J. M. Hosiery & Co. Limited
February 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	110.00 (Rs. One hundred and ten crore only)	**CARE A-; Credit watch with developing implications (Single A minus; under credit watch with developing implications)**	**Continues on credit watch with developing implications**

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to J. M. Hosiery & Co. Limited (JMHCL) 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 JMHCL and Ebell Fashions Private Limited (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 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 FY19 and H1FY20 marked by growth in revenue, improvement in profitability margins and moderate capital structure.

The rating, however, continues to be constrained by the working capital intensive nature of operations with elongated operating cycle, exposure to volatility in the prices of raw materials and intense competition.

Key rating sensitivities

Positive factors

• Growth in revenue by 20% and PBILDT margin over 15% on a sustained basis coupled with improvement in GCA
• Improvement in gearing ratio below 0.50x on a sustained basis.

Negative factors

• Decline in revenue by ~15% coupled with delay in PBILDT margin below 9% on a sustained basis.
• Any debt laden capex resulting in deterioration of overall gearing ratio beyond 1.2x on a sustained basis.
• Deterioration in working capital cycle beyond 250 days on sustained basis.

Detailed description of the key rating drivers

Long track record of operations and significant experience of promoter in the hosiery industry

JHMCL 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

The group has aggressively pursued various marketing and promotional activities to build a strong brand name and spends on an average around 8%-10% of its total income on advertising & publicity initiatives. The advertisement expenditure reduced from 8.7% of sales in FY18 to 6.4% in FY19 as the Company is benefitting from the brand, signifying higher sales at lower incremental ad-spend. Selling expense as a % of sales also reduced in FY19.

Increase in total operating income with improvement in profitability margin during FY19 & H1FY20

The total operating income of the company witnessed a robust growth of 12% from Rs.291.83 crore in FY18 to Rs.328.19 crore in FY19 due to increase in sales volume along with better realisation with increased focus on value added products. PBILDT margin was stable at 10.86% in FY19 vis-à-vis 10.88% in FY18 despite increase in sales realization coupled with volume due to increase in processing charges. PAT margin remained stable at 5.64% in FY18 & FY19 despite increase in capital charge. The company earned GCA of Rs.19.80 crore vis-à-vis negligible debt repayment obligation of Rs.0.24 crore in FY19. The company reported PAT of Rs.10 crore on operating revenue of Rs.165 crore in H1FY20.

Moderate capital structure and improvement in debt coverage indicators

The capital structure of the company continued to remain moderate at 0.91x as on March 31, 2019. The company's debt equity improved to 0.02x as on March 31, 2019 vis-à-vis 0.11x as on March 31, 2018 with repayment of unsecured loan from promoters.

The interest coverage ratio deteriorated slightly from 4.76x in FY18 to 4.06x in FY19 due to higher interest expenses during the year. Total debt to GCA improved to 5.05x as on March 31, 2019 vis-à-vis 6.52x in FY18 due to higher cash accruals and decline in borrowings.

Key Rating Weaknesses

Working capital intensive nature of operations

The working capital cycle of the company continued to remain high and decreased marginally to 221 days in FY19 vis-à-vis 243 days in FY18. The decline was mainly on account of reduction in realisation days from 142 days in FY18 to 133 days in FY19. The average of maximum working capital utilisation stood at 82% for the last twelve months ending November'19.

Raw material price fluctuation risk

Raw material (including purchases of traded goods) cost formed about 41% of the total cost of sales during FY18. 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. 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 is marked by strong cash accruals of Rs.19.80 crore in FY19 vis-à-vis negligible debt repayment obligation of Rs.0.25 crore in FY19. Further the company has cash & fixed deposit of Rs.2.20 crore as on March 31, 2019. The average working capital utilization is high at 82% during the twelve month ended November 2019.

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

JMHCL was originally incorporated as Todi Hosiery Private Limited in October'2004 and subsequently its name was changed to Todi Hosiery Limited in April 2012. It acquired its present name in July'2015. JMHCL is part of the Lux group, based out of Kolkata. JMHCL is engaged in manufacturing and marketing of hosiery undergarments. JMHCL is focused on women innerwear and outerwear and markets its products under the brand names of GenX, KoolZ, Touch, Karishma and Target.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	291.83	328.19
PBILDT	31.75	35.64
PAT	16.44	18.51
Overall gearing (times)	1.23	0.91
Interest coverage (times)	4.76	4.06

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-Cash Credit	-	-	-	110.00	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-Cash Credit	LT	110.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A- (Under Credit watch with Developing Implications) (29-Mar-19) 2)CARE A- (Under Credit watch with Developing Implications) (05-Jul-18)	1)CARE A-; Stable (05-Feb-18)	1)CARE A-; Stable (12-Jan-17)

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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