

Ebell Fashions Pvt. Ltd.

January 13, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	21.50	CARE A- (SO); Stable* [Single A Minus (Structured Obligation); Outlook: Stable]	Reaffirmed
Total Facilities	21.50 (Rupees Twenty One crore and Fifty lakhs only)		

* based on credit enhancement in the form of unconditional and irrevocable guarantee of J. M. Hosiery & Co. Ltd.

Details of instruments/facilities in Annexure-1

Detailed Rationale

The aforesaid rating is based on the credit enhancement in the form of unconditional and irrevocable guarantee of J. M. Hosiery & Co, Ltd. (JMHCL, rated CARE A-; Stable) for the entire debt servicing obligation (i.e., payment of interest and/or other charges and principal repayment) during the full tenure of the facilities.

The rating assigned to JMHCL 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 and established selling & marketing arrangements of the group. The rating also takes into account the satisfactory financial performance of JMHCL during FY16 (refers to the period April 1 to March 31) marked by improvement in profitability margins and moderate capital structure.

The rating is, however, 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 alongwith effective management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

JMHCL 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.

The major companies of the group are Lux Industries Limited (LIL), JMHCL, Ebell Fashions Pvt. Ltd. (EFPL), and S. D. International (SDI) and they share a common marketing and advertisement network, alongwith 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.

The total operating income of JMHCL witnessed a marginal growth of 3.39% in FY16. The PBILDT margin improved from 6.82% in FY15 to 8.27% in FY16 primarily due to decline in selling expenses and lower raw material costs which also led to improvement in PAT margin to 3.23% in FY16 vis-à-vis 2.99% in FY15.

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

The capital structure of the company continued to remain moderate. The company had debt equity of 0.26x as on March 31, 2016 as compared to 0.06x as on March 31, 2015, whereas, the overall gearing ratio stood at 1.33x as on March 31, 2016 as compared to 1.11x as on March 31, 2015.

The working capital cycle of the company continued to remain high and further increased to 213 days in FY16 from 185 days in FY15 due to high average inventory period and average collection period. The average working capital utilisation stood at about 81% for the last twelve months ending September'2016.

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 is also aggressively expanding its distribution network.

Raw material (including purchases of traded goods) cost formed about 55% of the total cost of sales during FY16 and FY15. The major raw materials for JMHCL are yarn/knitted yarn, the prices of which are dependent on the prices of cotton which being commodity in nature have volatile price movements. Furthermore, the industry is characterised by significant competition from established players and dominated by the unorganised segment.

Analytical Approach:

The rating is based on the assessment of JMHCL, the guarantor for rated debt of EFPL.

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

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

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

[Financial Ratios - Non Financial Sector](#)

About the company

EFPL was originally incorporated as Ebell Polymers Pvt. Ltd. in June 1997 and 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, promoted by the two sons of Mr Girdharilaji Todi, Mr Ashok Todi, and Mr Pradeep Todi. EFPL is engaged in manufacturing of leggings for women under the brand name Lux Lyra at its manufacturing unit in Kolkata.

The company earned PAT of Rs.8.92 crore on total operating income of Rs.160.49 crore in FY16 as compared to a PAT of Rs.1.56 crore on a total operating income of Rs.91.35 crore in FY15.

Guarantor Background

JHMCL is a part of the Lux group. It manufactures women's innerwear and outerwear. The company earned PAT of Rs.7.34 crore on total operating income of Rs.227.31 crore in FY16 as compared to a PAT of Rs.6.57 crore on a total operating income of Rs.219.87 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Analyst Contact

Name: Mamta Muklania

Tel # 033-4018 1651

Mobile # 98304 07120

Email: mamta.khemka@careratings.com

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

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 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	-	-	-	18.00	CARE A- (SO); Stable
Term Loan-Long Term	-	-	September, 2021	3.50	CARE A- (SO); Stable

Annexure 2

Rating History for last three years:-

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Chronology of Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Working Capital Limits	LT	18.00	CARE A-(SO); Stable	-	1)CARE A-(SO) (11-Jan-16)	1)CARE A-(SO) (11-Jul-14)	-
2.	Term Loan-Long Term	LT	3.50	CARE A-(SO); Stable	-	1)CARE A-(SO) (11-Jan-16)	-	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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