

## Press Release

### Artimas Fashions Private Limited

August 27, 2021



### Rating Assigned & Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.13.00 Cr. (enhanced from Rs.7.74 Cr)
<b>Long Term Rating</b>	ACUITE AA-/Stable (Assigned & Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned & reaffirmed the long term rating of '**ACUITE AA-**' (**read as ACUITE double A minus**) on the Rs.13.00 Cr bank facilities of Artimas Fashions Private Limited (AFPL). The outlook remains '**Stable**'.

The rating on AFPL takes cognizance of the strong support from its parent company, Lux Industries Limited and a long term agreement with a celebrity brand endorsed by Virat Kohli. Further, the rating also draws comfort from the vast experience of the group management in the hosiery segment and a healthy scale up in the business in the first full year of its operations along with steady efforts to penetrate the premium segment. These strengths are however, partly offset by the intense competition in the hosiery industry, characterised by a significant presence of the unorganised sector.

### About the company

Incorporated in 2010, Kolkata based Artimas Fashions Private Limited is a subsidiary of Lux Industries Limited (rated at ACUITE AA+/Stable/A1+). The company is engaged in the production of hosiery innerwear through an in-house manufacturing facility with a total capacity of 7000 pcs per day/ 2.5 lac pcs per month and sells under the brand "One8" owned by Virat Kohli. 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 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, Acuité has taken into account a strong level of support from the parent company, Lux Industries Limited (LIL) with which AFPL enjoys significant operational and financial linkages. Moreover, LIL 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 LIL, they are also 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, Acuité has also factored in the strategic importance of AFPL for LIL as the group aims to enhance its presence in the premium hosiery segment in India.

### Key Rating Drivers

#### Strengths

- Promoter's extensive industry experience**

AFPL is promoted by Mr. Nischal Puri and the current directors of LIL, i.e., Mr. Ashok Kumar Todi and Mr. Pradip Kumar Todi. The promoter directors have an extensive experience spanning over three decades in the hosiery manufacturing business supported by a team of capable professionals. Initially, the company started the production of hosiery innerwear on job work basis through Lux Industries Limited and sold under the brand 'One8'. In October 2019, the company established a complete in-house manufacturing facility and in FY21 expanded its distributorship network to the tune of 140 distributors across India. Acuité believes the management's rich experience and expertise will bolster the business, going forward.

- Strong parental support from Lux Industries Limited**

AFPL, being part of the Lux group, is likely to benefit from the strong brand equity and support of its holding company. Lux Industries Limited holds 50.97 percent stake in AFPL as on March, 2021 and remaining is held by Ms. Divya Puri and Mr. Nischal Puri in equal proportion. LIL has a long track record of over six decades in the manufacturing of hosiery products and has a wide geographical presence with outreach across the country. LIL has recorded consolidated revenues and profits of Rs.1952.52 Cr and Rs.269.38 Cr. in FY21, respectively. In addition, AFPL receives financial support extended by Lux Industries Limited in the form of corporate guarantee and personal guarantees of the directors towards their bank facilities and royalty payment for using the brand "One8". Acuité believes the strong parentage along with the established brand franchise of Lux Group will help AFPL to quickly ramp up its operations and further establish itself in the premium innerwear segment in India.

- **Long term agreement with celebrity brand – 'One8'**

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 is also personally involved in the promotion of the brand during the term of the contract. Acuité believes AFPL will benefit from the agreement and would enhance its presence in the premium hosiery 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, which has helped AFPL in expanding its distributor base significantly in FY21. Further, the products are sold through both large format stores and e-commerce platforms. Acuité believes that the company will continue to benefit from the strong brand appeal of Virat Kohli.

### **Weakness**

- **Nascent stage of operations amidst competitive hosiery industry**

The previous year (FY'21) was the company's first full year of commercial operations. There was a delay of one year in the One8 brand launch due to the pending approvals for the packaging and finalizing of the design from Virat Kohli, which led to delays in commencement of production activities. However, the company was able to ramp-up its operations and achieved a turnover of Rs.16.18 Cr in FY21. Further, AFPL has achieved a revenue of Rs.5.99 Cr till July, 2021 (prov.). The company has sold 9.09 lac pieces of briefs, trunks and boxers, vests and Actimaxx wear in FY2021 as compared to 3.16 lac pieces from Dec'19 to Mar'20. Acuité believes the scale of operations of AFPL is likely to remain modest in the near term although it may be close to breakeven levels with the revival of the economy in FY22.

The hosiery industry is largely fragmented and is characterised by the presence of multiple players in the unorganised 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 Limited and Rupa & Company Limited. However, the company's strong parental support and endorsement by Virat Kohli partly mitigates the risk arising from intense competition.

### **Rating Sensitivity**

- Improvement in the scale of operations while achieving operating profitability
- Normalisation in working capital cycle
- Dilution of the stake of Lux Industries Limited

### **Liquidity Profile: Adequate**

The company's liquidity position is adequate with expectation of funding support from the parent entity, if and when required. The cash and bank balances of the company increased to Rs.0.41 Cr in FY2021 as compared to Rs.0.05 Cr in FY2020. The current ratio stood adequate at 1.19 times as on 31st March, 2021 although it declined from 1.65 times as on 31st March, 2020. The fund based limit remained utilised at 81 per cent, on an average over seven months ended July, 2021. The company availed a Covid loan of Rs.1.07 Cr but no loan moratorium during FY21. The company's net cash accruals stood negative in FY21 as against long term debt repayment of Rs.0.41 Cr over the same period, which is expected to be repaid through unsecured loans from promoters. Working capital intensity in operations is reflected by reduced yet high Gross Current Assets (GCA) of 530 days in FY2021 as compared to 996 days in FY2020. Acuité believes that going forward the liquidity position of the company will improve due to positive cash accruals and a normalisation in the working capital position.

### Outlook: Stable

Acuite believes that the outlook on AFPL 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 witnesses a material improvement in its scale of operations and significant improvement in its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any dilution in the stake of Lux Industries Limited, or elongation in its working capital management leading to deterioration of its liquidity position.

### About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	16.18	6.05
PAT	Rs. Cr.	(4.09)	(3.49)
PAT Margin	(%)	(25.27)	(57.65)
Total Debt/Tangible Net Worth	Times	(2.57)	(3.08)
PBDIT/Interest	Times	(0.85)	(1.86)

### About the Parent Entity Financials - Lux Industries Limited

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	1952.52	1782.47
PAT	Rs. Cr.	269.38	180.82
PAT Margin	(%)	13.80	10.14
Total Debt/Tangible Net Worth	Times	0.12	0.29
PBDIT/Interest	Times	30.87	13.64

### Status of non-cooperation with previous CRA

Not Applicable

### Any other information

Not Applicable

### Material Covenant

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Crore)	
02 November 2020	Cash credit	Long term	5.00	ACUITE AA-/ Stable (Reaffirmed)
	Term Loan	Long term	2.74	ACUITE AA-/ Stable (Assigned)
08 October 2020	Cash credit	Long term	5.00	ACUITE AA-/ Stable (Reaffirmed)
28 May 2019	Cash credit	Long term	5.00	ACUITE AA-/ Stable (Assigned)

### \*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE AA-/Stable (Reaffirmed)
HDFC Bank	Term Loan	Not Available	7.75%	Not Available	1.50	ACUITE AA-/Stable (Reaffirmed)
HDFC Bank	GECL-WCTL	Not Applicable	Not Applicable	Not Applicable	1.07	ACUITE AA-/Stable (Assigned)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.43	ACUITE AA-/Stable (Assigned)

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### About Acuité Ratings & Research:

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