

Press Release

Artimas Fashions Private Limited

September 08, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	ACUITE AA-/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs.5.00 crore bank facilities of Artimas Fashions Private Limited (AFPL). The outlook is '**Stable**'.

Incorporated in 2010, Artimas Fashions Private Limited is a subsidiary of Lux Industries Limited (rated (ACUITE AA/ Positive /A1+). Initially, the company started the production of hosiery innerwear on job work basis through Lux Industries Limited in May 2019 and sold under the brand "One8" owned by Mr. Virat Kohli. In October 2019, the company established in-house manufacturing facility with a total capacity of 6000 pcs per day/ 1.5 lac pcs per month. The company is promoted by Mr. Nischal Puri and the current directors of Lux Industries Limited, i.e Mr. Ashok Kumar Todi and Mr. Pradip Kumar Todi. The company has entered into a brand license agreement with Mr. Virat Kohli, CSE Consulting LLP, who owns, controls the Brand "One8" and Lux Industries Limited, the holding company of AFPL. The company is paying a royalty to Virat Kohli and CSE Consulting LLP for using the brand 'One8.' The royalty payment has been guaranteed by Lux Industries Limited.

Analytical Approach

While arriving at the rating of AFPL, Acuite has taken into account a strong level of support from the parent company, Lux Industries Limited with which AFPL enjoys significant operational and financial linkages. Moreover, Lux Industries Limited has provided a corporate guarantee and the promoters, Mr. Ashok Kumar Todi and Mr. Pradip Kumar Todi have also given their personal guarantee to the bank facilities of AFPL. Since AFPL is a subsidiary of Lux Industries Limited, they are expected to receive management support from the latter. Hence, the rating has been notched up based on the ongoing support from Lux Industries Limited. Further, Acuite has also factored in the strategic importance of AFPL for Lux Industries Limited as it aims to enhance its presence in the premium hosiery segment in India.

Key Rating Drivers

Strengths

• Strong support from Lux Industries Limited

AFPL, being part of the Lux group, is likely to benefit from the strong market position and support of its holding company. Lux Industries Limited holds 50.97 percent stake in AFPL as on March, 2020 and remaining is being held by Ms. Divya Puri and Mr. Nischal Puri. Lux Industries Limited has a long track record of over six decades in the manufacturing of hosiery products and is one of the established players in the domestic hosiery market. The group has a wide geographical presence with outreach across the country. Lux Industries has recorded consolidated revenues and profits of Rs. 1785.97 Cr and Rs. 179.45 Cr. in FY20, respectively.

Acuite believes the strong parentage along with the market position and experienced

management of Lux Group will help AFPL to quickly ramp up its operations and establish itself in the premium innerwear segment in India. The rating further derives comfort from the financial support extended by Lux Industries Limited to AFPL in the form of corporate guarantee towards their bank facilities. In addition, Lux Industries Limited has also provided guarantee towards the royalty payment for using the brand "One8". Hence, Acuité believes that the extent of support to AFPL from the parent will remain a key rating sensitivity. Changes in the ownership pattern, deterioration in the credit profile of Lux Industries Limited and/or challenges in receiving timely financial support can adversely impact AFPL's credit risk profile over the near to medium term.

• Long term agreement with celebrity brand

AFPL has entered into an eight year agreement with Virat Kohli and CSE Consulting LLP for using the brand "One8" which is valid till Nov'2025. Further, Virat Kohli has also been involved personally in the promotion of the brand during the term of the contract. Acuité believes AFPL will benefit from the agreement and would mark its presence in the premium segment due to the strong brand appeal of Virat Kohli to the young consumers. AFPL has also received the entire distribution support of Lux Industries Limited comprising of over 1000 dealers and 150 distributors spread across India. Further, the products are sold through large format stores and online platforms. However, the COVID lockdown has impacted the production and brand promotion in Q1FY21. Acuité believes that the company will continue to benefit from its strong brand appeal of Virat Kohli.

Weaknesses

• Delay in the launch of the brand

The company had signed the deal with Virat Kohli and CSE Consulting LLP for using the brand "One8" in November, 2017. However, the brand was launched in the month of December 2019. The delays were due to the approvals for the packaging and finalizing of the design pending from Virat Kohli, which led to delays in commencement of production activities. Hence, the company has achieved revenues of Rs. 6.05 crore in FY2020 (December 2019 to March 2020). The company has achieved revenues of Rs. 2.93 crore till Aug, 2020 (Provisional).

Hence, in its first year of operations, AFPL was not able to ramp up its sales resulting in inadequate accruals for meeting their mandatory obligations in the form of royalty payment. However, Acuité derives comfort from the continual support from Lux Industries Limited and the payment guarantee provided by it. Acuité believes that the company's ability to quickly strengthen its brand recall and ramp up its operations will remain a key rating sensitivity.

Rating Sensitivity

- Stabilization of operations while achieving operating profitability
- Further dilution of the stake of Lux Industries Limited

Material Covenants

None

Liquidity Position: Adequate

The liquidity position of the company is expected to be adequate as it is supported through guarantees provided by Lux Industries Limited and the promoters of Lux Industries Limited. Lux Industries Limited has given a corporate guarantee to the bank facilities as well as for the royalty to be paid to Virat Kohli. Although the company has not availed moratorium, it has applied for COVID loan of Rs. 1.07 Cr.

Outlook: Stable

Acuite believes the company's outlook will remain stable over the medium term benefitting from its experienced management, strong parentage and brand recall. The outlook may be revised to 'Positive' in case the company quickly ramp up its operations while achieving operating profitability, strong capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any dilution of the stake of Lux Industries Limited, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	6.05	0.02
PAT	Rs. Cr.	(3.49)	(2.43)
PAT Margin	(%)	(57.65)	(121.50)
Total Debt/Tangible Net Worth	Times	(3.08)	(1.38)
PBDIT/Interest	Times	(1.86)	(17.02)

About the Rated Entity - Key Financials- Lux Industries Limited

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	1785.97	1207.05
PAT	Rs. Cr.	179.45	98.79
PAT Margin	(%)	10.05	8.18
Total Debt/Tangible Net Worth	Times	0.32	0.44
PBDIT/Interest	Times	13.14	7.92

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>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-May-2019	Cash Credit	Long Term	5.00	ACUITE AA-/ Stable (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	5.00	ACUITE AA-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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