Ebell Fashions Private Limited

December 13, 2018

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	26.93 (reduced from 27.29)	**CARE A; Credit Watch with Developing Implications (Single A; under credit watch with developing implications)**	**Continues on credit watch with developing implications**
Total facilities	**26.93 (Rs. Twenty Six crore and Ninety Three lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to Ebell Fashions Private Limited (EFPL) continue 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 ratings assigned to the bank facilities of EFPL 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, established selling & marketing arrangements of the group and comfortable capital structure. The ratings also factor in the significant growth in scale of operations with stable profitability margins during FY18 (refers to the period April 1 to March 31).

The ratings, however, are 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 and 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.

Significant growth in scale of operations with stable profitability margins during FY18

The scale of operations of the company witnessed growth during FY18 wherein the operating income of the company grew by 20% from Rs.164.82 crore in FY17 to Rs.198.09 crore in FY18. The same was primarily on account of increased sales of the leggings unit which is branded under the name of *Lux Lyra*. The PBILDT margin also improved to 17.68% in FY18 vis-à-vis 16.39% in FY17. PAT margin remained stable at 10.62% in FY18 vis-a-vis 10.05% in FY17. The company generated cash accruals of Rs.21.40 crore in FY18 (Rs.16.90 crore in FY17).

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

EFPL achieved sales of Rs.128.68 crore and PAT of Rs.14.78 crore during H1FY19.

Comfortable capital structure

The capital structure of the company is comfortable. The debt equity ratio stood at 0.05x as on March 31, 2018 vis-à-vis 0.06x as on March 31, 2017 while the overall gearing ratio further improved and stood at 0.30x as on March 31, 2018 vis-à-vis 0.60x as on March 31, 2017 due to lower working capital borrowings and accretion of profits to networth.
The debt coverage indicators also improved as the working capital borrowings was lower despite increase in scale of operations of the company. Consequently, PBILDT interest coverage and total debt to GCA improved to 22.65x and 0.73x respectively in FY18 as compared to 20.45x and 1.09x respectively in FY17.

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 further increased from 96 days in FY17 to 111 days in FY18. The same was primarily on account of increase in inventory period from 91 days in FY17 to 98 days in FY18 and increase in collection period from 73 days in FY17 to 85 days in FY18. The creditor period remained at similar level during FY8.

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.

Liquidity

The liquidity position of the company is comfortable with cash and cash equivalents of Rs.3.01 crore as on March 31, 2018 and average utilization of its cash credit limits has remained moderate at 40% during the last twelve months ending October'18.

Analytical approach: Standalone while factoring linkages with the group. The companies considered in the group are LIL and JMHCL.

Applicable Criteria

CARE's Policy on Default Recognition
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)	FY17 (A)	FY18 (A)
Total operating income	164.82	198.09
PBILDT	27.01	35.03
PAT	16.57	21.05
Interest coverage (times)	0.60	0.30
Overall Gearing	20.45	22.65

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

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Annexure-1: Details of 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	-	-	Dec'23	2.43	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 (Under Credit watch with Developing Implications) (05-Jul-18)	1)CARE A; Stable (05-Feb-18)	-	-
4.	Fund-based - LT-Term Loan	LT	2.43	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (05-Jul-18)	1)CARE A; Stable (05-Feb-18)	-	-

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