Ebell Fashions Private Limited
February 14, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	27.83 (enhanced from 26.93)	**CARE A; Credit Watch with Developing Implications (Single A; under credit watch with developing implications)**	**Continues on credit watch with developing implications**
Total facilities	**27.83 (Rs. Twenty seven crore and eighty three lakh 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. 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 FY19 and H1FY20 marked by growth in revenue, improvement in profitability and moderate 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.

Key rating sensitivities

Positive factors

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

Negative factors

- 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 950 distributors, 160 large format stores and 9 exclusive brand outlets (EBOs) across the country. The advertisement expenditure reduced from 10.13% of sales in FY18 to 8.60% in FY19 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 with lower presence in Southern and Northern India. Western region contributes 37% of sales in FY19 followed by Central region with 32% contribution in sales of FY19. Furthermore, sales to top 5 customers contributed approximately 12% of the net sales in 9MFY20, signifying low customer concentration risk.

Increase in total operating income with improvement in profitability margins during FY19 & H1FY20
The operating income of the company grew by 29% in FY19 over FY18 (20% in FY18 over FY17). The growth was on account of higher sales volume. PBILDT margin improved from 17.60% in FY18 to 18.05% in FY19 due to better absorption of fixed cost in view of growing scale of operations. Due to improvement in PBILDT coupled with low capital charge the company earned higher PAT of Rs.32.18 crore in FY19 vis-à-vis Rs.21.05 crore in FY18. The company earned healthy GCA of Rs.32.68 crore in FY19 vis-à-vis negligible debt repayment obligation (Rs.0.96 crore) in FY19.
EFPL achieved sales of Rs.143.36 crore and PAT of Rs.20.86 crore in H1FY20 vis-à-vis Rs.128.68 crore and PAT of Rs.14.78 crore during H1FY19.

Comfortable capital structure and improvement in debt coverage indicators
The capital structure of the company is comfortable at 0.23x as on March 31, 2019. The debt coverage indicators improved as the working capital borrowings was lower despite increase in scale of operations of the company. Consequently, total debt to GCA improved to 0.60x as on March 31, 2019 vis-à-vis 0.73x as on March 31, 2018. The interest coverage ratio improved significantly from 22.70x in FY18 to 62.82x in FY19 due to increase in EBITDA and lower interest expenses. Further as on September 30, 2019 the working capital borrowing was NIL and overall gearing ratio was almost zero.

Key Rating Weaknesses
Working capital intensive nature of operations
The operating cycle of the company though improved from 110 days in FY18 to 96 days in FY19, remained on the higher side. The same was primarily on account of decrease in inventory period from 97 days in FY18 to 82 days in FY19 and collection period from 85 days in FY18 to 77 days in FY19. However, despite its high working capital cycle, its average utilization of its cash credit limits has remained negligible at 6% during last twelve months ending November 2019 vis-à-vis 40% during 12 months period ending June 2018.

Raw material price fluctuation risk
Raw material (including purchases of traded goods) cost formed about 44-46% of the total cost of sales during FY19. 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.

Industry characterised by intense competition
The industry is characterised by significant competition from established players and dominated by the unorganised segment. Even in the casual outerwear segment, significant competition exists from regional brands in the adult segment and kid's segment.

Liquidity: Superior
The liquidity of the company is marked by strong cash accruals of Rs.32.68 crore in FY19 against negligible repayment obligation of Rs.1.02 crore in FY19. The average working capital utilization over the period of last 12 months ended November 2019 was negligible at 6%. The overall gearing is low at 0.23x as on March 31, 2019 giving sufficient headroom, to raise additional debt for its capex. As on January 28, 2020 the company had surplus funds to the tune of Rs.36.0 crore in mutual funds.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook & Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – Factoring Linkages in Ratings
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)	FY18 (A)	FY19 (A)
Total operating income	199.31	257.65
PBILDT	34.98	46.32
PAT	21.05	32.18
Overall gearing (times)	0.30	0.23
Interest coverage (times)	22.62	62.52

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

Annexure-1: Details of facilities

Name of the Bank Facilities	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 (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	March 2024	3.33	CARE A (Under Credit watch with Developing Implications)

Annexure-2: Rating History for last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	1)Withdrawn (05-Feb-18)	1)CARE A- (SO); Stable (13-Jan-17)
2.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (05-Feb-18)	1)CARE A- (SO); Stable (13-Jan-17)
3.	Fund-based - LT-Working Capital Limits	LT	24.50	CARE A (Under Credit watch with Developing Implications)	-	1)CARE A (Under Credit watch with Developing Implications) (13-Dec-18) 2)CARE A	1)CARE A; Stable (05-Feb-18)	-

						(Under Credit watch with Developing Implications) (05-Jul-18)		
4.	Fund-based - LT-Term Loan	LT	3.33	CARE A (Under Credit watch with Developing Implications)	-	1)CARE A (Under Credit watch with Developing Implications) (13-Dec-18) 2)CARE A (Under Credit watch with Developing Implications) (05-Jul-18)	1)CARE A; Stable (05-Feb-18)	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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