

## Ebell Fashions Private Limited

February 05, 2018

### Rating

| Instruments               | Amount<br>(Rs. crore)   | Rating <sup>1</sup>                              | Rating Action  |
|---------------------------|---|--|--|
| Long term Bank Facilities | 27.29   | CARE A; Stable<br>(Single A;<br>Outlook: Stable) | Revised from CARE A- (SO); Stable<br>[Single A Minus (Structured<br>Obligation); Outlook: Stable]@ |
| <b>Total</b>              | <b>27.29</b><br><b>(Rs. Twenty Seven crore and<br/>Twenty Nine lakh only)</b> |  |  |

@ The rating was earlier based on credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by J. M. Hosiery & Co. Limited. However, the corporate guarantee has been withdrawn and a standalone rating has now been assigned.

Details of instrument/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ebell Fashions Private Limited (EFPL) derives 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, established selling & marketing arrangements of the group, growing scale of operations of EFPL with improvement in profitability margins during FY14-17 (refers to the period April 1 to March 31) and comfortable capital structure.

The rating, however, is constrained by the working capital intensive nature of operations, exposure to volatility in the prices of raw materials and intense competition.

The ability of the company to improve its market share and profitability along with effective management of working capital would be the key rating sensitivities.

CARE had earlier assigned rating to EFPL based on credit enhancement in the form of corporate guarantee extended by JMHCL. However, as the corporate guarantee has been withdrawn, a standalone rating has now been assigned.

### Detailed Description of 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 over three decades in the hosiery business.

#### **Lux group's integrated nature of operations**

The major entities of the group are Lux Industries Limited (LIL, rated CARE A+; Stable/CARE A1+), JMHCL (rated CARE A-; Stable), EFPL, and S. D. International (SDI, rated CARE A-; Stable (SO)) 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 leggings 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, leggings, thermal wear, socks and casual outer wears.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Furthermore, the group has aggressively pursued various marketing and promotional activities to build a strong brand name. Besides branding which has created a demand pull, the group has also expanded its distribution network.

#### ***Growing scale of operations with improvement in profitability during FY14-17***

The leggings unit of EFPL became operational during the latter part of FY14. The scale of operations of the company witnessed substantial growth during FY14-17 wherein the operating income of the company increased from Rs.23.01 crore in FY14 to Rs.164.82 crore in FY17. However, the same remains moderate.

The profitability margins of the company also improved with PBILDT margin improving from 3.11% in FY15 to 16.39% in FY17. PAT margin improved from 1.71% in FY15 to 10.05% in FY17 with improvement in operating profit.

EFPL achieved sales of Rs.151.71 crore and PAT of Rs.14.78 crore during 9MFY18.

#### ***Comfortable capital structure***

The capital structure of the company is comfortable and the debt equity ratio stood at 0.06x as on March 31, 2017 while the overall gearing ratio stood at 0.60x as on March 31, 2017.

With improvement in profitability, the debt coverage indicators also improved in the last two years PBILDT interest coverage and total debt to GCA improved to 20.45x and 1.09x respectively in FY17 as compared to 6.32x and 8.12x respectively in FY15.

#### **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 increased from 67 days in FY16 to 96 days in FY17 on account of increase in inventory period from 78 days in FY16 to 91 days in FY17 and increase in collection period from 53 days in FY16 to 73 days in FY17. The increase in inventory was due to increase in inventory of work in progress. Whereas, increase in collection period was on account of higher credit offered by the company to increase market share and also during demonetization. The creditor period remained at 68 days during FY17. The average working capital utilisation stood at about 49% for the last twelve months ending October'2017.

##### ***Raw material price fluctuation risk***

Raw material (including purchases of traded goods) cost formed about 53% of the total cost of sales during FY17. 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 has volatile price movements.

##### ***Industry characterised by intense competition.***

The industry is characterised by significant competition from established players and dominated by the unorganised segment.

**Analytical approach:** Standalone while factoring linkages with the group

#### **Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology- Factoring linkages in Ratings](#)

#### **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 leggings 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) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income       | 160.49   | 164.82   |
| PBILDT                       | 15.56    | 27.01    |
| PAT                          | 8.92     | 16.57    |
| Overall gearing (times)      | 1.49     | 0.60     |
| Interest coverage (times)    | 12.91    | 20.45    |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument                 | 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 | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Term Loan-Long Term                    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - LT-Working Capital Limits | -                | -           | -             | 24.50                         | CARE A; Stable                            |
| Fund-based - LT-Term Loan              | -                | -           | June'23       | 2.79                          | CARE A; Stable                            |

**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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1.      | Fund-based - LT-Working Capital Limits | LT              | -                              | -              | -   | 1)CARE A-(SO); Stable (13-Jan-17)         | 1)CARE A-(SO) (11-Jan-16)                 | 1)CARE A-(SO) (11-Jul-14)                 |
| 2.      | Term Loan-Long Term                    | LT              | -                              | -              | -   | 1)CARE A-(SO); Stable (13-Jan-17)         | 1)CARE A-(SO) (11-Jan-16)                 | -   |
| 3.      | Fund-based - LT-Working Capital Limits | LT              | 24.50                          | CARE A; Stable | -   | -   | -   | -   |
| 4.      | Fund-based - LT-Term Loan              | LT              | 2.79                           | CARE A; Stable | -   | -   | -   | -   |

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