

## Press Release

Lux Industries Limited

June 03, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	-	ACUITE A1+   Reaffirmed
Bank Loan Ratings	374.18	ACUITE AA+   Stable   Reaffirmed	-
Bank Loan Ratings	90.00	ACUITE AA+   Stable   Assigned	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	465.68	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has assigned and reaffirmed the long-term rating of '**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.465.68 Cr bank facilities of Lux Industries Limited (LIL). The outlook remains '**Stable**'.

The rating reaffirmation is driven by the strong business risk profile of the company, marked by higher hosiery market penetration through consistent expansion in the distribution network, brand outlets, substantial growth in revenues and operating profits in 9MFY21 as compared to same period last year. Moreover, a gradual shift in demand from unorganised sector to organised sector continues to support the increasing market share of LIL. Further, Acuite believes that the merger of LIL with Ebell Fashions Private Limited and J.M. Hosiery & Company Limited has led to operational synergies along with an expansion in their product offerings, thereby diversifying the product mix. Acuite also derives comfort from the robust financial risk profile and consistent increase in the company's internal cash accruals leading to moderate utilization of fund based limits. Nevertheless, the rating is constrained by the company's elongated working capital cycle and susceptibility to a volatility in raw material prices.

### About the Company

Incorporated in July, 1995, LIL is a Kolkata based company engaged in manufacturing and marketing of innerwear, thermals and casuals under various brands, with 'Lux' being its flagship brand. LIL has emerged as one of the largest players in the hosiery business having a market share of ~15 per cent of the organized sector. The company has more than 100 products across 15 brands and around 5,000 SKUs under various brands. The company has seven manufacturing facilities which are strategically located in West Bengal, Punjab, Tamil Nadu and Uttar Pradesh to address growing markets with a cumulative capacity of 3,000 lakh garment pieces a year. The company's products are available in 450,000 retail points

spread across India. Lux has a global presence with exports to over 46 countries. The company was promoted by Mr. Giridharilalji Todi and is currently managed by his sons, Mr. Ashok Todi and Mr. Pradeep Todi.

### **Analytical Approach**

Acuité has changed its analytical approach from consolidated to standalone as Lux Industries Limited, Ebell Fashions Private Limited and J.M. Hosiery & Co Limited have merged w.e.f April 1, 2020 (FY2021). Acuité has thus taken a standalone view of the business and financial risk profile of Lux Industries Limited (LIL) to arrive at the rating.

### **Key Rating Drivers**

#### **Strengths**

##### **Strong brand equity buoyed by experienced management and long track record**

While the company commenced operations under its erstwhile name, Lux Hosiery Industries Ltd., in 1995, the manufacturing of the innerwear started in the company 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 of promoters have also been inducted into the business. LIL is primarily into manufacturing of men's innerwear but the company has forayed into ladies leggings through its merger with Ebell Fashions Pvt Ltd and men's inner bottom wear and sportswear through J M Hosiery & Co Ltd. from FY21. The company spends around 6-7 per cent of its revenues towards brand promotion. The company sells all its products under the brand of 'Lux' and has established brand equity on the same. The company sells around 100 products under its flagship brand 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.24 to Rs.1790. Acuité believes that the company's established track record of operations and vast experience of the management will continue to support their growth plans going forward.

##### **Wide distribution network across diverse geographies**

The company has a strong network comprising of more than 1170 distributors with less than 1 per cent dealer attrition. The company also has around 25 exclusive brand outlets which was 10 outlets previously. The company is enlarging its online presence through e-commerce websites such as Flipkart, Amazon, Myntra, Ajio etc. Lux's distribution advantage lies not only in its geographic dispersal; it lies in the relationship quality with the distribution family. More than 50 per cent of the company's distributors' network have been working with the company for more than 20 years, translating into relationship stability and continuity.

The company enjoys a wide presence in the northern, eastern and western parts of the country, generating 80 per cent of revenues from these zones. The company invested in information technology to strengthen its distribution efficiency resulting in an informed perspective of prevailing market realities. Of the total revenues, 7 per cent constitutes exports which is mainly to African countries and South Asian countries. The company was awarded with 'Star Export House' status from the Ministry of Commerce and Industry. 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.

##### **Strong business risk profile**

Despite supply chain challenges and significant surge in inputs price, the company is expected to book a y-o-y revenue growth of 15.19 per cent in FY22 as compared to 9.59 per cent in the previous year. Gross revenues of LIL increased to Rs.1710 Cr in 9MFY22 as compared to Rs.1012 Cr. in 9MFY21 and Rs.918 Cr. in 9MFY20. The increase in revenue is on account of improvement in sales volume 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. Further, majority of the growth witnessed was from the rural sector as it was less affected by Covid-19 as compared to urban sector.

The operating margin of the company increased to 21.9 per cent in 9MFY22 and PAT margin of 15.41 per cent in 9MFY22 (prov.), from 19.34 per cent and 13.11 per cent respectively in the previous period. The improvement in profitability margins is on account of increased share of value-added products due to better product mix. The company is focussing on increasing the volume of its premium products as they have higher margins. Advertisement expenses is low at 6.3 per cent of the revenues however the same has increased from 5.5 per cent in FY20 as against 7-8 per cent historically. High profitability has translated into robust RoCE levels of around 35.71 per cent in FY21. Going forward, Acuité believes that the company's ability to sustain the growth momentum in its business would be key rating sensitivity.

### **Robust financial risk profile**

The company's robust financial risk profile is marked by strong networth base, low gearing and robust debt protection metrics. The tangible net worth of the company is expected to improve to Rs.1325 Cr as on 31st March, 2022 from Rs.1001 Cr as on 31st March, 2021 due to healthy accretion to reserves. Gearing of the company is expected to marginally decreased to 0.11 times as on March 31, 2022 as against 0.12 times as on March 31, 2021. The company maintains certain long term loans with a repayment of 5 years to avail 15 per cent capital subsidy on its machinery purchase (ATUFS scheme). The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 30.89 times and Debt Service Coverage Ratio (DSCR) at 17.95 times as on March 31, 2021. NCA/TD stood at comfortable 2.32 times in FY2021. Going forward, Acuité believes that the financial risk profile of the company will remain at similar levels backed by steady accruals and no major debt funded capex plans.

### **Weaknesses**

#### **Working capital intensive nature of operations**

LIL's working capital intensive nature of operations is marked by high Gross Current Asset (GCA) of 205 days in FY2021 and the same is expected to increase to around 224 days in FY22 due to high inventory build-up. The inventory period is expected to increase from 111 days in FY2021 to 130 days with subsequent increase in the scale of operations. 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. The company markets a wide range of products and accordingly has to maintain a large quantity of inventory of each product category apart from the inventory of raw material. Debtor period is moderate at 86 days in FY2021 and is expected to remain at similar levels. Acuité believes that the company's ability to reduce its working capital intensity over the medium term will remain a key rating sensitivity.

### **ESG Factors Relevant for Rating**

For the manufacturing industry, upholding strong business ethics is a key material issue along with management compensation. Issues such as independence, compensation and diversity in the board of directors are relevant to the industry. Audit committee functioning, financial audit and control, takeover defense mechanisms and shareholder rights are also important key issues. The manufacture of hosiery innerwear has a moderate environment impact; the level of GHG emissions, material efficiency and establishment of a green supply chain are significant environmental factors for the industry. The social impact of the company is assessed through employee safety and product quality including the usage of restricted chemicals in the garments. Some other significant social issues include human rights and community support and development initiatives.

On the social footprint, the company has strategies and initiatives aimed at providing community services and has an ISO 9000 certified quality management system. The company has taken several stringent steps to reduce environmental footprint by installing 1 MW rooftop solar power plant at Dankuni, West Bengal unit and process technology to help save water. 40-45 per cent of our total power requirements met through renewable sources. Lil's products are made of 100 per cent natural fibre and they use recyclable packaging. The Company's CSR function comprises initiatives in the areas of Covid-19 assistance, environment protection, health, sustainable livelihoods, education and animal welfare, among others.

The board of Directors comprises of twelve directors out of which six are Independent Directors including two female independent director as well, reflecting healthy diversity. All the members of the Audit Committee and Nomination & Remuneration Committee are independent directors; there is no participation of promoter group in these committees. LIL has adequate policies on whistleblower protection programme, related party transactions and ethical business practices. LIL has high transparency in terms of disclosures related to board and management compensation and highlights the policies related to diversity and ethical business practices in its code of conduct. The company has a dedicated CSR Committee chaired by its chairman, Mr. Ashok Kumar Todi and it is actively involved in several philanthropic activities. However, the company has been facing controversies due to reporting of unusual trading pattern in the stock. Acuité will keep a track of the ongoing investigation into the matter.

### Rating Sensitivities

- Sustenance of its business risk profile
- Elongation in working capital cycle
- Any large and unexpected debt funded capital expenditure plan leading to weakening of financial risk profile

### Material covenants

None

### Liquidity Position: Strong

The company's liquidity position is strong marked by estimated net cash accruals of around Rs.345.00 Cr in FY2022 (prov.) as against long term debt repayment of only Rs.4.72 Cr over the same period. The current ratio of the company is expected to remain strong at 3.38 times as on March 31, 2022 (prov.) as against 2.68 times in FY21. LIL has unencumbered FDs of around Rs.100 Cr as on 31st Mar, 2021. The fund based limit remained utilised at 61 per cent over the seven months ended Mar, 2022. Acuité believes that going forward the company's liquidity position will remain strong due to enhanced cash accruals and lower reliance on debt.

### Outlook: Stable

Acuité believes that the outlook of the company 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. The outlook may be revised to 'Positive' if the company registers an unanticipated growth in revenues while maintaining its operating profitability and a strong financial risk profile over the medium term. Conversely, the outlook may be revised to 'Negative' in case of lower than anticipated revenues, more than expected elongation in its working capital cycle or if the financial risk profile deteriorates owing to any large and unexpected debt funded capital expenditure programme.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1953.34	1782.47
PAT	Rs. Cr.	269.38	180.82
PAT Margin	(%)	13.79	10.14
Total Debt/Tangible Net Worth	Times	0.12	0.29
PBDIT/Interest	Times	30.89	13.64

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

Not Applicable

## Any other information

Not Applicable

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Mar 2021	Term Loan	Long Term	13.35	ACUITE AA+   Stable (Upgraded from ACUITE AA   Positive)
	Term Loan	Long Term	3.02	ACUITE AA+   Stable (Upgraded from ACUITE AA   Positive)
	Cash Credit	Long Term	170.00	ACUITE AA+   Stable (Upgraded from ACUITE AA   Positive)
	Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Withdrawn)
	Proposed Term Loan	Long Term	32.81	ACUITE AA+   Stable (Upgraded from ACUITE AA   Positive)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE AA+   Stable (Upgraded from ACUITE AA   Positive)
	Cash Credit	Long Term	110.00	ACUITE AA+   Stable (Upgraded from ACUITE AA   Positive)
12 Jun 2020	Proposed Long Term Loan	Long Term	20.44	ACUITE AA   Positive (Reaffirmed)
	Term Loan	Long Term	13.74	ACUITE AA   Positive (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	340.00	ACUITE AA   Positive (Reaffirmed)
20 Mar 2020	Proposed Long Term Loan	Long Term	20.44	ACUITE AA   Positive (Reaffirmed)
	Cash Credit	Long Term	340.00	ACUITE AA   Positive (Reaffirmed)
	Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	13.74	ACUITE AA   Positive (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	13.87	ACUITE AA   Stable (Reaffirmed)



26 Apr 2019	Cash Credit	Long Term	340.00	ACUITE AA   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.31	ACUITE AA   Stable (Reaffirmed)
	Commercial Paper Program	Short Term	100.00	ACUITE A1+ (Assigned)
09 Apr 2019	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	340.00	ACUITE AA   Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	5.31	ACUITE AA   Stable (Assigned)
	Term Loan	Long		
	Term Loan	Term	13.87	ACUITE AA   Stable (Reaffirmed)
15 Mar 2018	Cash Credit	Long Term	198.50	ACUITE AA   Stable (Assigned)
	Term Loan	Long Term	6.28	ACUITE AA   Stable (Assigned)
	Proposed Term Loan	Long Term	3.40	ACUITE AA   Stable (Assigned)
	Term Loan	Long Term	9.50	ACUITE AA   Stable (Assigned)
	Cash Credit	Long Term	70.00	ACUITE AA   Stable (Assigned)
	Cash Credit	Long Term	70.00	ACUITE AA   Stable (Assigned)
	Proposed Cash Credit	Long Term	1.50	ACUITE AA   Stable (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A1+   Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE AA+   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	170.00	ACUITE AA+   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE AA+   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE AA+   Stable   Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE AA+   Stable   Assigned
Qatar National bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE AA+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	15.17	ACUITE AA+   Stable   Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	13.35	ACUITE AA+   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	20.66	ACUITE AA+   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	9.54	ACUITE AA+   Stable   Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.46	ACUITE AA+   Stable   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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