

Press Release

Artimas Fashions Private Limited

December 14, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.50	ACUITE AA- Stable Assigned	-
Bank Loan Ratings	13.00	ACUITE AA- Stable Reaffirmed	-
Bank Loan Ratings	1.00	-	ACUITE A1+ Assigned
Total Outstanding Quantum (Rs. Cr)	19.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed and assigned the long-term rating of '**ACUITE AA-**' (read as **ACUITE double A minus**) and short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.19.50 Cr bank facilities of ARTIMAS FASHIONS PRIVATE LIMITED (AFPL). The outlook remains '**Stable**'.

Rationale for the rating

The rating reaffirmation on AFPL takes into account 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 along with potential to scale up the business. 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, Acuite 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

Experienced management

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 by 2022, it expanded its distributorship network to the tune of 170 distributors across India. Acuité believes the management's rich experience and expertise will bolster the business, going forward.

Strong parental support from the 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.2260.57 Cr and Rs.341.39 Cr. in FY2022, 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 170 distributors spread across India, which has helped AFPL in expanding its distributor base significantly in FY22. 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.

Weaknesses

Below average financial risk profile

The company's below average financial risk profile is marked by reducing networth and a backup of corporate guarantee given by LIL and personal guarantee given by the common directors, Mr. Ashok Kumar Todi and Mr. Pradip Kumar Todi to the bank facilities of AFPL as well as for the royalty payment to Mr. Virat Kohli, which gives strong comfort. Also, Lux Industries Limited has 50.97 per cent stake in AFPL. The financial risk profile of LIL has improved further in FY22 marked by improved networth, comfortable gearing which stood below unity and robust debt protection indicators. For AFPL, the tangible networth of the company stood negative, due to losses. Acuité believes that going forward the financial risk profile of the company will improve backed by gradually improving accruals, continued support from Lux Industries Limited and the payment guarantee provided by it.

Nascent stage of operations amidst competitive hosiery industry

The company started its commercial operations in FY2021. 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.25.97 Cr in FY22 against Rs.16.18 Cr in FY21. Further, AFPL has achieved a revenue of Rs.15.02 Cr till September, 2022 (prov.). Acuité believes the scale of operations of AFPL is likely to remain modest in the near term.

Further, 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 (rated at ACUTE AA/Stable/A1+) and Rupa & Company Limited. However, the company's strong parental support and endorsement by Virat Kohli partly mitigates the risk arising from intense competition.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

Adequate

The company's liquidity position is adequate as Lux Industries Limited has given a corporate guarantee to the bank facilities as well as for the royalty to be paid to Virat Kohli. The net cash accruals stood negative in FY22 as against long term debt repayment of Rs.0.41 Cr over the same period, which will be repaid through unsecured loans from promoters. The cash and bank balances of the company increased to Rs.0.07 Cr as on March 31, 2022 as compared to Rs.0.41 Cr as on March 31, 2021. The current ratio stood moderate at 1.28 times as on March 31, 2022 as compared to 1.19 times as on March 31, 2021. The fund based limit remained utilised at 84 per cent over thirteen months ended October, 2022. The company's operations are working capital intensive as reflected by high Gross Current Asset (GCA) days of 515 days as on March 31, 2022 as compared to 530 days as on March 31, 2021. Acuité believes that going forward the liquidity position of the company will improve due to steady accruals supported by guarantees provided by LIL for the bank facilities of AFPL.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	25.97	16.18
PAT	Rs. Cr.	(3.29)	(4.09)
PAT Margin	(%)	(12.68)	(25.27)
Total Debt/Tangible Net Worth	Times	(2.35)	(2.57)
PBDIT/Interest	Times	(0.21)	(0.85)

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>
- 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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
23 Nov 2022	Working Capital Term Loan	Long Term	1.07	ACUITE AA- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE AA- Stable (Reaffirmed)
	Term Loan	Long Term	1.93	ACUITE AA- Stable (Reaffirmed)
27 Aug 2021	Proposed Bank Facility	Long Term	0.43	ACUITE AA- Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE AA- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE AA- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.07	ACUITE AA- Stable (Assigned)
02 Nov 2020	Term Loan	Long Term	2.74	ACUITE AA- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE AA- Stable (Reaffirmed)
08 Oct 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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A1+ Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE AA- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE AA- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.43	ACUITE AA- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	7.75	Not available	Simple	0.07	ACUITE AA- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	7.75	Not available	Simple	1.93	ACUITE AA- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.07	ACUITE AA- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Kaustav Saha Manager-Rating Operations Tel: 022-49294065 kaustav.saha@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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.