Lux Industries Limited

July 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	369.92 (reduced from 374.25)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	1.50	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**371.42 (Rupees Three Hundred Seventy One crore and Forty Two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to Lux Industries Limited (LIL) continue to derive strength from the long track record of operation and significant experience of the promoters, established presence in the hosiery products industry with strong brand image and wide product range and established selling and marketing network along with considerable export presence. The ratings also factor in the continued growth in operating income and improvement in profitability margins during FY17 (refers to the period April 1 to March 31) and comfortable capital structure & debt coverage indicators.

The ratings, however, remain constrained by the working capital intensive nature of operations with further elongation of operating cycle in FY17, exposure to volatility in the prices of raw materials and intense competition.

Ability of the company to successfully leverage its premium segment and improve its profitability margins, efficient management of working capital and maintaining capital structure would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and significant experience of promoters in hosiery industry

The LUX group traces its origins to Mr Girdharilalji Todi who had started the business of manufacturing innerwear by setting up Biswanath Hosiery Mills in 1957. His sons Mr Ashok Todi and Mr Pradeep Todi, promoters of LIL, also have an experience of over three decades in the hosiery business by virtue of their association with Biswanath Hosiery Mills.

Presence across wide range of products

Focusing initially on the economy innerwear segment, the company has over the years broadened its product portfolio, which now spans innerwear products for men, women as well as children, across all price ranges, thermal wear, socks.

LIL has presence in 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. The group has other companies engaged in hosiery industry focused on women innerwear and outerwear, kid's wear and women leggings.

Established selling and marketing arrangements

The company has aggressively pursued various marketing and promotional activities to build a strong brand name. Besides branding which has created a demand pull, the company continues to have a large distribution network across the country.

Continued growth in operating income and improvement in profitability margins in FY17

The financial performance of the company continued to witness improvement with the total operating income witnessing a y-o-y growth of 3.26% in FY17 over FY16. The operating margin of the company improved from 10.04% in FY16 to 12.31% in FY17 with concerted brand building efforts, lower raw material costs and higher operating efficiency. With improvement in PBILDT, the PAT level and margin also improved.

Comfortable capital structure and debt coverage indicators

The capital structure of the company continued to remain comfortable. Including the unsecured loans from promoters as debt, the debt equity ratio improved from 0.47x as on March 31, 2016 to 0.18x as on March 31, 2017 and overall gearing improved from 0.96x as on March 31, 2016 to 0.81x as on March 31, 2017 with withdrawal of subordinated unsecured

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

loans of Rs.47.22 crore in FY17 and accretion of profits to networth. In line with increase in interest cost primarily due to higher working capital utilisation and interest on loan availed for the Dankuni project, interest coverage ratio deteriorated marginally from 7.90x during FY16 to 6.97x in FY17, though remaining comfortable. However, total debt/GCA improved to 3.32x in FY17 vis-a-vis 4.08x in FY16.

Presence in the export market
The company exports its products to over 65 countries (primarily Middle East and Africa) under its own brand name. It made exports of Rs.92.70 crore in FY17.

Key Rating Weaknesses
High working capital intensity in line with industry
The working capital cycle of the company increased from 151 days in FY16 to 164 days in FY17 primarily on the back of increase in inventory period which stood at 114 days in FY17 vis-à-vis 99 days respectively in FY16. The collection period increased from 96 days in FY16 to 99 days in FY17. The company's dependence on credit availed from its suppliers continued to increase and the creditor's period stood at 49 days in FY17 vis-à-vis 45 days in FY16. However, despite increase in its working capital cycle, LIL's average utilization of cash credit limits remained satisfactory at 42% during the last 12 months (June 2016 to May 2017).

Raw material price fluctuation risk
Raw material (including purchases of traded goods) cost formed 52% of the total cost of sales during FY17 vis-à-vis 54% of the total cost of sales during FY16. The decline was primarily on account of reduced prices of yarn in FY17. The yarn prices are dependent on the prices of cotton which being commodity in nature have volatile price movements. However, as LIL 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.

Intense competition in the industry
The industry is characterised by significant competition from established players and dominated by the unorganised segment. However, the company is rapidly scaling up its market share by leveraging the growing brand equity of 'LUX' and accordingly mitigating competition to an extent in these markets.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company
LIL was incorporated as Lux Hosiery Industries Ltd. in July, 1995 and subsequently its name was changed to its present name in October, 2007. Currently, LIL is engaged in manufacturing and marketing of innerwear, thermals and casuals under various brands, with 'LUX' being its flagship brand. LIL is the flagship company of the LUX group. Other major companies of the group engaged in similar line of business, include J. M. Hosiery & Co. Ltd (JMHCL; rated CARE A-; Stable), Ebell Fashions Pvt. Ltd (EFPL; rated CARE A- (SO); Stable; backed by unconditional and irrevocable corporate guarantee of JMHCL) and S. D. International (SDI; rated CARE A- (SO); Stable; backed by unconditional and irrevocable corporate guarantee of JMHCL).
The company earned PAT of Rs.62.85 crore on total operating income of Rs.971.56 crore in FY17 vis-à-vis PAT level of Rs.51.34 crore on total operating income of Rs.940.87 crore in FY16.

Status of non-cooperation with previous CRA: Vide press release dated June 4, 2015, CRISIL suspended its ratings on the bank facilities of LIL on account of non-cooperation by LIL with CRISIL's efforts to undertake a review of the ratings outstanding.

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.

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-Term Loan	-	-	March'22	29.92	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	340.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	1.50	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	29.92	CARE A+; Stable	-	1)CARE A+ (06-Sep-16)	1)CARE A (15-Jul-15)	1)CARE A (12-May-14)
2.	Fund-based - LT-Cash Credit	LT	340.00	CARE A+; Stable	-	1)CARE A+ (06-Sep-16)	1)CARE A (15-Jul-15)	1)CARE A (12-May-14)
3.	Non-fund-based - ST-BG/LC	ST	1.50	CARE A1+	-	1)CARE A1+ (06-Sep-16)	1)CARE A1 (15-Jul-15)	1)CARE A1 (12-May-14)

CONTACT

Head Office Mumbai

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

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

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@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 99888 05650
Tel: +91-172-5171 100 / 09
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