

Ebell Fashions Private Limited

July 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	27.29	CARE A (Single A; Credit Watch with Developing Implications)	Placed on credit watch with developing implications
Total Facilities	27.29 (Rs. Twenty Seven crore and Twenty Nine lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to Ebell Fashions Private Limited (EFPL) on credit watch with developing implications. The rating action follows the approval of a Composite Scheme of Arrangement by Lux Industries Limited's (LIL, rated CARE A+; Stable/CARE A1+) 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 ratings once the merger process is completed.

The rating assigned to the bank facilities of 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 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.

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 over three 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 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.

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

The leggings unit of EFPL became operational during the latter part of FY14. Thereafter, the scale of operations of the company has witnessed substantial growth with improvement in profitability margins.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Comfortable capital structure

The company has comfortable capital structure & debt coverage indicators.

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 high collection period is on account of higher credit offered by the company to add new distributors and increase its market share.

Raw material price fluctuation risk

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. However, the company is able to pass on the increase in raw material prices.

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

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	24.50	CARE A (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	June 2023	2.79	CARE A (Under Credit watch with Developing Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	-	-	-	1)Withdrawn (05-Feb-18)	1)CARE A-(SO); Stable (13-Jan-17)	1)CARE A-(SO) (11-Jan-16)
2.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (05-Feb-18)	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 (Under Credit watch with Developing Implications)	-	1)CARE A; Stable (05-Feb-18)	-	-
4.	Fund-based - LT-Term Loan	LT	2.79	CARE A (Under Credit watch with Developing Implications)	-	1)CARE A; Stable (05-Feb-18)	-	-

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