"Lux Industries Limited
Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Lux Industries Limited Q4 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. Saket Todi. Thank you and over to you Sir!

Saket Todi: Good afternoon and a very warm welcome to everyone. Along with me, I have Mr. Udit Todi, Vice President Strategy, Mr. Ajay Patodia, CFO and SGA our Investor Relation Advisors. I hope you have received the results and investor presentations by now. For those who have not you can view them on the website.

We are very pleased to inform you that we have recently launched India's first ever scented vest under our flagship brand Lux Cozi. In India, the tropical climate and the long commutes that people take to work every day increases the problem of excessive sweating. Besides fulfilling the promise of comfort, these scented vests are designed to help people stay fresh even after a long day at work. Other unique features of these vests is the fact that they retain their fragrance even after continued washes. A full-fledged advertisement campaign comprising of TV, radio and print media featuring Varun Dhawan our brand ambassador for Lux Cozi has been lunched. We are now pioneers of the scented vest in India and we will gain by being the first movers in the segment. We intend to launch many more products in the coming months that will add to our market leadership.

Lux Industries continues to expand its portfolio into high value and niche segments. Our agreement with CSE Consultancy LLP license owner of brand One8 with our premium brand ONN to manufacture and market its products globally will help us increase our share in the premium portfolio. During the current quarter we are seeing good traction for the product in the market.

We continue to focus our spends on our brands and product portfolio, which has been around 7% to 8% of our revenues in the past two to three years and has remained same in FY2019 as well.

Innovation is the key to any business and at Lux we have been proactive to recalibrate our product mix to meet the change in the consumer demand. Going forward, we will continue to expand our product offerings across age, gender, geographies and seasons with strong innovation and innovative products to walk on a journey of premiumization.

Now I hand over to Udit to provide you an insight on to the business.

Udit Todi: Good afternoon everyone. Our overall performance for the full year FY2019 has been very positive where we have reported strong double digit revenue growth. As you all know India is one of the fastest growing consumer markets in the world, which is backed by robust increase in disposable income and aspirational demand. The innerwear industry were initially viewed as essential garments; however, with mounting need for quality and comfort along with fashion has resulted into major shift in this industry. This along with the advent of GST last year there has been a major shift by consumers from unorganized products to organized brands. Lux being among the leaders in the segment is well placed to capture the higher growth and market share from this changing trend.

Our main focus is on technology and automation led manufacturing, which would help us to maintain high quality standards and deliver consistently superior quality products to our consumers. This focus has helped us to be a cost leader wherein we manufacture at one of the lowest costs in this industry.

On the distribution front, we continue to invest in expanding our footprints across India in existing as well as newer geographies. We are a strong player in northern, eastern and western markets. We continue to maintain strong and long lasting relationships with our channel partners.

On the exports front, we have posted strong growth of 36% in FY2019. With this, our share of exports now stands at 11% for FY2019. We will keep expanding our export base and will endeavour to grow at similar rates going ahead. We endeavour to reach about Rs.175 Crores of export by FY2020.

On the merger front, we are in process of evaluating various options to complete the merger of JM Hosiery & Co Limited and Ebell Fashions Private Limited with Lux Industries Limited and expect to complete it as soon as possible after meeting all regulatory requirements and processes.

Now I would like to hand over the call to Mr. Ajay Patodia, our CFO to take you through the financial highlights.

Ajay Patodia: Good afternoon everyone. Our company reported a good growth for the quarter ended March 31, 2019. The Board of Directors has recommended a dividend of Rs.3.50 per equity share on a face value of Rs.2 per share, which is 175% of the face value.

Our revenue from operation grew by 19% to Rs.395 Crores. Our EBITDA and PAT were at Rs.65 Crores and Rs.38 Crores respectively for Q4 FY2019 delivering a growth of 13% and 24% respectively. We have seen a healthy improvement in PAT margins by 40 basis points to 9.5%.

Moving on to the performance for the full year ended March 31, 2019 our consolidated revenue stood at Rs.1,218 Crores vis-à-vis Rs.1,079 Crores signifying a growth of 13%. EBITDA for FY2019 stood at Rs.189 Crores as compared to Rs.156 Crores in FY2018 signifying a growth of 21% year-on-year basis. The EBITDA margin increased by 110 basis points year-on-year basis to

15.6% for FY2019. At Lux we have already adopted cost efficient measures, which have helped us to deliver healthy margin consistently. PAT for FY2019 stood at Rs.101 Crores as compared to Rs.78 Crores in FY2018 recording a growth of 30% year-on-year basis. The PAT margin increased by 110 basis points year-on-year to 8.3% for FY2019.

Operating cash flow has turned positive in FY2019. They have improved from negative Rs.2 Crores in FY2018 to Rs.185 Crores in FY2019. The working capital cycle has also reduced by approximately 15 days for the year. Going ahead we plan to reduce the working capital cycle even further. With this we will now open the floor for question and answer.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Himanshu Nayyar from Systematix Shares. Please go ahead.

Himanshu Nayyar: Thanks for taking my questions. Just to understand the operational performance, I believe this time our EBITDA margins excluding other income are down sharply, so just wanted to understand whether this is more of a mixed impact that we have done better in the economy segment or is it more to do with the raw material or any other impact, which you would want to highlight?

Udit Todi: The gross margins as you see have been a bit down in the last quarter. They have been primarily on account of higher discounts being given to the consumer and to the dealers primarily to increase operating cash flows. Discounts were given to the dealer so that we can bring them on better paying terms. The input costs were also slightly on the higher side in the last quarter, which are now stable to a large extent. So going forward we believe the gross margins should improve.

Himanshu Nayyar: So the benefit of these weak cotton prices in January and February I think we should benefit in this current ongoing quarter right?

Udit Todi: Correct.

Himanshu Nayyar: That is the first part. The second part if you could just explain this Rs.9 Crores of other income, which is the primary driver for this strong growth and profits this quarter?

Ajay Patodia: The other income actually consists of three main items. First, as per accounting standards Ind-AS, the valuation of JM Hosiery company shares have been re-valued based on 31st March 2019 results. Secondly, there is a foreign exchange gain where we have forward booked on our exports so that we get better realisations. Lastly, there are some insurance proceeds that we have received. So these are the main contributors.

Himanshu Nayyar: So can you give a break up of this Sir, any numbers if you can share?

Ajay Patodia: It is at around Rs.4 Crores for the re-valuation, around Rs.4 Crores from the foreign exchange gain and remaining from the LIC proceeds.

Himanshu Nayyar: Got it, if you can share the performance of ONN our premium brand and the outlook on the same?

Saket Todi: Premium segment, which gives us the higher EBITDA levels are ONN and exports and together consolidated we grew at around 25% to 30%.

Himanshu Nayyar: And final question on the merger, you said that we are evaluating various options, so I believe we have already frozen on this, so what are these options that you are talking about and if you can give some timelines for the same to go through?

Udit Todi: As we had already conducted the board meeting, the merger is already announced and the ratios have already been announced. We are just waiting for regulatory processes and requirements to be completed post which we shall be looking at closing the merger. We are expecting is that we should definitely try and close it within this financial year. There is a requirement of the promoters liquidating their shares because of the threshold limit being crossed, so that is the only bottleneck so as to say in this merger right now. So we are expecting to overcome this bottleneck and close the merger within this financial year.

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

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, I just wanted to understand what has been the growth rate in ONN brand?

Saket Todi: The growth rate in ONN brand is approximately 15% to 20% this year.

Avi Mehta: From an industry point of view, I mean the channel seems to suggest that post GST there was a working capital squeeze that was going around especially because of liquidity which was also in constraint. Is that partly the reason for the channel requesting for better payment terms, is there a request like that coming in or if you could share any clarity on that part Sir?

Saket Todi: No, those were not the discounts, which we have mentioned. There were a few schemes, which we had introduced which have helped us to realize the cash at a better position.

Avi Mehta: Sir the channel is not asking for more liquidity right I mean because we heard that that was an issue is that Sir?

Saket Todi: No, not from us.

Avi Mehta: And lastly Sir, while our growth rates are healthy, could you give a sense on how the industry is because you pointed to market share gains I just wanted to kind of understand the extent of market share gains?

Udit Todi: So, the industry is growing at around 8% to 10% whereas we have grown a bit more than this industry, which has helped us increase our market share in the overall industry.

Avi Mehta: And Sir, how would the growth rate be in the premium and the economy segment and because you know you have highlighted that GST was more in the economy. I am just trying to get an extent of the market share gains?

Udit Todi: See for us the growth rate on the premium end of the portfolio, which includes the brand Onn as well as the exports, has been higher than the company growth rate due to which the percentage contribution of the premium portfolio has increased. This has also led to a better product mix and better margin realization for us. So, obviously the premium end of the business has been going much faster than the economy end.

Avi Mehta: No, I was talking about the industry Sir. Industry premium and what would be the growth rate in your view Sir and economy, what would be the growth rate? That was the question.

Udit Todi: It is difficult to put an exact figure at the industry level. However, qualitatively the idea that we are getting from the market is that the growth rate in the premium segment are about 2-3 times higher than that of the economy segment. the overall blended average stands at 8-10%.

Avi Mehta: Okay. I will come back in the queue for the other questions. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Good afternoon. Two to three questions from my side. Actually I am a little new to the company, so just one question, I do not know if you have answered this before, the merger that we are doing Sir what exactly the nature of business of J M Hosiery and Ebell Fashions and secondly your presentation has given the revenue from both J M Hosiery and Ebell Fashions for FY2019, but there is no mention of the EBITA and PAT numbers, so if you could just help with those that would be really helpful?

Udit Todi: We have just already discussed this at length. I will give you a brief snapshot. So, Ebell Fashions and J M Hosiery are privately held companies. They are promoter held companies and that was the main reason for going forward for this merger was bringing everything under a single umbrella. The nature of business is when we talk about Ebell Fashions it deals in women outerwear and when we talk about J M Hosiery it deals in men casual wear. So the nature of business is also quite similar and that was the main reason why we are bringing it under the same company. As far as the investor presentation states, the revenue figures are disclosed but because of both the companies being privately held, the balance sheet and accounts has not yet been finalized. So just to give you an idea of how the topline growth has taken place we have posted the revenue figures, but talking about EBITDA and PAT figures it will still take quite some time before we come up with a final account.

Sachin Kasera: Once they are finalized would you be sharing it with the investors because now that they are going to be part of the merged entity?

Udit Todi: Once the accounts are finalized, we will be sharing with you the EBITDA and PAT figures as well.

Sachin Kasera: Can you share the FY2018 numbers since that would have been already be done, that would be helpful?

Udit Todi: We have the FY2018 figures, FY2018 Ebell Fashions PAT figures were approximately Rs.20 Crores and J M Hosiery would be approximately Rs.18 Crores.

Sachin Kasera: This is PAT?

Udit Todi: PAT figures, and the EBITDA levels we will come back to you after 10 to 15 minutes because it is difficult to tell you now.

Sachin Kasera: And what is going to be the increase in the equity capital post merger from current Rs.5.3 Crores?

Saket Todi: Current total equity is Rs.2.52 Crores it will go up to Rs.3 Crores.

Sachin Kasera: In terms of number of shares?

Saket Todi: Yes number of shares, approximately.

Sachin Kasera: just a couple of questions from the business front. Your presentations mentions that if there is significant improvement in working capital this year and wish to improve it further, are there any number that we are looking to achieve this year in terms of number of days or absolute number from the working capital front?

Saket Todi: Our plan is to reduce the working capital by another 15-20 days.

Sachin Kasera: What exactly has been drive, because the improvement that we have seen is very, very significant in FY2019?

Saket Todi: There are few policies, which we have taken with our distributors, we cannot share those policies publicly, but there have been few strict policies, which we have taken and because of that, the distributors are in line and so our receivables and inventory has been reduced drastically.

Sachin Kasera: One last thing your vision 2020 you mentioned is around Rs.1500 Crores of topline so this is for CY2020 or FY2020, this vision?

Saket Todi: This was for CY2020 of Rs.1500 Crores of Lux Industries.

Sachin Kasera: Pre-merger?

Saket Todi: Yeah, pre-merger.

Sachin Kasera: And 100 200 basis point improvement in margins over a two year period from FY2019?

Saket Todi: Approximately 50-100.

Sachin Kasera: No, because the presentation mentions 100-250 basis points. So I am just confused, cumulatively for the next two years or it is every year that is what I wanted to know?

Saket Todi: It is a cumulative of every two years it has been mentioned.

Sachin Kasera: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good afternoon Sir. Sir, you shared the operating cash flow at about Rs.185 Crores, is it possible to know what is the free cash flow?

Saket Todi: We have noted down your question. We will come back to you after five minutes?

Bhargav Buddhadev: Okay. Secondly Sir if you look at your subcontracting and jobbing expenses, they have started declining on a Y-o-Y basis since 3Q. So is this trend sustainable going forward as we sort of increase our manufacturing capabilities?

Saket Todi: Subcontracting has gone down. But the employee expenses have gone up. So there have been few subcontracting workers, which we have taken into direct payroll that is because we are doing in-house manufacturing of a premium segment brand ONN as well as export.

Bhargav Buddhadev: So how is our in-house manufacturing trend changing Sir. Is it possible to know what is the percentage share of in-house in FY2019 versus what it was in FY2018?

Saket Todi: That is completely in respect to the turnover of our premium segment ONN and export, on a similar growth that has been changed, but see there are many processes, which are involved in manufacturing, it is not just one single process. So few processes have been already incorporated in-house and there are few other processes, which are incorporating. So we cannot say exactly value wise that how much amount of product has been done in-house. But we can say there have been many processes, which have been incorporated in-house.

Bhargav Buddhadev: Okay. So is it fair to assume that the entire premium range is sort of manufactured in-house?

Saket Todi: Yes. There are few processes, which are completely manufactured in-house, but there are few processes, which are outsourced also.

Bhargav Buddhadev: Okay and in terms of the revenue coming in from One8, when is it kick starting Sir?

Saket Todi: We are due with Virat Kohli's date, I think so we should get it after IPL and then we should start in this quarter.

Bhargav Buddhadev: Okay. Fair enough. Okay Sir, I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Sir just wanted to confirm on the domestic growth rate – because if I just look at your numbers and the export growth rate is 30% and if I adjust the other income part, so what would be your domestic growth rate for FY2019?

Saket Todi: I think so the domestic growth rate would stand at around 11%. We have not calculated the exact numbers, but it is a stand around that.

Kashyap Jhaveri: Okay. I do not think it is – okay and want to know what will be your group level debt, so we know that debt at the Lux Industry level but the other two companies, what will be the total debt in the group?

Saket Todi: JM and Ebell together would be around Rs.100 Crores of debt.

Kashyap Jhaveri: Okay and lastly on the working capital side, your export is growing faster than your domestic, and generally one would assume that it would have a slightly more longer working capital cycle, so if you could give some idea on this overall reduction in working capital as to how you generated and what is the sustenance of this reduction in working capital?

Udit Todi: So the working capital, which we have reduced was primarily on account of stricter credit days for the domestic dealers and distributors. So the number of days had been reduced for them and that is primarily why the working capital has come down. The other main reason for the working capital coming down was also better management of inventory. So we are also looking at bringing down inventory levels and increasing the efficiency there. So these are two main accounts for the working capital to come down and we believe that there is no reason for this to not be sustainable.

Kashyap Jhaveri: Okay. And within inventory, which inventory would have come down, so is it raw material or is it finished goods?

Udit Todi: So we have controlled both raw material as well as finished goods but more on the finished good front than on the raw material front.

Kashyap Jhaveri: Okay. And lastly what would be – so we are now at about 110 days of credit that we give in the system. What can be an out and out target on this 110 days credit which you give what can be a lower end number possible here?

Saket Todi: I think in this financial year we should reach that to around 95 to 100.

Kashyap Jhaveri: Okay and that should be the maximum you can yield out of it or there is a scope for more?

Saket Todi: Yes. There is a scope of more, but that would go down year on year.

Kashyap Jhaveri: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy: Hello. Good afternoon Sir. Sir I have two to three questions. First question is that if you can give the idea on the volume growth for the whole year, year-on-year basis, and the net price hike that you have taken in the last one year, FY2018 to FY2019 that is my first question.

Saket Todi: Value growth would be approximately 12%.

Pratim Roy: If you can provide the absolute figure or the volume number pieces?

Saket Todi: I meant the value growth was 12%, the volume growth is around 4% and the quantity growth, we do not have the exact number of the growth, but we will have this year figure, which would be approximately Rs. 20 Crores 49,000 pieces.

Pratim Roy: Okay and another thing is that for the JM Hosiery and Ebell Fashion, if you can give me the rough idea about the margin, what is the margin that FY2018 and FY2019, if you can give the range that will be very helpful to me, any range?

Saket Todi: For FY2018 JM margins were the same as that of Lux and for Ebell the PAT margins were approximately 200 to 300 basis points more than that of Lux.

Pratim Roy: Lux means you are indicating the overall margin for Lux that is 15%?

Saket Todi: No, I am going talking about PAT level margins.

Pratim Roy: Okay that is 8%.

Saket Todi: Yes, 7 to 8%, last year it was that of Lux. And Ebell was around 10%.

Pratim Roy: Okay Sir and that is all from my end. I will get back in the queue for further questions Sir. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: Thanks for the opportunity. I just wanted some greater color on our exports, just wanted to confirm that these are all branded and are we also really subcontracting for any other global companies and if the branded, are these all the brands or do we focus on certain brands on the export portfolio?

Saket Todi: Around 90% is our own brand and 10% would be subcontracting and the brand is only Lux**,** Lux Cozi and Lux Venus are not used out there, we have a separate brand Lux Premium so that brand is used.

Ashi Anand: Okay. So we are only using the Lux Premium brand?

Saket Todi: Yes.

Ashi Anand: Okay and when we are looking at the economy, medium, and premium segmentation that we provide, basically this should come under medium or it would be in the premium?

Saket Todi: The EBITDA level margin if you would compare it, it will be in the premium segment, but for the consumers out there in the market in the middle Eastern markets, those would be medium, mid segment brand.

Ashi Anand: Okay. Excellent. And we would be supplying this would be to wholesalers and distributors, so do we actually wholesale activities?

Saket Todi: Well like if you go to Middle East, there are chain stores Lulu and Carrefour we supply to them as well. As well as we have distributors in all the Middle Eastern Countries like UAE, Saudi, Kuwait, Oman, Bahrain, in African almost all the countries we have distributor. We supply to them as well.

Ashi Anand: Okay. Great. Thanks a lot for the answers.

Moderator: Thank you. The next question is from Alpa Suchde from Pantomath. Please go ahead.

Alpa Suchde: We have a rating report, which makes mention on this entity called SD International, but I did not come across that in any of the annual report, so I just wanted to know whether this entity exists or have they been dissolved?

Ajay Patodia: SD International is a very small entity. There is only turnover of Rs.5 to 10 Crores.

Alpa Suchde: I see okay.

Ajay Patodia: That is separate actually.

Alpa Suchde: It is a group entity, right, I mean the promoters taken that?

Ajay Patodia: It is related to promoters.

Alpa Suchde: Okay and the last question – the gross margin obviously as were discussed earlier in the call has gone down over the quarter, so going forward do you expect it to stabilize or where do you see the gross margins actually?

Udit Todi: No, so the gross margins which you see have slightly come down in Q4 that was primarily in account of a different kind of schemes which were given in the market, but if you look at the gross margin at the yearly level FY2019 level, we expect similar gross margin levels going forward. So FY2019 gross margin levels would be a realistic expectation for FY2020.

Alpa Suchde: Okay.

Udit Todi: Q4 was a slight aberration, but FY2019 overall is well guidance enough for FY2020.

Alpa Suchde: Okay. Noted. Thank you.

Moderator: Thank you. The next question is from the line of Varinder Bansal from Pantomath Capital Advisors. Please go ahead.

Varinder Bansal: Thank you for taking my question. The question is regarding the merger. I understand I have numbers for FY2018 PAT margins for JM and Ebell. I think the PAT margin was 5.6% for JM and 10.6 PAT margin for Ebell, right. And if I understand correctly you mentioned that we are Lux standalone is 8.4% right now and you mentioned pleased correct me if I am wrong in this that JM will be similar, that is 5.6% PAT margin whereas in Ebell we have seen a growth of maybe 200 to 300 basis points on PAT level right?

Saket Todi: That was on account of last financial year. We do not have the exact numbers of the PAT margins for this financial year.

Udit Todi: I think you slightly misunderstood what he had to say – we will just clarify this entire thing, so talking about last year as you very correctly mentioned JM Hosiery was had about 5.5% of PAT whereas Ebell had about 10.5% of PAT. Those were your last year's PAT figure and this year we are expecting similar PAT percentages on the grown revenue figures. So that is what we are expecting it to be this year, maybe on Ebell account a slight improvement can be there but until and unless the accounts are finalized, we are not able to comment exactly as to what the growth figures would be.

Varinder Bansal: So more or less our consolidated PAT margin should be around at 8% level, right, 8 to 8.1?

Udit Todi: Correct.

Varinder Bansal: Which was similar last time.

Udit Todi: Yes.

Varinder Bansal: Okay. My second question again on the merger. You also mentioned about that because the impending merger is also because of the promoters liquidating shares – which could come up before this financial year, I understand that the enhanced equity is nearly 3 Crores shares right now. How many number of shares can come to the market because of this merger from the promoters' side and that should be by end of what next two to three months?

Udit Todi: You see it is difficult to comment on what way the liquidity of the promoters' stake will happen, so that is something which we are already in talks with a few institutional buyers and only after that can we know.

Varinder Bansal: In the promoter side, 1%, 2%, 3% how much would be above 75%?

Udit Todi: Roughly around 3%.

Varinder Bansal: Roughly around 3%.

Udit Todi: Correct.

Varinder Bansal: Okay and my last question on the gross margin front, can you give us the breakup between how much the fall in the gross margin I think which was around 61% which is now 42% something in Q4 and you said the aberration is because of the discounts and the raw material, how much could be the percentage if I have to divide between discount and say raw material?

Udit Todi: So that is something which we need to work out as to how much of it can be accrued to discounts and how much of it could be accrued to raw material prices, but what we are assuming is, so it is difficult to put exact figure but we just expect it should be around 50:50.

Varinder Bansal: Okay and sorry my last question again on that impending sale of shares which may come in, do you anticipate the same to happen in the next two, three months or one or two months, what could be the possible timeline as per you?

Saket Todi: We cannot comment anything on the timeline right now, but we would expect the merger to close within this financial year.

Varinder Bansal: Thank you. Good luck.

Moderator: Thank you. The next question is from the line of Kedar B who is an Individual Investor. Please go ahead.

Kedar B: Thank you for the opportunity. Sir, my first question is could you let us know the approximate market size for the women's leggings as a category within the country and how much of that is actually the organized and unorganized share?

Udit Todi: The women's leggings category is pretty huge and it has been growing substantially over the last three, four years and so right now, we would be category leaders in this particular segment and roughly about 90% to 92% of our topline in Ebell is coming from the leggings category per se. What is interesting to know is that even apart from leggings there are different kinds of bottom wear which is going well in the market, so as a position we have expanded from not only leggings, but different kinds of bottom wear and T-shirts and casual wear which are doing well in the market and we have started manufacturing all of those. So year-on-year we are decreasing our dependence on just one product and spreading it across different products.

Kedar B: Okay, so what would be the number of SKUs within leggings as a product offering?

Udit Todi: The number of SKUs, so in leggings we only do a free size in order to control the number of SKUs, but we do about 200 colors, so just to talk about leggings per se we will have in over three or four different styles and different colors, we would have more than 700, 800 SKUs.

Kedar B: Okay. So I am guessing the mixture will be probably a mix of maybe cotton plus stretchable kind of a material correct, because of its free size?

Udit Todi: Yes.

Kedar B: Okay, so that is question number one. So coming to the question number two which I had so if I consolidate the entire numbers of Ebell plus JMH and Lux standalone, so you are pretty much hit close to Rs.1800 Crores for FY2019, so hopefully in about three, four years you should pretty much at a scale where Page Industries is as of today that is around Rs.2600 Crores, Rs.2700 Crores. So as you sort of let us say gear up the company for the next level of growth, I am just curious to know what kind of information technology investments are you making in addition to let us say the SAP HANA that you procured about a couple of years ago, because what we have seen in other consumer brands within the country is as let us say two, three years down the line if you start expanding more on year EBOs, if your IT system is not there in place already, it is not going to be an easy transition, so just curious to sort of hear your views on that, how do you plan to scale the technology part going forward?

Udit Todi: So coming to technology as you are very correctly mentioned, we had invested in SAP HANA system which brought in a lot of efficiencies into this organization which helped us actually, had a better control over inventory, better control over debtor days and everything due to the results of which are very clear in this financial year's accounts and this was one very big technology shift for us and going forward as a company we are always open to investing in different kinds of technologies which come up so that we can ultimately realize better efficiencies and improve the overall management of the company.

Kedar B: Okay so I think your current head of technology Mr. Maity joined you somewhere around 2014-2015 am I right?

Saket Todi: Correct.

Kedar B: If I look at your borrowings as of March 2018 so close to 16% of the debt outstanding was actually coming from either the promoter in its personal capacity or from one of the promoter entities, I think the number was close to about Rs.52 Crores if I am not wrong. So my question is what is the rate of the interest that has been paid out to promoter and the promoter entities?

Ajay Patodia: Around 8%.

Kedar B: Around 8% okay and have this number increased or decreased for this particular financial year?

Ajay Patodia: It is decreased.

Kedar B: It has decreased okay. Thank you that is it from my side. Thank you for your response.

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

Prerna Jhunjhunwala: Sir I would like to understand what are the levers for margin expansion that you have guided for like 100 to 150 bps improvement in the next financial year, what would be the major lever that would help you achieve this?

Saket Todi: There are two major points, one is the cutting technology which we have installed in a new Dankuni Unit in 2016, still I think we have one to two years more to utilize this to its optimal capacity and secondly the product mix, the premium segment ONN as well as exports is growing at faster rate than that of the economy segment, product mix is changing because of that we are getting higher EBITDA margins.

Prerna Jhunjhunwala: Sir how much improvement in product mix would give you around 50 bps improvement in margin, just a ballpark 50 to 70 bps improvement in margins, what kind of improvement in product mix like revenue mix it should have, the segment?

Saket Todi: It is very difficult to say those numbers but our premium segment gives as 18% EBITDA level margins so which is growing at around 25% to 30% so you can calculate the basic segment, which is growing at around 10% to 15% has an EBITDA level of 12%.

Prerna Jhunjhunwala: Okay I will do that and Sir second question would be largely on the Venus brand, what is the traction there after Mr. Amitabh Bachchan boarded in as an ambassador or is the progress as per our any initial targets?

Saket Todi: Yes the progress is definitely as per initial target, sale is one of the aspect and credit control is another aspect which we have been able to take place because of the higher brand pull which is there in the Venus segment. So sales is one of the factors and credit control is one of the another most important factor, which is mainly because of the brand pull and which is due to Mr. Amitabh Bachchan.

Prerna Jhunjhunwala: Okay so credit pull meaning how does it help just curious to…?

Saket Todi: We have reduced the number of days for our distributors. So if there was no brand pull then they would not have fallen in the line because of this brand pull, they have to adhere to it and we have been able to capitalize in a better way.

Prerna Jhunjhunwala: Okay and how is the progress in other brands like Lux Cozi and winter wear, how was winter wear performance in the quarter because it stayed till late this year?

Saket Todi: Yes winter wear has grown up very well, but with Lux Cozi as you would have known that we have launched a scented vest product which was on April 15, 2019 this month because of that there was a stop supply in the month of March so that we can decrease the stock at the distributor level and at the wholesaler level so that we can supply the new product and it is very well accepted in the market and there are no old products available in the market. There was a destructive sale in the Lux Cozi segment for last financial year.

Prerna Jhunjhunwala: Okay and so that would have impacted your topline growth also in Q4 to some extent?

Saket Todi: That might have to an extent.

Prerna Jhunjhunwala: Okay and winter wear growth was good because some companies that we were talking to also said that better winter will not have helped because the procurement happens at the beginning of the season and because it started late, the companies could not actually get the full benefit of better winter and longer winter this year, any such sort of things happened with you as well?

Saket Todi: We have forecasted our sales and that was around 40% to 45% sales growth in the winter segment.

Prerna Jhunjhunwala: Okay. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Yes, a few follow up questions, if you see your interest cost has only gone down from 2.3 Crores, 2.4 Crores while our overall borrowings has gone down to the tune of Rs.125 Crores, Rs.130 Crores, so any specific reason why we are not seeing the full impact of the debt reduction in the finance cost?

Saket Todi: Interest cost is over a period of the whole financial year and the debt, which you are seeing that is as on March 31, 2019, so we have taken this policy in action around in the month of July-August in the year 2018. So as you are seeing that the half yearly cash flow that was not positive, but nine months cash flow turned into positive of Rs.100 Crores. The 12 months cash flow turn into Rs.185 Crores, so for the first six months we did not have the policy in place, but then we have taken care of the policy in the month of July-August, so because of that you would see the Q4 interest which has been reduced drastically.

Sachin Kasera: So do we see FY2020 finance cost to be substantially lower than FY2019?

Saket Todi: Yes.

Sachin Kasera: Okay, my second question was regarding this other two entities are getting merged, do they also market under brand name Lux?

Saket Todi: No, they do not.

Sachin Kasera: So what brand names are they using for a business?

Saket Todi: Ebell deals in the brand Lyra and J.M. Hosiery deals in the brand GenX.

Sachin Kasera: the ownership of the Lux brand is with the company or it is owned by the promoters?

Saket Todi: That is owned by another company, which is owned by the promoter group.

Sachin Kasera: So what is the arrangement between Lux Industries and entity for using the Lux brand, what type of payments the company needs to make every year?

Saket Todi: It is approximately Rs.5 lakh.

Sachin Kasera: Per year that is it?

Saket Todi: Yes.

Sachin Kasera: Okay, my second question was regarding the ad spending? If you see the ad spend has come down by around Rs.13 Crores and that has almost caused 200 basis point improvement in

EBITDA margins and along with that we have also seen a better improvement in product mix, which is say another 100 basis point. Despite that the EBITDA has gone up by only 110 basis point, so is it that remaining 200, 210 basis point been taken away by basically the discounts and the increase in raw material, is that a fair understanding of the EBITDA breakup?

Udit Todi: Yes, you have got it quite right, so our expenses have come down primarily on account of advertising coming down, advertising cost has come down drastically and that is what was propelling the EBITDA margin, but what was also bringing down the EBITDA margins was that the gross margins were lesser on account of different kinds of schemes, which are given in the trade.

Sachin Kasera: So this reduction in ad spends from Rs.103 to 90 Crores has it been done by efficient media buying or is that we have overall curtailed the ad spends in FY2019?

Udit Todi: No, so the expenses which have come down were on account of reduced advertisement expenses.

Sachin Kasera: So is that a prudent strategy in the sense normally that is what one of the key drivers for the sustainability of the brand and the growth, so does it make – is that a strategically wise decision from medium- to long-term perspective to reduce the brand spends?

Udit Todi: So that is not policy decision which we have taken place that was only for one quarter that we had brought down our advertisement cost just because we had given higher schemes in the market. So in order to maintain similar EBITDA levels we had to reduce our advertisement expenses only for one quarter, but going forward we are looking at maintaining the advertisement expenses as earlier, which is at about 7% to 8% of the topline because ultimately at the end of the day it is a brand we sells. So we always look at investing in the brand itself.

Sachin Kasera: No if I see in FY2018 our ad spend was around 9.3%, 9.4% of sales which have come down to around 7.2% to 7.4% this year, so do we look into increasing back to 8%, 8.5% or go back to the 9% close range which was there in FY2018?

Ajay Patodia: From a medium- to long-term perspective, we are looking at maintaining it about 8%. 9% was an aberration, but 8% is what we are looking at as a safe medium- to long-term figure.

Sachin Kasera: And on these exports, what is the potential, in the sense this year we had done very well, next year also you are guiding well so what is the type of potential for the export business per se?

Saket Todi: See, in export there have been many countries where we need to expand so that is why we have a target of Rs.175 Crores for this financial year, so there are many countries where we are expanding, where we have just started off, there are around 12 to 13 more countries, which have been added in the last few months, where the distributors have been appointed because of that we are getting additional growth and I think so still we have covered only 20% of the world market.

Sachin Kasera: So next four years at least good high growth rate in exports is sustainable.

Saket Todi: Yes, it is sustainable.

Sachin Kasera: Lastly what is our expectation from this One8 that we have signed up with Viral Kohli, what is the type of budgeting we have in terms of expand, in terms of revenue target that we are looking at, if you could give us some sense?

Saket Todi: See as it would be the first year, I think so we are looking at pessimistically at around Rs.15 to 20 Crores of sales first year. We are not supplying it to each and every wholesaler in the market, there has been selective distribution decided for the segment because of that we are not expecting huge turnovers in the first year. The EBITDA level margin would be more or less the same as that of the premium segment which we have around 18%.

Sachin Kasera: What is driving growth in the premium segment Onn brand because that segment is the hypercompetitive with a lot of even multinational brands competing there so what are the key USPs which are driving the growth in Onn?

Saket Todi: So there has been many segments where we have entered this year so because of that in all the segments any specific company has not dominated, there has been like men's innerwear, women inner wear, men's outer wear, women outer wear, socks, casual wear, athleisure, there have been many segments. So none of the competitors have dominated in all the segments, so still we find that there are many market gaps where we can enter with the brand Onn and we are successfully doing that.

Moderator: Thank you. Due to time constraints we will be able to take one last question. Last question is from the line of Bhargava Buddha from Kotak Mutual Fund, please go ahead.

Bhargava Buddha: Yes Sir Thanks again for the opportunity, just one question. Sir, what will be the share of bottom wear in men's inner wear category, is it possible to share that and is there are endeavor to sort of further increase this is going forward?

Saket Todi: Bottom wear means underwear?

Bhargav Buddhadev: Yes, yes.

Saket Todi: Underwear would be in the men's inner wear category would be around 45%.

Bhargav Buddhadev: And so how was that moved over the last three to four years?

Saket Todi: The bottom wear and the top wear both have been growing consistently, but there have been few quarters of bottom wear has grown more, there have been few quarters where upper wears has grown more. When we have launched the ad of Varun Dhawan with the underwear during those quarters bottom wear had performed better. Now we have introduced the new technology in the vest which is the scented vests so we expect the vest to move more than the bottom wear, there has been a mix but both have grown consistently.

Bhargav Buddhadev: And in terms of margin difference is there a big margin difference would be in the..?

Saket Todi: It's not very big.

Bhargav Buddhadev: Okay Sir, Thank you very much.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Udit Todi: We would like to thank everyone present for this conference. So it was glad giving an insight to all of you as to how the company is functioning and going forward we believe that we will be able to replicate the same success story going forward. So thank you everyone for being a part of this conference and we hope to speak to you again the next time after Q1 results will come out. Thank you so much.

Moderator: Thank you very much. On behalf of Lux Industries Limited, we conclude this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.