Press Release

LUX INDUSTRIES LIMITED

June 15, 2023

Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	464.18	ACUITE AA | Stable | Downgraded	-
Bank Loan Ratings	1.50	-	ACUITE A1+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	465.68	-	-

Rating Rationale

Acuité has downgraded its long-term rating to **'Acuité AA' (read as Acuité double A)** from **'Acuité AA+' (read as Acuité double A plus)** and reaffirmed the short-term rating of 'Acuité **A1+' (read as Acuité A one plus)** on the Rs. 465.68 crore bank facilities of Lux Industries Limited (LIL). The outlook remains '**stable**'.

Rationale for rating downgrade

The rating downgrade is primarily driven by the sharp and continued deterioration in profitability of the company, as reflected by declining operating profit and PAT margins in the last seven consecutive quarters. The operating profit and PAT margin of the company declined to 9.30 and 6.20 percent in FY23, respectively, as compared to 21.02 and 15.02 percent in FY22. The decline in margins is primarily on account of a lower volume offtake level and an increase in raw material prices by 20–22 percent during the same period, which could not be passed on to the end-consumer, reflecting intense competitive pressures. Despite a dip in volumes, the revenues of the company remain stable and stood at Rs. 2367.97 crore in FY23 as against Rs. 2273 crore in FY22 on account of marginal growth in average prices. Furthermore, the profit after tax (PAT) of the company deteriorated on an absolute basis to Rs. 146.76 crore in FY23 as against Rs. 341.39 crore in FY22.

The deterioration in profitability of the company further impacted the RoCE and RoE levels, which declined from 34.43 and 25.93 percent for FY22 to 13.36 and 10.03 percent for FY23, respectively. Furthermore, the profitability levels of the company also remain below Acuité's expectations for FY23. The rating is also constrained on account of the working capital-intensive nature of operations, as reflected by high GCA days in excess of 250 days of sales. However, the working capital utilisation of the company remains moderate, as evidenced by an average bank limit utilisation of around 55 percent in the last 8 months ended May 2023.

The rating, however, continues to factor in the strong business risk profile of the company, marked by a strong distribution network and a diversified geographical presence. The rating also derives comfort from the established brand presence, experienced management, and healthy financial risk profile of the company, despite the moderation in debt coverage indicators for FY23.

About the Company

Incorporated in 1995 as Lux Hosiery Industries Ltd., the company subsequently changed its name to Lux Industries Limited (LIL) in 2007. LIL is engaged in the manufacturing and marketing of innerwear, thermals, and casuals under various brands, with 'LUX' being its flagship brand.

The company has more than 100 products across 16 brands to address the growing needs of customers. The company has seven manufacturing facilities that possess a cumulative capacity of 34 million garment pieces a year. The company's manufacturing units are located in India, in Punjab, Tamil Nadu, and West Bengal. Lux also has a presence across the globe, with exports to over 46 countries. The company is currently managed by Mr. Ashok Kumar Todi and Mr. Pradip Kumar Todi.

Analytical Approach

Acuité has 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

Established business risk profile with a long track record of operations

Lux Industries Ltd. has been operating since 1995 and has an established presence in the hosiery business. The company has emerged as the largest mid-segment hosiery enterprise in India and has more than 100 products across 16 brands to address the growing needs of customers. Lux Industries Ltd. is into the manufacturing of men's innerwear, athleisure clothing, and ladies' leggings. The company is managed by Mr. Ashok Kumar Todi and Mr. Pradeep Kumar Todi, who have over three decades of experience in the hosiery business, and is supported by the third generation of the promoters.

The established market presence and experienced promoters have helped the company scale up its business, as reflected by revenues of Rs. 2367.97 crore in FY23 compared to Rs. 2273.00 crore in FY22 and Rs. 1953.34 crore in FY21. The scale of operations of the company remained healthy over the years, supported by the growth in demand for premium, semi-premium, and economy brands in rural as well as metro cities. Additionally, the brand building initiatives of the company have provided sustainable growth through the years by spreading awareness regarding the branded innerwear, which has led consumers to gradually move from the unorganised sector to the organised sector.

Acuité derives comfort from the company's long track record of operations and believes that the extensive expertise of the management will continue to support LIL's growth plans going forward.

Strong distribution network along with a diversified geographical presence

The company has a strong network comprising more than 1170 distributors with less than 1 percent dealer attrition. Moreover, the products are available at 4,50,000 retail points spread across India. Also, the company is expanding its online presence through e-commerce websites such as Flipkart, Amazon, Myntra, Ajio, etc.

The company enjoys a wide presence in the northern, eastern, and western parts of the country, generating around 80 percent of its revenues from these zones. The company invested in information technology to strengthen its distribution efficiency, resulting in an informed perspective on prevailing market realities. Although the company has a strong presence in Western and Central India, its wide-reaching wholesale and retail distribution network maximises the company's capacity to serve each and every one of their customers as per their convenience while optimising sales and distribution costs. Of the total revenues, 7-8 percent constitute exports, which are mainly to African and South Asian countries. The company was awarded "Star Export House Status' from the Ministry of Commerce and Industry.

Healthy financial risk profile

The financial risk profile of the company remained healthy, marked by strong net worth, low gearing, and healthy debt protection metrics. The tangible net worth of the company improved to Rs. 1463.23 crore as of March 31, 2023, from Rs. 1316.49 crore as of March 31, 2022, due to accretion to reserves. The gearing of the company marginally improved to 0.14 times as of March 31, 2023, as against 0.23 times as of March 31, 2022. The total debt of the company majorly constitutes short-term borrowings of Rs. 191.63 crore, and the rest of Rs. 13.89 crore is long-term borrowings as of March 31, 2023. The total outside liabilities/tangible net worth (TOL/TNW) stood at 0.42 times as of March 31, 2023, as against 0.50 times as of March 31, 2022.

The debt protection metrics of the company remain healthy, but they witnessed deterioration during FY23, primarily on account of declining profitability. The interest coverage ratio deteriorated to 10.97 times as of March 31, 2023, as compared to 35.33 times as of March 31, 2022, and the debt service coverage ratio (DSCR) also dipped to 6.36 times as of March 31, 2023, as compared to 20.04 times as of March 31, 2022.

Acuité believes that the financial risk profile of the company will likely be healthy with no major debt-funded capex plans; however, this will remain a key monitorable going ahead.

Weaknesses

Declining profitability for consecutive quarters

The profitability of the company has witnessed a sharp decline in the last seven consecutive quarters. The operating profit and PAT margin of the company declined to 9.30 and 6.20 percent in FY23, respectively, as compared to 21.02 and 15.02 percent in FY22. The decline in margins is primarily on account of lower volume offtake levels at the dealer and distributor levels and an increase in raw material prices of 20–22 percent during the same period. The lower volume of offtake was due to delayed winters in major parts of the country over the same period. Furthermore, the profit after tax (PAT) of the company deteriorated to Rs. 146.76 crore in FY23 as against Rs. 341.39 crore in FY22. The deterioration in profitability of the company further impacted the RoCE and RoE levels, which declined from 34.43 and 25.93 percent for FY22 to 13.36 and 10.03 percent for FY23, respectively. Furthermore, the profitability levels of the company also remained below Acuité's expectations for FY23.

Acuité believes that any further deterioration in the profitability of the company will remain a key rating sensitivity over the near to medium term.

The working capital-intensive nature of operations

LIL's working capital-intensive nature of operations is marked by a high Gross Current Asset (GCA) of 251 days for FY23 as against 258 days for FY22, primarily on account of high inventory build-up and receivable days. The inventory period of the company improved yet remained high at 113 days for FY23 compared to 166 days for the same period last year. The 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 in each product category apart from the inventory of raw materials. The debtor period of the company remained high at 123 days for FY23, compared to 103 days for FY22. However, the working capital utilisation of the company remains moderate, as reflected by an average utilisation of 55 percent in the last eight months ended May 2023.

ESG Factors Relevant for Rating

The company has taken several stringent steps to reduce its environmental footprint, including installing a 1 MW rooftop solar power plant at its Dankuni, West Bengal, unit and using process technology to help save water. Around 2 lakh litres of water are saved every day through the state-of-the-art processing technology. 30–40 percent of the company's total power requirements are met through renewable sources. LIL's products are made of 100 percent natural fibre, and they use recyclable packaging. Energy-saving LED lighting systems in the plants save energy. Capacitors are installed to reduce plant loads. Developed one operation theatre at Tata Medical Centre by contributing Rs. 2.50 crore, including infrastructure and medical equipment. Commitment for support of Rs. 2 crore towards the building of a free residential school project for over 1000+ unprivileged girls in Joka, West Bengal, out of which Rs. 75 lacs have already been spent. Contributed to a school project under the "Help Us Help Them' foundation. Built the Saraswati Sishu Mandir School at Bali (Murshidabad). Contributed Rs. 1.5 crore to the Dhanuka Dhunseri Foundation for the promotion of chess activities. 2000+ trees were planted on 35–40 acres of land.

Rating Sensitivities

- Sustenance of the scale of operations
- Any further deterioration in profitability margins
- 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 healthy net cash accruals and moderate working capital utilisation. The net cash accruals dipped in FY2023 but stood healthy at Rs. 165.85 crore in FY2023 as against a low debt repayment burden of only Rs. 7.71 crore over the same period. The net cash accruals of the company are expected to remain in the range of Rs. 165 crore to Rs. 207 crore during the FY24–25 period, against matured debt obligations of Rs. 4-6 crore during the same period. The cash and bank balances stood at Rs. 27.10 crore in FY2023. The current ratio of the company stood strong at 2.95 times as of March 31, 2023, as against 2.71 times in FY2022. Furthermore, the fund-based bank limit utilisation stood moderately at 55 percent over the eight months ended May 2023. Acuité believes that going forward, the company's liquidity position will remain strong on account of healthy cash accruals and moderate utilisation of working capital limits.

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 or profits, 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	2367.97	2273.00
PAT	Rs. Cr.	146.76	341.39
PAT Margin	(%)	6.20	15.02
Total Debt/Tangible Net Worth	Times	0.14	0.23
PBDIT/Interest	Times	10.97	35.33

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Jun 2022	Term Loan	Long Term	20.66	ACUITE AA+ | Stable (Reaffirmed)
	Cash Credit	Long Term	110.00	ACUITE AA+ | Stable (Reaffirmed)
	Term Loan	Long Term	0.46	ACUITE AA+ | Stable (Assigned)
	Term Loan	Long Term	9.54	ACUITE AA+ | Stable (Assigned)
	Cash Credit	Long Term	45.00	ACUITE AA+ | Stable (Reaffirmed)
	Proposed Term Loan	Long Term	15.17	ACUITE AA+ | Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE AA+ | Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE AA+ | Stable (Assigned)
	Term Loan	Long Term	13.35	ACUITE AA+ | Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE AA+ | Stable (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	170.00	ACUITE AA+ | Stable (Reaffirmed)
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)
	Bank Guarantee	Short Term	1.50	ACUITE A1+ (Reaffirmed)
		Long		

20 Mar 2020	Term Loan	Term	13.74	ACUITE AA | Positive (Reaffirmed)
	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)

Annexure - Details of instruments rated

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

HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.66	Downgraded (from ACUITE AA+)
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.46	ACUITE AA | Stable | Downgraded (from ACUITE AA+)
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.54	ACUITE AA | Stable | Downgraded (from ACUITE AA+)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Geeta Karira Analyst-Rating Operations Tel: 022-49294065 geeta.karira@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.