

J. M. Hosiery & Co. Limited

March 29, 2019

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale and 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 FY18 (refers to the period April 1 to March 31) 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, 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

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.

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 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.

Increase in total operating income with improvement in profitability margins during FY18 & 9MFY19

The total operating income of the company witnessed a robust growth of 16.10% from Rs.251.34 crore in FY17 to Rs.291.83 crore in FY18 due to increase in sales volume along with better realisation with increased focus on value added products. The PBILDT margin improved to 10.88% in FY18 vis-à-vis 7.82% in FY17 with decrease raw material costs and higher contribution of value added products in sales mix. Further, the increase in sales volume also led to better

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

absorption of fixed overheads. With improvement in PBILDT margin and relatively stable capital charges the PAT margin also improved to 5.61% in FY18 from 3.44% in FY17.

JMHCL achieved sales of Rs.202.00 crore and PAT of Rs.12.00 crore during 9MFY19 vis-à-vis sales of Rs.201.96 crore and PAT of Rs.8.07 crore during 9MFY18.

Moderate capital structure and improvement in debt coverage indicators

The capital structure of the company continued to remain moderate. The company's debt equity improved to 0.11x as on March 31, 2018 as compared to 0.19x as on March 31, 2017. Whereas, the overall gearing continued to remain satisfactory at 1.23x as on March 31, 2018 as compared to 1.36x as on March 31, 2017.

The debt coverage indicators improved during the year with interest coverage and total debt to GCA of 4.76x and 6.52x respectively in FY18 as compared to 2.41x and 10.58x respectively in FY17.

Key Rating Weaknesses

Working capital intensive nature of operations

The working capital cycle of the company continued to remain high and further increased marginally to 243 days in FY18 from 231 days in FY17 due to increase in inventory period to 174 days in FY18 as compared to 166 days in FY17 with higher inventory of WIP during year end. The collection period remained relatively stable at 142 days in FY18 as compared to 137 days in FY17. The creditor period also remained stable 74 days in FY18 as compared to 72 days in FY17. The average of maximum working capital utilisation stood at 85% for the last twelve months ending January'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, 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 moderate with average of maximum working capital utilisation at 85% for the last twelve months ending January'19. Further, the company has negligible term debt obligations of vehicle loans.

Analytical approach: Standalone while factoring linkages within the group.

Applicable Criteria

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

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology- Factoring linkages in Ratings](#)

[Rating Methodology – Placing ratings under credit watch](#)

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)	FY17 (A)	FY18 (A)
Total operating income	251.34	291.83
PBILDT	19.65	31.75
PAT	8.75	16.44
Overall gearing (times)	1.36	1.23
Interest coverage (times)	2.41	4.76

A: Audited

Status of non-cooperation with previous CRA: NA

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.

Analyst Contact:

Name: Ms 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**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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 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-Cash Credit	-	-	-	110.00	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-Cash Credit	LT	110.00	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)	1)CARE A-; Stable (12-Jan-17)	1)CARE A- (11-Jan-16)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

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. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@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

CIN - L67190MH1993PLC071691