Ebell Fashions Private Limited

March 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**27.22 (Reduced from 27.83)**	**CARE A (CWD) (Single A) (Under Credit watch with Developing Implications)**	**Continues to be on Credit watch with Developing Implications**
Total Facilities	**27.22 (Rs. Twenty-Seven Crore and Twenty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Ebell Fashions Private Limited (EFPL) continues to remain on credit watch with developing implications due to the approval of a Composite Scheme of Arrangement by Lux Industries Limited's (LIL) Board of Directors regarding merger of J. M. Hosiery & Co. Limited (JMHCL) and EFPL with LIL. Upon the Scheme becoming effective and in consideration of the merger, LIL will offer 29 equity shares of Rs.2 each fully paid up of LIL for every 100 equity shares of Rs.10 each fully paid up of JMHCL and 1142 equity shares of Rs.2 each fully paid up of LIL for every 100 equity shares of Rs.10 each fully paid up of EFPL. The scheme has been approved by SEBI vide order date March 05, 2020. The proposal is now pending before NCLT for approval. CARE will continue to monitor the developments in this regard and will take a view on the rating once the merger process is completed.

The rating assigned to the Bank Facilities of EFPL continues to derive strength from the long track record and significant experience of the promoters, Lux group's integrated nature of operations and wide product range with established brand presence in the hosiery industry and established selling & marketing arrangements of the group. The rating also takes into account the satisfactory financial performance of EFPL during FY20 (refers to the period from April 01 to March 31) and 9MFY21 marked by growth in revenue along with improvement in profitability despite dampen effect of COVID-19 and comfortable capital structure. The rating, however, continues to be constrained by the working capital intensive nature of operations, exposure to volatility in the prices of raw materials and intense competition.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

Growth in revenue over Rs.350 crore on a sustained basis with maintenance of profitability margin

Negative Factors- Factors that could lead to negative rating action/downgrade:

• Decline in revenue by ~15%

• Any debt laden capex resulting in deterioration of overall gearing ratio beyond 0.7x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and significant experience of promoter in the hosiery industry

EFPL is a part of the Lux group which traces its origins to Mr Girdharilalji Todi who had started the business of manufacturing innerwear in 1957. His sons, Mr Ashok Todi and Mr Pradeep Todi, the current promoters, also have an experience of four decades in the hosiery business.

Lux group's integrated nature of operations

The major entities of the group are LIL, JMHCL, EFPL and S. D. International (SDI) and they share a common marketing and advertisement network, along with common suppliers. LIL's focus is on the men's innerwear and outerwear including thermal wear with its major brands being ONN, Lux Cozi, Lux Classic, Lux Venus, Lux Cottswool, Inferno. While JMHCL is more focused on women's innerwear and outerwear and markets its products under the brand names GenX, KoolZ, Touch, Karishma and Target, EFPL focuses on women's ethnic bottom wear under the brand name Lux Lyra. SDI focuses on kids wear for export markets.

Wide product range of the group coupled with established brand presence in hosiery industry

The Lux group has over the years broadened its product portfolio, which now spans innerwear products for men, women as well as children, across all price ranges; ethnic bottom wear, thermal wear, socks and casual outer wears. Furthermore, the group has aggressively pursued various marketing and promotional activities to build a strong brand name.

Aggressive marketing spends and strong distribution network

Besides branding which has created a demand pull, the group is also aggressively expanding its distribution network and it had over 800 distributors and retailers and 15 exclusive brand outlets (EBOs) across the country. The advertisement expenditure

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

reduced from 10.13% of sales in FY18 to 8.60% in FY19 and further to 6.08% in FY20 as the company is benefitting from the brand, signifying higher sales at lower incremental ad-spend. Selling expense, however, increased as a % of sales in view of higher discount and other selling incentives to boost sales.

Wide geographical presence albeit lower penetration in Southern & Northern India

EFPL has presence across all regions albeit lower presence in Southern and Northern India. Western region contributed 40% to sales in FY20 followed by Central and Eastern regions with 25% and 27% respectively. Furthermore, sales to top 5 customers contributed approximately 12% of the net sales in FY20 and 9MFY21, signifying low customer concentration risk.

Increase in total operating income with improvement in profitability margins during FY20 & 9MFY21

The operating income of the company grew by 7% in FY20 over FY19 (29% in FY19 over FY18). The sales realization in FY19-FY20 remained stable in the range of Rs.180-Rs195. The growth was on account of higher sales volume. PBILDT margin of the company improved from 18.05% in FY19 to 21.50% in FY20 due to lower cost of packing material and reduction in advertisement expense which was partly offset by increase in Job work expenses in FY20. Due to improvement in PBILDT coupled with low capital charge the company earned PAT of Rs.43.48 crore in FY20 against Rs.32.18 crore in FY19. The company earned healthy GCA of Rs.44 crore in FY20 vis-à-vis negligible debt repayment obligation (Rs.0.96 crore) in FY20.

Due to almost negligible sales in Q1FY21 and slower ramp up of production leading to inability to fulfil the orders, the company's sales volume and realization got affected in current year, pursuant to which, EFPL achieved net sales of Rs.146 crore in 9MFY21 vis-à-vis Rs.143.36 crore in H1FY20. The PBDILT and PAT of the company stood at Rs.43.79 crore and Rs.33.74 crore respectively. In 9MFY21, the company earned a GCA of Rs.35 crore against debt repayment obligation of Rs.0.17 crore.

Comfortable capital structure and improvement in debt coverage indicators

The capital structure of EFPL is characterized by comfortable net worth and low debt position. The overall gearing ratio of the company improved to 0.01x as on March 31, 2020 from 0.23x as on March 31, 2019. Consequently, total debt to GCA of the company improved to 0.02x as on March 31, 2020 from 0.60x as on March 31, 2019. The interest coverage ratio improved significantly from 62.82x in FY19 to 128.37x in FY20 due to increase in EBITDA and lower interest expenses (Rs.0.74 crore in FY19 to Rs.0.46 crore in FY20). Further, the company repaid Rs.0.17 crore till December 31, 2020 towards its debt repayment obligation.

Key Rating Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive due to high inventory holding and credit extended to the distributors. The operating cycle of the company though high, remained in the same range at 95 days in FY20 against 96 days in FY19. The same was primarily on account of decrease in collection period from 77 days in FY19 to 70 days in FY20 while the inventory period remained at the same range of 83 days in FY20 and FY19. EFPL is utilizing the lockdown period as an opportunity to liquidate its receivables by supplying to the distributors only after payment of dues. As there is pent up demand in the market, this gives the company a bargaining power over the distributors. Despite its high working capital cycle, its average utilization of its cash credit limits has remained Nil during last twelve months ending February 2021 vis-à-vis 8% during 12 months period ending November 2019.

Raw material price fluctuation risk

Raw material (including purchases of traded goods) cost formed about 40-45% of the total cost of sales during FY19-FY20. The major raw materials for EFPL are yarn/knitted yarn, the prices of which are dependent on the prices of cotton which being commodity in nature have volatile price movements. However, as the group procures yarn in bulk quantities it is able to procure the same at a discount to the market price. Moreover, any increase in raw material costs is ultimately passed on to the customers, though with a time lag. Majority of EFPL's production is through job work. However, knitting is done through its own manufacturing facilities or under its strict supervision. Accordingly, by emphasizing on quality, LUX group has been able to establish its brand across diversified product segments.

Industry characterized by intense competition

The textile industry has two broad segments. The first is the unorganized sectors which comprise of small-scale handicraft units and using traditional tools and methods. The second is the organized sector consisting of spinning, apparel and garments segment which applies modern machinery and techniques to avail the advantage of economies of scale. With implementation of GST, the organized sector has benefitted in terms of market share.

There are about 10 key players in the branded innerwear segment. LIL as a group has grown over the last decade and chartered a decent market share of 15%. The management intends to leverage the growing brand equity of LUX to mitigate competition to an extent.

Liquidity: Strong

The liquidity of the company is marked by strong cash accruals of Rs.44 crore in FY20 against negligible repayment obligation of Rs.0.97 crore. The average working capital utilization over the period of last 12 months ended February 28, 2021 was Nil due to efficient management of debtors & inventory. The overall gearing is low at 0.01x as on March 31, 2020 giving sufficient headroom, to raise additional debt for its capex if any. As on March 31, 2020 the company has parked its surplus funds of Rs. 38.0 crore in mutual funds. The cash and bank balance as on March 31, 2020 and December 31, 2020 stood at Rs.3.85 crore and Rs.11.16 crore respectively. Further as confirmed by the management and banker the company did not for moratorium under RBI-COVID 19 relief package.

Analytical approach: Standalone while factoring linkages with the LUX group.

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
Factoring Linkages in Ratings
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities
CARE's methodology for manufacturing companies
CARE's methodology for cotton textile manufacturing

About the Company

EFPL was originally incorporated as Ebell Polymers Private Limited in June'1997 and subsequently its name was changed to its present name in May'2013. It was taken over by the present management in 2005. EFPL is part of the LUX group, based out of Kolkata. EFPL is engaged in manufacturing of ethnic bottom wear for women under the brand name Lux Lyra at its manufacturing unit in Kolkata. The day-to-day affairs of EFPL are looked after by Mr. Saket Todi (son of Mr Ashok Todi) and Mr. Udit Todi (son of Mr Pradeep Todi).

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	257.84	274.80
PBILDT	46.51	59.07
PAT	32.18	43.48
Overall gearing (times)	0.23	0.01
Interest coverage (times)	62.77	128.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	24.50	CARE A (CWD)
Fund-based - LT-Term Loan	-	-	-	March 2024	2.72	CARE A (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)Withdrawn (05-Feb-18)
2.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (05-Feb-18)
3.	Fund-based - LT-Working Capital Limits	LT	24.50	CARE A (CWD)	-	1)CARE A (CWD) (14-Feb-20)	1)CARE A (CWD) (13-Dec-18) 2)CARE A (CWD) (05-Jul-18)	1)CARE A; Stable (05-Feb-18)
4.	Fund-based - LT-Term Loan	LT	2.72	CARE A (CWD)	-	1)CARE A (CWD) (14-Feb-20)	1)CARE A (CWD) (13-Dec-18) 2)CARE A (CWD) (05-Jul-18)	1)CARE A; Stable (05-Feb-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Limits	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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