's ability to further reduce its working capital intensity over the medium term will remain a key rating sensitivity.

- **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 Dollar Industries Limited and Rupa & Company Limited. However, the company's strong brand, extensive distribution network and pan India reach partly mitigates the risk arising from competition.

Rating Sensitivity

- Growth in scale of operations while sustaining operating profitability
- Expected synergies from the merger
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of

financial risk profile

Material Covenants
None

Liquidity Position: Strong

The group's liquidity profile is strong marked by healthy net cash accruals of Rs. 154.00 Cr. in FY20 as against its maturing debt obligations of only Rs.3.99 Cr. over the same period. However, the group's operations are moderately working capital intensive as marked by Gross Current Asset (GCA) days of 212 days in FY2020 though dependence on bank borrowings is minimal. The current ratio stood at 2.26 times as on March 31, 2020 and the fund-based limit remains utilised at 21 percent over the twelve months ended Dec, 2020. The company maintained unencumbered cash and bank balances of Rs.6.09 Cr. as on March 31, 2020. Acuité believes that enhanced cash accruals and lower reliance on debt will continue to support the liquidity of the group over the medium term.

Outlook: Stable

Acuité believes that the outlook of the group will remain stable over the medium term backed by its established market position, strong brand recall, vast distribution network and diversification in its product mix post-merger with group companies. The outlook may be revised to 'Positive' if the group sustains a high growth in revenues while maintaining the operating profitability and a strong financial risk profile over the medium term. Conversely, the outlook may be revised to 'Negative' in case of further delays in the merger process, lower than anticipated revenues, weakening of profitability margins or if the financial risk profile deteriorates owing to any large and unexpected debt funded capital expenditure programme.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1782.47	1208.68
PAT	Rs. Cr.	180.82	101.32
PAT Margin	(%)	10.14	8.38
Total Debt/Tangible Net Worth	Times	0.29	0.44
PBDIT/Interest	Times	13.64	8.03

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
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm
- Commercial Paper- https://www.acuite.in/view-rating-criteria-54.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

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RATINGS & RESEARCH

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-June-2020	Cash Credit	Long Term	340.00	ACUITE AA /Positive (Reaffirmed)
	Term Loan	Long Term	13.74	ACUITE AA /Positive (Reaffirmed)
	Proposed Long Term Loan	Long Term	20.44	ACUITE AA /Positive (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Commercial Paper	Short Term	50.00	ACUITE A1+ (Reaffirmed)
20-Mar-2020	Cash Credit	Long Term	340.00	ACUITE AA /Positive (Reaffirmed)
	Term Loan	Long Term	13.74	ACUITE AA /Positive (Reaffirmed)
	Proposed Long Term Loan	Long Term	20.44	ACUITE AA /Positive (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Commercial Paper	Short Term	50.00	ACUITE A1+ (Reaffirmed)
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)

*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	110.00	ACUITE AA+/ Stable (Upgraded, Outlook revised to Stable from Positive)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.00	ACUITE AA+/ Stable (Upgraded, Outlook revised to Stable from Positive)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE AA+/ Stable (Upgraded, Outlook revised to Stable from Positive)
Term Loan	Dec,2017	7.70	Dec,2021	13.35	ACUITE AA+/ Stable (Upgraded, Outlook revised to Stable from Positive)
Term Loan	Dec,2017	7.50	Dec,2021	3.02	ACUITE AA+/ Stable (Upgraded, Outlook revised to Stable from Positive)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	32.81	ACUITE AA+/ Stable (Upgraded, Outlook revised to Stable from Positive)
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+ (Withdrawn)

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About Acuité Ratings & Research:

Acuité Ratings & Research 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.