



“Lux Industries Limited”  
Q3 & 9M FY2019 Earnings Conference Call”

February 14, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the Lux Industries Limited Q3 & 9M FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Udit Todi, Promoter & Senior Vice President (Strategy) from Lux Industries Limited. Thank you and over to you Sir!

**Udit Todi:** Good morning and a very warm welcome to everyone. Along with me, I have Mr. Ajay Patodia, our CFO and SGA our Investor Relations Advisor. I hope you have received our result and investor presentation by now. For those who have not you can view them on our website.

We are happy to deliver consistent growth in our performance over the years. With the number of reforms announced in the interim budget we expect the rise in discretionary income resulting spur in demand for innerwear industry both in the rural consumers as well as the middle class.

India is consumption driven country. India's nominal year-on-year expenditure growth of 12% is more than double the anticipated global rate of 5% and it will make India as the third largest consumer market by FY2020-FY2025. We expect high demand growth and change in product mix and shift from low end to high end products. Through our premium brand Onn we would be able to market our products globally, which will help us increase our market share and penetration in the premium innerwear segment.

During the last quarter, we have seen a good growth in our winter wear and value added products. Our winter wear brands Lux Inferno, which is being endorsed by Mr. Amitabh Bachchan has shown a good response and helping us connect the masses both in the rural and the urban market. With winters being a bit expanded, sales of Lux Cozi and Lux Venus for the month of December have actually been postponed to the month of January. We have over 900+ dealers and distributors and most of them have been associated with us over a decade. We have a very strong presence in North, East and Western part of the country including central part generating approximately over 92% of the company's revenue. Our main focus is on technology and automation led manufacturing, which would help us to maintain high quality standard and deliver consistently superior quality products to our customers. This focus has helped us to be a cost leader wherein we manufacture at one of the lowest cost in this industry. Every quarter we installed new machineries, which help us produce better quality product at a faster pace. Going ahead we will continue to invest in the same.

On the brand investment side, our endeavour is to keep the investment in brand at around 7-8% of the topline. Over the past six years, we have invested approximately Rs.386 Crores across



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brands. For this year, we have already spent about Rs.77 Crores on marketing. Our aim is to sustain our growth in the coming years and for that our main focus is on increasing our product offerings across ages, genders, geographies and seasons, be present in high growth segments of active wear and sportswear and increase our share of the premium and semi-premium segments. Lastly on our merger plans with J.M. Hosiery & Company Limited and Ebell Fashions Private Limited with Lux Industries Limited is under process and expect it to be complete as soon as possible after meeting all the regulatory requirements and processes. Now I would like to hand over the call to Mr. Ajay Patodia, our CFO to take you to the financial highlights.

**Ajay Patodia:**

Good afternoon everyone. Our company reported a good growth for the quarter ended December 31, 2018. Our revenue from operation grew by 1% to Rs.284 Crores, our EBITDA and PAT were Rs.43 Crores and Rs.24 Crores respectively for Q3 FY2019 delivering a growth of 16% and 32% respectively. Our EBITDA margins have seen a consistent improvement by 200 basis points to 15.2% majority on account of increased share of thermal wear and value added products. We have also seen a healthy improvement in PAT margin by 200 basis points to 8.6%.

Moving onto the performance for nine months ended December 31, 2018, our consolidated revenue stood at Rs.824 Crores vis-à-vis Rs.739 Crores signifying a growth of 12%. EBITDA for nine months FY2019 is stood at Rs.125 Crores as compared to Rs.98 Crores in nine months FY2018 signifying a growth of 27% year-on-year. The EBITDA margin increased by 190 basis points year-on-year to 15.2% from nine months FY2019. At last we have always adopted cost efficient measures, which has helped us deliver healthy margins consistently. PAT for nine months FY2019 stood at Rs.65 Crores as compared to Rs.48 Crores in nine months FY2018 reporting a growth of 36% year-on-year basis. The PAT margin is stood at 7.8% for nine months FY2019. With this, we will now open the floor for question and answer.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

**Saurabh Ginodia:**

Thank you for the opportunity. If you can give the volume growth for the quarter?

**Udit Todi:**

So as we have already mentioned in Q3 we have seen more of winter wear sales compared to summer sales. Therefore, there has been slight volume degrowth because winter wear sales are more of value added and high margin products, so on a similar flat level of turnover there has been a slight volume degrowth because of the summer sales getting pushed to January-February.

**Saurabh Ginodia:**

Okay. So on Q4 basis Y-o-Y one can expect good growth because your summer sales have got shifted to Q4?

**Udit Todi:**

Correct and when we talk about our winter wear products, our winter wear products have seen almost 45%-50% increase in sales compared to last year because this year the country has witnessed severe winter.



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- Saurabh Ginodia:** Will it be possible for you to share your nine month brand wise growth rates?
- Ajay Patodia:** our economy segment product Lux Venus has seen a growth of around 13% to 14% ,When we talk about our mid segment product, so as you know the summer sales has shifted to January so there we have seen less growth as compared to nine months FY18, our winter segment have seen a growth of around 45% and our premium segment including exports and Onn have seen a growth of around 25%.
- Saurabh Ginodia:** And in your aspiration of margin improvement by 100 to 150 basis points Y-o-Y what will be the key levers for the margin improvement?
- Udit Todi:** So talking about the margin improvement, if you look at the nine month figures we have been able to achieve roughly about 200 basis points of margin improvement, which have been primarily on account of product mix change to a premium wear products, towards exports and slightly on account of reduced advertisement expenditure, which last year was slightly on the higher side and this year we have curtailed it to about 7% to 8% of topline.
- Saurabh Ginodia:** What would be the share of premium portfolio in the overall mix?
- Udit Todi:** So,talking about the share of the premium portfolio in the overall mix that would be somewhere around 18%, right now.
- Saurabh Ginodia:** okay and you intend to increase this number to over the next couple of years?
- Udit Todi:** , Currently our premium portfolio, comprises of ONN as well as exports which currently has been growing double the rate of the company's growth rate, So this year if we look at the nine month figures the company's growth rate on the topline is about 12% whereas we talk about our premium wear products they have grown at about 25% and we expect that in the coming few years it should continue to show similar rates of high growth. and we expect that in the next two to three years the share of the premium portfolio in the overall mix should increase 1-2% each year.
- Saurabh Ginodia:** Okay, and in your last concall you have highlighted that you have started exports to Kenya, Zambia and other countries, how has been the response from there?
- Udit Todi:** So talking about the exports to the African countries, the African countries exports has been phenomenal and whatever growth we are seeing in exports is primarily on account of the African nation.
- Saurabh Ginodia:** Which other countries are you targeting over medium to long term?
- Udit Todi:** So right now if I talk about the next three to four years, it would be primarily in countries where we are, are exporting to right now, our bulk of the exports are coming from the African continent



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and we believe there is still much scope of growth there and we will be focusing our energy in developing these countries.

**Saurabh Ginodia:** Okay and if you can talk a little bit about your working capital, has how been the working capital in Q3?

**Udit Todi:** So talking about the working capital, the working capital in Q3 has been about 192 days, compared to 219 days year-on-year, so we have significantly improved our working capital cycle and trying to reduce it by 10 to 15 days.

**Saurabh Ginodia:** Okay. Thanks a lot Sir. All the best.

**Moderator:** Thank you. The next question is from Himanshu Nayyar from Systematix Group. Please go ahead.

**Himanshu Nayyar:** Hi Udit Ji and Ajay Ji and congrats on a good set of operational performance. To start with Q3 numbers if I look at the growth, I understand the reason for the slower growth, but our other two listed competitors have reported slightly better numbers, so just wanted your comments and your sense on whether do you think in the last nine months we have lost some market share in our segments?

**Udit Todi:** So talking about our nine month figures, our topline growth has been 12%, which is nothing less when compared to what the other peers have performed, so I believe there is no question of losing market share and when we talk about the other listed peers we also need to look at our figures from a more holistic perspective taking into account that there are two unlisted companies, which are yet to be merged and, when we look at the complete perspective, our growth rate has been much higher compared to the other listed peers and we have in fact gained market share.

**Himanshu Nayyar:** The reasons, which impacted our sales on the listed entity, the same reasons you will attribute for slowdown in sales of both Lyra and GenX as well because there also we have seen sales come down?

**Udit Todi:** No so, last year the winter was not so prominent in the country whereas this year the winter has been pretty severe, so talking about Lyra, Lyra sales are slightly more sensitive to winter, so this year because there was more winter, so the summer sales product have been shifted to Q4 whereas in the last year all the summer sales happened in Q3, so it is just a shift of summer sales from Q3 to Q4 due to which the figures slightly look, misleading, so it is better we look at nine monthly figure because it gives you a more complete picture.

**Himanshu Nayyar:** Ajay Ji one question for you on the free cash flow generation side can you share the nine months number, whether we are on track to generate a decent amount of free cashflow this year given that we should be improving on the working capital cycle by 10 to 15 days as targeted?



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**Ajay Patodia:** We are already in the process to reduce the working capital cycle, we have already achieved a cash flow of Rs.100 Crores plus in nine-month and we expect that we reduce the working capital cycle to 160 to 170 days.

**Himanshu Nayyar:** Any investments we would have made in the nine months on maintenance of our facilities or upgradation?

**Ajay Patodia:** We have spent around Rs.4 Crores to Rs.5 Crores for the automated technology, new machines for the plant, not more than that.

**Udit Todi:** Balance whatever free cash flows were generated we have used in repaying the debt, so by the end of financial year you will see the debt levels coming down significantly.

**Himanshu Nayyar:** Final question on the merger, given that this was approved sometime in June, so just wanted to understand, if you can give us some timeline on when we can see it happening or is there any issue which is being faced with regards to the merger process as such?

**Udit Todi:** So the application has already been made with NSE and BSE and the department is already having a word with SEBI with regards to the process of the merger and we believe that it will definitely happen in due course of time. So right now it is very difficult to give you a proper timeline, but just to clarify the picture there are no such issues with regards to the merger, it is definitely going to take place, it is just a matter of time.

**Himanshu Nayyar:** Alright, great. That is all from my side. Thanks and all the best.

**Moderator:** Thank you. The next question is from the Purna Jhunjhunwala from B&K Securities. Please go ahead.

**Purna Jhunjhunwala:** Thank you for the opportunity. Congratulations on good set of number Sir. I would like to understand the One8 performance the launch and the response?

**Udit Todi:** So talking about One8's launch it has slightly been delay, so we are not sure whether the launch will happen in Q4, but we will be talking about it in Q1FY20.

**Purna Jhunjhunwala:** Okay, Any specific reasons for delay?

**Udit Todi:** It is just procedural delays, nothing specific.

**Purna Jhunjhunwala:** Okay, my next question would be on the growth in GenX and other brands that you are saying that this has shifted to fourth quarter, but will the quantum of sale remain same or it will get affected because winters were extended, so may be the pickup in summers will be lower because the period of summer might not be that extended, some clarity on that based on your past experience?



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- Udit Todi:** It is difficult because the kind of climate change that we are witnessing is something very new to all of us, we have not witnessed such climate change in the past, so it will be a learning process for all of us. We have never experienced such severe winters, and earlier we have never heard of hailstorms in Delhi in the month of February, so this is something, which is very new to all of us, but despite all of this we are pretty sure that the kind of guidance, which we have of 12% to 15% growth in the topline on a yearly basis we will definitely be able to achieve.
- Prerna Jhunjhunwala:** What is your response on the Lyra brand with respect to your new product launches like lingerie?
- Udit Todi:** Lingerie has been doing pretty well in the market and it is now gathering pace, so January is the time from when all the summer products start picking up and from the current season onwards we are quite hopeful that, in FY2020 we will be seeing good set of lingerie in numbers as well, it should occupy a double digit percentage in the overall share of the Lyra brand turnover.
- Prerna Jhunjhunwala:** **Okay and can you give us** the debt figure for nine months and what kind of reduction we will see by the end of year?
- Udit Todi:** We started the year with about Rs.316 Crores of borrowings and talking about the December ended figures the borrowings have already come down to about Rs.241 Crores.
- Prerna Jhunjhunwala:** Okay and this will further come down in by end of the year so around Rs.50-odd Crores more reduction in debt is what we can assume?
- Udit Todi:** Whatever cash flows from operations which we would generate in Q4 will again be used to repay debt.
- Prerna Jhunjhunwala:** Whatever that number is, will be used for debt repayment right?
- Udit Todi:** The debt has already come down significantly and as we mentioned in the previous question, free cash flow from operations has been pretty solid which is about Rs.100 plus Crores for nine months, so we assume that once the debt levels will come down then the free cash flows will be available for other uses.
- Prerna Jhunjhunwala:** Okay and Sir I would like to have more clarity on working capital. You have been doing a phenomenal job of being able to reduce it, would like to have understanding about inventory and debtors positions separately, what efforts are being taken and where do we stand in those efforts now?
- Udit Todi:** So talking about the debtors from the last quarter itself, we have already started to reduce our credit days in the market and the kind of payback which is now coming from the market is much faster than earlier and talking about inventory, from Q4 onwards we are looking at reducing our inventory also, earlier our inventory days were slightly on the higher side, but by the end of financial year we will try and reduce it a bit so the effect will be visible from Q1 and Q2 in FY2020.



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**Prerna Jhunjunwala:** Okay but these reduction in credit days to debtors is not impacting your sales at all is what I can infer from the numbers, which is a credible achievement?

**Udit Todi:** Despite squeezing credit in the market the sales have been growing at about 12% and we are hopeful that we will be able to maintain this reduction in credit period in the market. The debtor days have already come down, which was the toughest part and talking about inventory, inventory is something, which is very well within the management limits and that is something, which we will be reducing in Q4, so the effects will be visible say from Q1 or Q2 next year.

**Prerna Jhunjunwala:** Okay and Sir my last question is on athleisure and new product categories at what percentage they have been growing and what percentage of topline contribution do they have currently. In nine months is also fine?

**Udit Todi:** So talking about Onn, which is our premium wear brand, which has been growing at about 25% year-on-year and the same is with our exports, which has been growing at about 25% and because these two contribute to premium margin in the overall margin portfolio so our overall margins have also been increasing.

**Prerna Jhunjunwala:** So athleisure forms a part of these two brands only not other brands?

**Udit Todi:** Athleisure is primarily with Onn.

**Prerna Jhunjunwala:** Thank you Sir. Thank you so much. I will come back with questions if required.

**Moderator:** Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

**Vaibhav Kacholia:** Hi Sir thanks for the opportunity. Sir what are the margins in our premium products, EBITDA margins?

**Udit Todi:** EBITDA margins in the premium wear products is about 16% to 18%.

**Vaibhav Kacholia:** Okay and Sir like industry leading margins would be in the range of 20%, so can we have aspiration to reach those kind of margin levels in the premium segment?

**Udit Todi:** Yes definitely, going forward as we gain market share we will be able to enhance our margins also.

**Vaibhav Kacholia:** So what would be the EBITDA margin target over the next two years for our premium wear portfolio?

**Udit Todi:** It is difficult to put a number to it, but yes we will be able to increase by 100, 150 to 200 basis points.





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- Vaibhav Kacholia:** Okay fantastic and Sir what is the competitive scenario in the premium wear category?
- Udit Todi:** Right now our share of the premium wear market is pretty small and there are number of other players also who are operating in the premium wear segment, but those players have been there in the market for quite some time now, so the kind of figures, which we are able to achieve and the kind of traction, which we are getting in the market we are pretty confident that going forward it should help us to gain a good market share.
- Vaibhav Kacholia:** How much would that segment be growing for the industry as a whole?
- Udit Todi:** So it is difficult to give you an industry growth rate, but what we can talk about is that we are growing at 25%?
- Vaibhav Kacholia:** So we are gaining market share there Sir?
- Udit Todi:** We are definitely gaining market share.
- Vaibhav Kacholia:** Okay right fantastic. Thank you so much. Best of luck.
- Moderator:** Thank you. The next question is from the line of Bhavesh Jain from Varanium Capital. Please go ahead.
- Bhavesh Jain:** Sir for 12% to 15% revenue growth what kind of capex we will be requiring over the next two to three years?
- Udit Todi:** In the current year and the next year we are not looking at any major capex going forward because our plant is self sufficient to take the growth going forward and may be in the next three to four years, the board will have to sit and decide, but as of now no such capex plans has been envisioned as yet.
- Bhavesh Jain:** And what kind of in-house manufacturing you are assuming for this 12% to 15% growth?
- Udit Todi:** So talking about Lux, the premium part of our portfolio is manufactured in-house and the mass and mid premium is flexible mode of production in which the fabric is produced in-house but the stitching part is outsourced and we were looking to maintain the same going forward as well. We will not be taking the stitching processes in-house for the economy and mid segment.
- Bhavesh Jain:** Okay and Sir can you throw more light on export, what is driving this growth and are we on track to reach Rs.150 Crores for this year?
- Udit Todi:** So talking about exports, the markets in Africa has been performing really well and we have been expanding our product portfolio in the export market also, which is - leading to higher growth rate, also the countries in which we have just launched our products, they have also now started



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to accept the products and the demand is now growing exponentially which is driving the export growth to 25%.

**Bhavesh Jain:** Okay and this year are we are on track to achieve this Rs.150 Crores versus last year Rs.100 Crores as mentioned, on the PBT?

**Udit Todi:** Sure, this year we are targeting about Rs.150 Crores, but we might just fall a little shy of Rs.150 Crores.

**Bhavesh Jain:** Okay and Sir we have said currently the debt is Rs.241 Crores, but if I look at our September end debt it was around Rs.310 Crores so the working capital have come down quarter-on-quarter also?

**Udit Todi:** Yes definitely, so quarter-on-quarter in Q3 there has been a substantial reduction in working capital And as I mentioned debt has come down to Rs. 241 crores now vs Rs.310 crores in September **Bhavesh Jain:** So largely led by working capital improvement in receivables and inventories?

**Udit Todi:** Right.

**Bhavesh Jain:** Okay Sir. Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Perna Jhunjhunwala from B&K Securities. Please go ahead.

**Perna Jhunjhunwala:** Thank you for the opportunity. I would like to understand that as the cotton yarn prices have been falling so do they add to gross margins in Q4 coming in or we pass on the benefit to the customer and gain market share, what is the strategy for Q4?

**Udit Todi:** So as a strategy we always maintain to pass on the benefits of increase and decrease in prices to the customers so our gross margins somewhat remain aloof to raw material prices and as you mentioned the raw materials were on the decline, but they have already started to go up again so we believe that would not be something very significant.

**Perna Jhunjhunwala:** Okay thank you Sir.

**Moderator:** Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

**Saurabh Ginodia:** Thank you Sir for the followup opportunity. As our exports are on the growing trend so just wanting to know what is the strategy of hedging on the export side?



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**Udit Todi:** What we try is that since the dollar is somewhat now stable in the zone of \$69 and \$71 so we try and book about 50% of our booking forward so that we are slightly hedged as well as we can slightly enjoy the upset

**Saurabh Ginodia:** Okay and what is the share of business, which is coming from modern trade and online channel?

**Udit Todi:** So talking about online trade and modern channel. Online trade and modern channel is something which is seen only in our premium wear brand because our economy and mid segment brands are present so much in the market almost every nook and corner, that e-commerce does not help much, but talking about our premium wear the online and modern channel is contributing about 2% to 3% of this.

**Saurabh Ginodia:** Okay and are we present in most of the big modern?

**Udit Todi:** Yes talking about brand Onn, it is present in most of the existing modern chain outlets.

**Saurabh Ginodia:** Okay and earlier you have highlighted that you have some 9 EBO so what is the strategy going forward for the EBO expansion?

**Udit Todi:** So right now we are not focused on incremental expansion on the EBO front, it mostly will be driven by general trade and modern trade not so much on the EBO front.

**Saurabh Ginodia:** Okay that is all Sir.

**Moderator:** Thank you very much. Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management team for any closing comments.

**Udit Todi:** We would like to thank everyone for participating in this conference and coming to know more about the company, what the company is doing and we are very hopeful of meeting all of you again with our Q4 conference call. Thank you so much for joining us.

**Moderator:** Thank you very much. On behalf of Lux Industries Limited that conclude this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.