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YEARS

Initiating Coverage Lux Industries Ltd.

17-December-2020





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Branded Apparel	Rs. 1579	Buy on dips in the Rs 1490-1496 band and add more in the Rs.1345-1349 band	Rs. 1644	Rs. 1812	2 quarters

HDFC Scrip Code	Lux industries
BSE Code	539542
NSE Code	LUXIND
Bloomberg	LUX IN
CMP Dec 16, 2020	1579
Equity Capital (Rs.cr)	5.3
Face Value (Re)	2
Equity Share O/S (cr)	2.6
Market Cap (Rs.crs)	3993
Book Value (Rs)	188
Avg. 52 Wk Volumes	45,500
52 Week High	1680
52 Week Low	813

Share holding Pattern % (Sept, 2020)	
Promoters	69.5
Institutions	8.0
Non Institutions	22.4
Total	100.0

Fundamental Research Analyst

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Our Take:

Lux Industries, in volume terms is India's largest branded innerwear company. Over the years, it has transformed itself from a commoditized inner-wear company to a house of brands with strong presence across economy, mid-market and premium segments. It has created a strong self-owned and sustainable portfolio of brands under "Lux" umbrella- Cozi, Venus, Inferno, Karishma, Touch etc which has presence across varied segments. Apart from these power brands, it has been constantly expanding and enriching its product portfolio in newer segments like mid-market/casual wear ("Genx"), premium inner-wear ("Onn") and women's legging segment ("Lyra").

Over the last decade, within the branded apparel space, Lux has been one of the leading consistent performers reporting stellar revenue & PAT growth of CAGR 14% & 39% over FY10-20. As on FY20, at group level (including JMHL & EBFL) its revenue and PAT stood at Rs. 1785Cr and Rs. 176Cr respectively. Going forward, post-merger of Lux Industries with JMHL (Genx) and EBFL (Lyra), we expect, the listed entity to not only strengthen its position in terms of growth but also to improve efficiency and further enhance its product mix. The merger of both these promoter owned entities with Lux Industries has been approved by the NCLAT and the merger is likely to fructify by the end of the current fiscal. The merger is structured in a way that there is no cash outflow from the listed company, Lux industries which will be issuing 48 lakh shares to its promoters against JMHL & EBFL 100% stake, thereby promoter stake will be increasing from current 69.5% to ~74.3% post-merger in the combined Lux Industries.

Valuations & Recommendation:

We are positive on the future earnings growth trajectory of Lux Industries. It has laid out an ambitious target to reach revenue of Rs. 5000Cr by 2025 which translates in a 20%+ revenue CAGR growth of over next 5 years. However as a matter of prudence, we expect ("Lux group"- includes listed entity along EBFL and JMHL) Revenue and PAT to record a growth of 6.5% and 10.7% CAGR over FY20-23E. Its superior market positioning coupled with ability to consistently operate with high return ratios (ROE 25%+), constant debt reduction, FCF (free cashflow) generation along with guidance on higher dividend payout (25%) provides comfort.

We are valuing the company post consolidating EBFL and JMHL (as per the Proforma Financials on Pg 14). The stock is currently trading at valuation of 23.50x FY22E earnings. We feel the base case fair value of the stock is Rs 1644 (24.5x FY22E) and bull case fair value is Rs 1812 (27.0x FY22E). Investors can buy the stock on dips in the price range of Rs 1490-1496 band (22.25x FY22E EPS) and add more on dips to Rs.1345-1349 band (20x FY22E EPS).



Financial Summary (Lux Industries Limited)

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	380.7	352.6	8.0	244.5	55.7	1,207.1	1,206.1	1,212.2	1,357.6	1,486.6
EBITDA	72.3	53.1	36.0	45.5	58.8	177.9	186.2	212.1	218.6	237.9
Depreciation	3.3	3.1	6.8	3.4	-3.5	11.3	12.7	13.3	14.4	15.4
Other Income	2.3	2.6	-8.6	1.6	46.5	9.0	3.8	6.1	6.8	7.4
Interest Cost	1.8	3.1	-41.8	2.3	-21.3	23.6	13.8	13.5	9.3	5.1
Tax	17.8	7.4	138.9	9.9	79.5	53.3	41.0	47.8	50.4	56.2
PAT	51.7	42.1	23.0	31.5	64.3	98.8	122.5	143.5	151.2	168.5
Diluted EPS (Rs)	20.5	16.6	23.5	12.5	64.0	37.3	46.2	54.1	57.1	63.6
RoE						27%	27%	26%	23%	22%
P/E (x)						42	34	29	28	25
EV/EBITDA						23	22	19	18	16

((Projections doesn't include EBFL and JMHL) Source: Company , HDFC sec

Q2FY21 Result Review

- In the midst of Covid-19 pandemic, Lux has reported steady performance. In Q2FY21 revenues stood at Rs 380Cr which grew by 8%/55% on YoY/QoQ basis. Total volume for the quarter grew by 5% YoY to 5.32Cr pcs while realization grew by 3% YoY to Rs. 71.5/pcs. Segment-wise high margin Thermals revenue for the quarter stood at Rs. 120Cr which was mainly driven by pre-booking before the winter season.
- Revenue of women's wear, E-Bell Fashions (Lyra) declined by 33% YoY mainly on account of subdued demand due to the pandemic while JM Hosiery business (Genx) was back on track reporting a growth of 11% on YoY basis.
- EBITDA margins for the quarter stood 19% (+390/40 bps YoY/QoQ). Strong uptick in margins was on the back of given benign raw material prices, better product mix and cost rationalization measures mainly on the A&P side. A&P spends for the quarter were cut by almost 50% to ~3.5% v/s which historically stood at ~7-8% of overall revenues. Consequently, PAT stood at Rs 52Cr v/s Rs 42Cr in Q2FY20 up 23%/64% on YoY/QoQ basis.

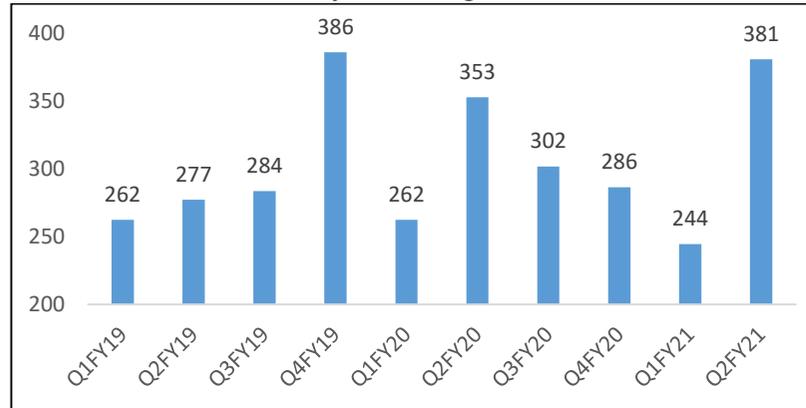


Recent Triggers

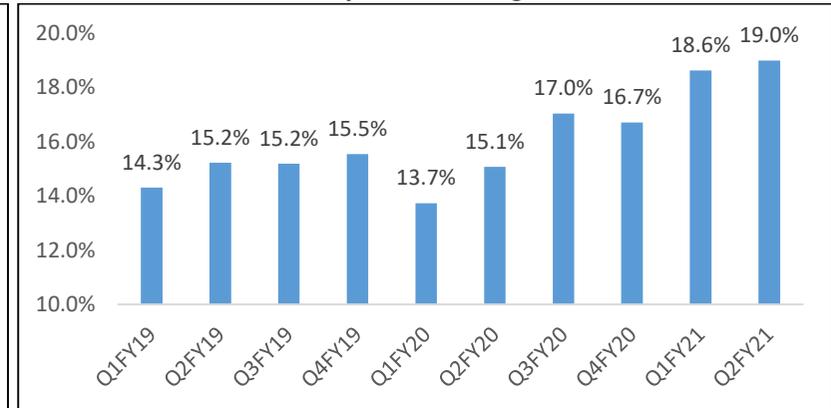
Strong pent-up demand post lockdown coupled with margin expansion driven by cost rationalization

In the universe of consumer discretionary space, innerwear and knitted athleisure-wear were relatively less impacted on account of Covid-19 related slowdown. This is mainly due to the nature of the product which is consumed as a bare basic necessity. Post easing of restrictions on lockdown, there was a strong pent-up demand across innerwear category which was a big positive for large organized and Pan-India branded players. Lux Industries with its strong brand recall, in-house manufacturing and last mile connectivity through its strong distribution network (presence across 4.5lk+ retail outlets across India) turned to be in a sweet spot and was well placed to capture this opportunity. Apart from this, despite the pandemic, its rural business which caters to mass market price conscious consumers had very low impact of lockdown. Unorganized regional players went through an extremely challenging phase due to limited resources and supply chain constraints.

Quarterly Revenue growth Trend



Quarterly EBITDA Margin Trend



(Source: Company, HDFC sec)



Long Term Triggers

Diversified product mix with Pan-India presence and leadership across categories

Over the 6 decades, Lux Industries has created a niche for itself by constantly staying ahead of the curve and transforming itself from a commoditised textile company to house of brands catering to both masses and classes. It has been constantly creating brands, nurturing them and expanding its product portfolio. In last 8 years, Lux Industries (listed entity) has invested Rs. 566Cr (7.2% of cumulative net revenues) behind brand promotions and advertisements. In terms of volumes, it is India's largest mid-market brand. Lux has one of the widest product portfolios (14% market share in organized innerwear space) with 5000+ SKUs which ranges from Rs. 38 to Rs. 1790. It has been gradually extending its offerings from economy to premium ("Onn"- launched in 2010) and as on FY20, ~20% of its revenue came from premium segment v/s 16.8% in FY18. (~15% CAGR over last 2 years v/s overall revenue growth of 6% during the same period). As per the management, premium segment margins are ~60-70% higher compared to mid and mass market segment. Its economy segment ("Venus-launched in 1993) contributed 34% of revenues while mid-market brand ("Cozi") contributed 46% of revenues as on FY20.

In the innerwear space, Lux has created an unparalleled distribution network spread across India with presence across 450k touch points through 950+ distributors with over 3 decades of relationship. Company enjoys a strong presence in the northern, eastern and western parts of the country on the back of its robust network. Apart from this, Lux has strong global footprint where it exports to over 46 countries across the world which contributed ~10.4% of its overall revenue in FY20. Its products are mainly exported to Middle East countries, Africa, Australia and South East Asian countries.

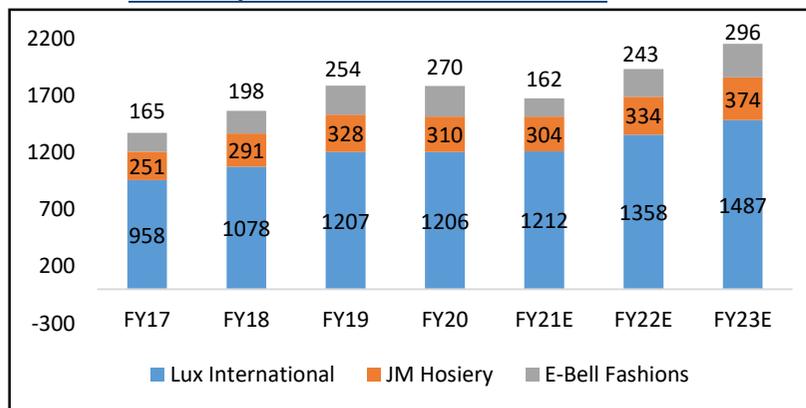
Strong synergy benefits post-merger of JM Hosiery and E-Bell Fashions with Lux Industries

Lux has got final approval from the court for group organizational restructuring, wherein two entities (JM Hosiery & Company, Ebell Fashions Pvt Ltd) of the promoters' group will be merged into the listed entity Lux Industries. As per the scheme of arrangement, there will be no cash outflow from the listed entity and 48 lakh equity shares in Lux Industries will be issued to shareholders of the both these companies, cumulatively valuing them at Rs 861 crore. Consequently, post the amalgamation promoter stake in Lux Industries will increase from current 69.5% to ~74.3%.

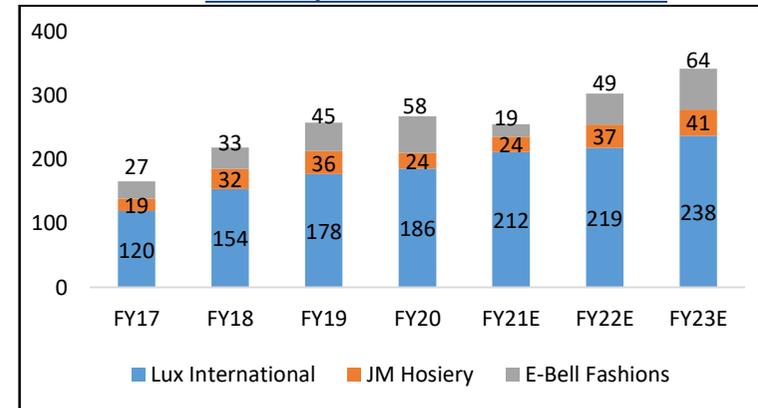
J.M. Hosiery and Company (JMHC) covers products under the "GenX" brand which was launched in the year 2000 (includes basic casual wear and fashion innerwear). Its total revenues as on FY20 stood at Rs. 310Cr (4-Yr revenue CAGR- 8.3%) while it's PAT stood at Rs. 11Cr (4-Yr earnings-12%) and Avg ROE of last 4-Yr stood at 13%. Ebell Fashions Private Ltd (EFPL) is engaged in womens wear segment covers

products under “Lyra” brand which was launched in 2012. Started as a leggings brand and has grown to a complete women’s wear brand. Its total revenues as on FY20 stood at Rs. 270Cr (4-Yr revenue CAGR-14%) while it’s PAT stood at Rs. 43Cr (4-Yr earnings CAGR 48%) and Avg ROE of last 4-Yr stood at 46%. Lux is now planning to scale-up in the athleisure wear and women’s wear segments through re-positioning of the Lyra brand on a lifestyle platform from a functional one.

Lux Group Revenue Performance Trend



Lux Group EBITDA Performance Trend



(Source: Company, HDFC sec)

Going forward, post reorganization, we expect a better integrated business model which is likely to benefit from strong operational synergies. We expect, cost savings in Lux’s future advertisement spends and marketing campaigns which are likely to be brand-specific and can improve the visibility of its entire basket of brands. Furthermore, the existing distribution network and retail touch points can also be leveraged to improve operational efficiency by exploring cross-selling opportunities.

Strong guidance of more than doubling the group revenue to Rs. 5000Cr over next 5-6 years

Lux Industries has laid out an ambitious plan to targeting to reach a size of Rs. 5000Cr of revenue by 2025 from Rs.1786Cr as on FY20. The key pillars for growth for Lux Industries continues to be higher focus on brand promotions and export growth along with deeper



penetration on the distribution side. It further aims to leverage its core competency in mass and mid-market segment in India and aspires to build its Mid-market brand “Lux Cozi” a Rs. 1500Cr size brand while it targets to scale its economy segment brand “Lux-Venus” to Rs. 750Cr. Apart from this, it aims to scale it’s international and export business by almost 3.75x to Rs. 500Cr from current Rs. 133Cr as on FY20. Also in the women’s wear segment it has been targeting its brand “Lyra” to almost double and reach a size of Rs. 500Cr from current Rs 270Cr. Similarly it has been targeting 5 brands worth Rs 300Cr each across Premium-wear (“Onn” & “One8”), Thermals (“Inferno” & “Cotts Wool”) and Leisure-wear (“Genx”).

We believe, post GST and now with the current pandemic challenges, there is a huge opportunity for large well established players with strong balance sheets to gain market share. Lux with its execution capabilities and track record is well poised to capture this opportunity of industry consolidation and shift from unorganized to organized segment. However, in our view, we believe, despite the company being operationally and strategically in the right direction there is a possibility that timelines of achieving the size of Rs. 5000Cr in next 5 years might stretch by few more years on account of the prevailing scenario of economy slowdown.

Business of Lux does not require large amounts of capex to grow as its asset turns are high and they have a fair amount of outsourcing. This means that it will continue to generate enough cashflows year after year. Also it is trying to bring down its net working capital (mainly debtors) though it may be a gradual process. Using more of e-com platform for sales will free up a lot of debtors. However capital allocation policies followed by Lux in future will be a key monitorable.

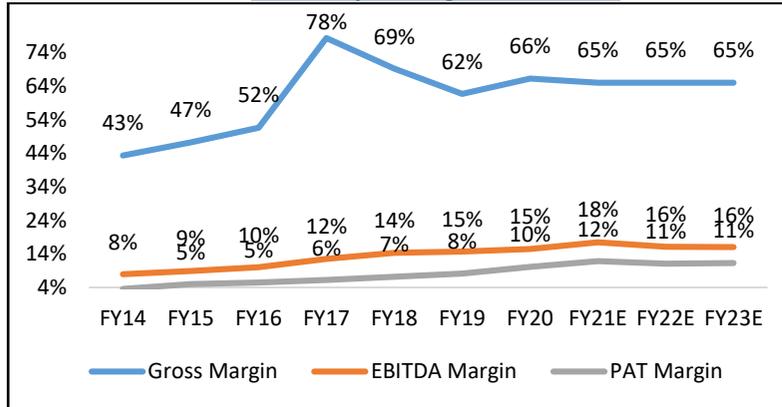


Key Financial Summary

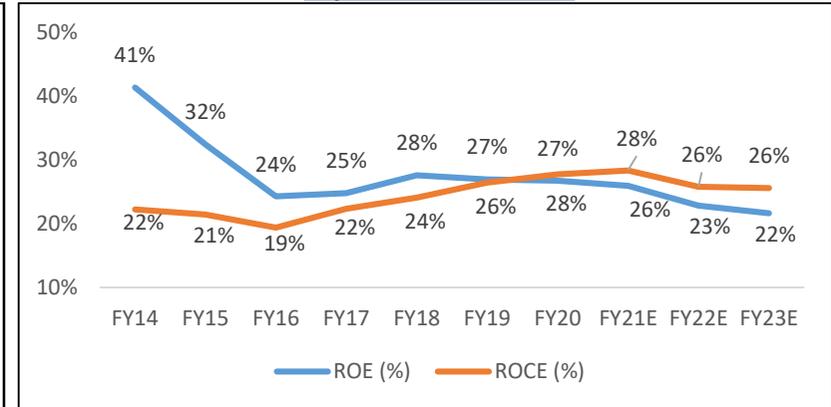
- Lux Industries has delivered a healthy Revenue CAGR of 13.7% over FY10-20 aided by its consistent focus on aggressive brand promotion and deeper penetration across India. Along with this, it has been constantly enriching its product portfolio by new product launches and thereby scaling-up its high margin value-add segment. Going forward, we are expecting Lux group (includes listed entity along EBFL and JMFL) to report a revenue CAGR of >5% over FY20-23E. Company-wise, we expect the currently listed entity Lux Industries revenue to grow at CAGR 6% while EBell Fashion and JM Hoisery are likely to grow at CAGR 6% and 4% for the same period.
- Its EBITDA and PAT grew by CAGR 35% and 39% respectively over FY10-20. In the listed entity, operating margins over last 5-6 years have been gradually improving due to better product mix and positive operating leverage driven by strong volume uptick. Going forward, we expect its operational performance at group level to report an EBITDA and PAT growth of CAGR 8.5% and 11% respectively over FY20-23E.
- Textile and Apparels is a highly competitive and working capital intensive business. Despite stiff competitive pressures, cash conversion (listed entity) for last 6-years has been consistently restricted less than 3 months (6-Yr Avg 130 days). At Net D/E level, it has improved to 0.2x as on FY20 from 2.4x in FY14. Constant debt reduction is mainly driven by asset light business model (Fixed asset turns FY20-9x) strong FCF generation (Rs 240Cr FY14-20) resulting in superior return ratios (6-Yr Avg RoE 29%).



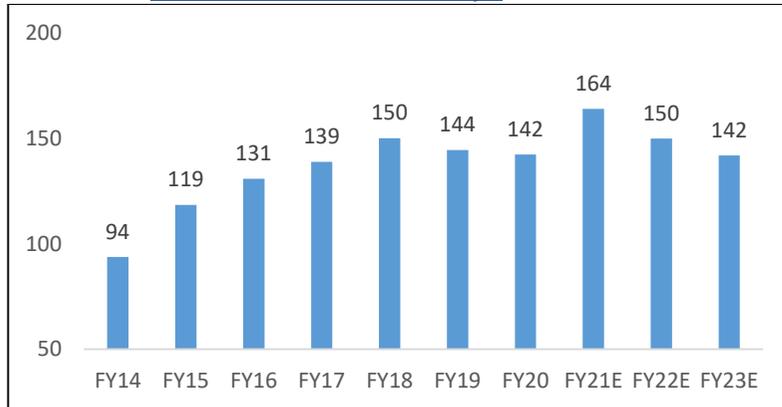
Stable Operating Performance



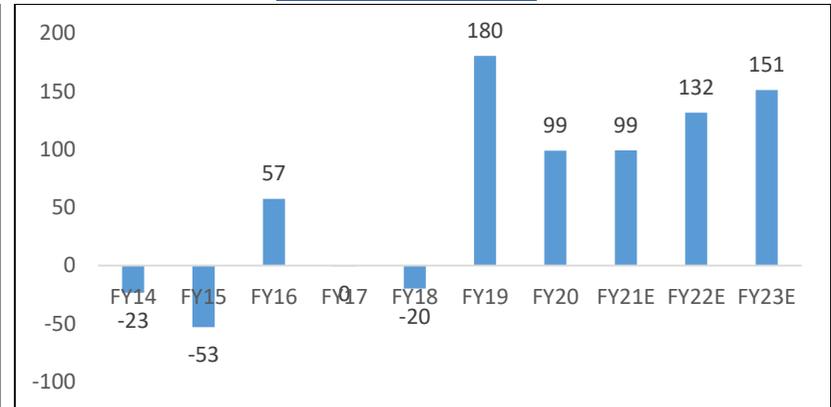
Superior Return ratios



Stable Cash conversion Days



Free Cash Flow Trend



(Source: Company, HDFC sec) (Lux Industries projections are excluding EBFL and JMHL)



What could go wrong?

- **Sharp rise in Competition Intensity**

Resurgence of stiff competition intensity from regional players and higher competition from large organized retailers getting in the innerwear segment can impact growth. As of now large organized retailers have restricted their presence only in the premium segment, in case they enter in mid and mass market segment through their retail network and e-com with adoption of aggressive pricing and discounting it can create disruption in marketplace.

- **Inability to consistency expand in the premium and women's wear segment**

Premium inner-wear and women's leggings are the fastest growing categories for Lux industries. In last few years both these segments have become more crowded and there is a need to further product and SKU expansion which can drive future growth. Lux has also been in a nascent stage of scaling its women's lingerie and expanding casual wear segment. In case if the scaleup of new products becomes a highly elongated tedious task there can be impact on earnings growth momentum.

- **Expansion of international business**

Currently exports contribute ~11% of Lux revenues which it aims to growth by 3.75x in next 5-6 years. In coming times, particularly for next few years its growth in exports will be closely monitored. In our view, higher growth in exports can be achieved by product expansion and reducing its reliance on low priced basic innerwear exports.

- **High input cost pressure**

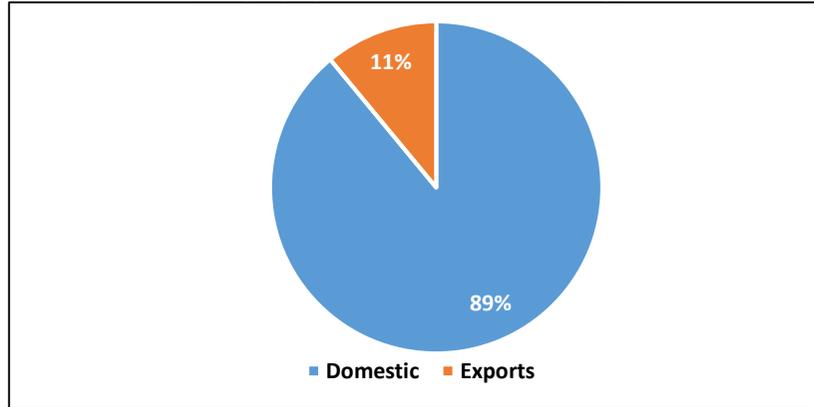
Mass market innerwear (34% of FY20 revenue) as a category is highly sensitive to pricing and any elongated phase of higher cotton prices resulting in price hikes can possibly impact growth for larger branded innerwear players.

Company Profile:

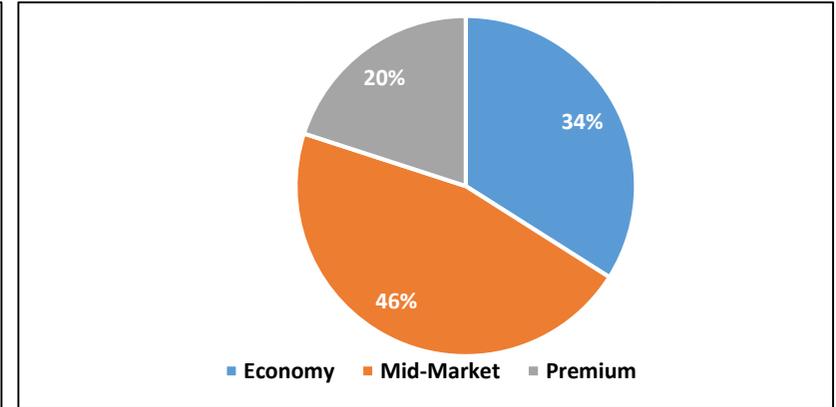
Lux Industries has been in the inner-wear and hosiery business for more than 6 decades. It was founded in 1957 by Mr. Girdhari Lal Todi Biswanath Hosiery Mills. Since last 2.5 decades, under the leadership of Mr. Ashok Todi and Mr. Pradeep Todi it has emerged as India's largest mid-market innerwear player by volumes. Its total volume as on FY20 stood at ~20Cr/ pcs and commands a 14% market share in India's organized innerwear space. It has 6 manufacturing facilities across India and commands a strong brand equity. Over the years, it has created a portfolio of 16 top of the mind brands under the Lux umbrella catering to both masses and classes.



Geography-wise Revenue Break-up



Segment-wise Revenue-Break-up



(Source: Company, HDFC sec)

Peer Comparison

	Mcap	Revenue			EBITDA Margin			PAT			ROE			Net D/E		
		FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Lux Industries	3,950	1078	1207	1206	14.3%	14.7%	15.4%	78	99	122	28%	27%	27%	1.0	0.4	0.2
Rupa & Co.	1,835	1,120	1,149	975	14.0%	13.0%	12.0%	86	74	62	18%	14%	11%	0.2	0.4	0.3
Dollar Industries	1,065	926	1,029	969	13.0%	13.0%	11.0%	64	75	59	19%	18%	13%	0.5	0.5	0.5
Page Industries	26878	2,551	2,852	2,945	21.0%	22.0%	18.0%	347	394	343	42%	52%	42%	0.0	0.0	0.0

	EPS Growth	P/E			EV/EBITDA		
	FY20A-23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Lux Industries	10.7%	29	28	25	19	18	16
Rupa & Co.	NA	NA	NA	NA	NA	NA	NA
Dollar Industries	20%	15	14	12	10	9	8
Page Industries	16.2%	95	58	50	57	38	33

(Source: Bloomberg Consensus, HDFC sec) (Lux Industries projections are excluding EBFL and JMHL)

Financials- Lux Industries Ltd Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1207.1	1206.1	1212.2	1357.6	1486.6
Growth (%)	12%	0%	0%	12%	10%
Operating Expenses	1029.1	1019.9	1000.0	1139.0	1248.7
EBITDA	177.9	186.2	212.1	218.6	237.9
Growth (%)	15%	5%	14%	3%	9%
EBITDA Margin (%)	14.7	15.4	17.5	16.1	16.0
Depreciation	11.3	12.7	13.3	14.4	15.4
EBIT	166.7	173.5	198.8	204.2	222.4
Other Income	9.0	3.8	6.1	6.8	7.4
Interest expenses	23.6	13.8	13.5	9.3	5.1
PBT	152.1	163.4	191.3	201.6	224.7
Tax	53.3	41.0	47.8	50.4	56.2
RPAT	98.8	122.5	143.5	151.2	168.5
APAT	98.8	122.5	143.5	151.2	168.5
Growth (%)	27%	24%	17%	5%	11%
EPS	37.3	46.2	54.1	57.1	63.6

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	5.3	5.3	5.3	5.3	5.3
Reserves	408.6	493.4	601.9	711.8	835.8
Shareholders' Funds	413.9	498.7	607.2	717.1	841.1
Total Debt	180.9	128.8	128.8	88.8	48.8
Net Deferred Taxes	7.6	5.4	5.5	5.6	5.7
Other Liabilities	2.9	13.5	14.2	14.9	15.7
Minority Interest					
Total Source of Funds	605.3	646.5	755.9	826.9	911.7
APPLICATION OF FUNDS					
Net Block & Goodwill	132.2	136.0	137.6	138.2	137.8
CWIP	0.4	0.8	0.8	0.8	0.8
Other Non-Current Assets	3.3	6.6	6.1	13.6	14.9
Total Non-Current Assets	136.0	143.4	144.5	152.6	153.4
Current Investments	4.6	4.6	4.7	4.9	5.2
Inventories	251.0	321.0	315.5	331.0	354.3
Trade Receivables	368.3	306.7	378.6	515.1	566.5
Cash & Equivalents	2.0	1.4	53.3	87.6	148.3
Other Current Assets	41.6	49.5	48.5	67.9	74.3
Total Current Assets	667.5	683.2	800.6	1006.6	1148.7
Trade Payables	163.0	143.0	149.4	167.4	183.3
Other Current Liab & Provisions	35.2	37.1	36.4	40.7	44.6
Total Current Liabilities	198.2	180.1	185.8	208.1	227.9
Net Current Assets	469.3	503.1	614.8	798.5	920.8
Total Application of Funds	605.3	646.5	755.9	826.9	911.7

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	154.6	167.0	191.3	201.6	224.7
Non-operating & EO items	-3.2	1.7	0.0	0.0	0.0
Interest Expenses	23.1	12.4	13.5	9.3	5.1
Depreciation	11.2	12.4	13.3	14.4	15.4
Working Capital Change	53.9	-40.7	-56.3	-28.3	-23.0
Tax Paid	-46.9	-46.1	-47.8	-50.4	-56.2
OPERATING CASH FLOW (a)	192.8	106.7	114.0	146.6	166.1
Capex	-12.4	-7.9	-15.0	-15.0	-15.0
Free Cash Flow	180.4	98.8	99.0	131.6	151.1
Investments	0.0	0.0	-0.1	-0.2	-0.2
Non-operating income	-2.6	7.9	0.5	-7.5	-1.3
INVESTING CASH FLOW (b)	-15.0	0.0	-14.5	-22.8	-16.5
Debt Issuance / (Repaid)	-148.2	-53.2	0.0	-40.0	-40.0
Interest Expenses	-23.6	-13.2	-13.5	-9.3	-5.1
FCFE	8.6	32.4	85.5	82.3	106.0
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Others	-6.2	-40.6	-34.3	-40.2	-43.8
FINANCING CASH FLOW (c)	-178.0	-107.0	-47.8	-89.6	-88.9
NET CASH FLOW (a+b+c)	-0.2	-0.3	51.7	34.3	60.7

Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	14.7%	15.4%	17.5%	16.1%	16.3%
EBIT Margin	13.8%	14.4%	16.4%	15.0%	15.0%
APAT Margin	8.2%	10.2%	11.8%	11.1%	11.3%
RoE	27%	27%	26%	23%	22%
RoCE	26%	28%	28%	26%	26%
Solvency Ratio					
Net Debt/EBITDA (x)	1.0	0.7	0.4	0.0	-0.4
Net D/E	0.4	0.3	0.1	0.0	-0.1
PER SHARE DATA					
EPS	37.3	46.2	54.1	57.1	63.6
CEPS	41.5	50.9	59.2	62.5	69.4
Dividend	3.5	12.5	11.0	13.0	14.0
BVPS	156	188	229	271	317
Turnover Ratios (days)					
Debtor days	115	102	114	106	100
Inventory days	83	87	95	89	87
Creditors days	53	46	45	45	45
VALUATION					
P/E	42	34	29	28	25
P/BV	10	8	7	6	5
EV/EBITDA	23	22	19	18	16
EV / Revenues	3	3	3	3	3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout	9%	26%	24%	25%	25%

Source: Company, HDFC sec (Lux Industries projections are excluding EBFL and JMHL)

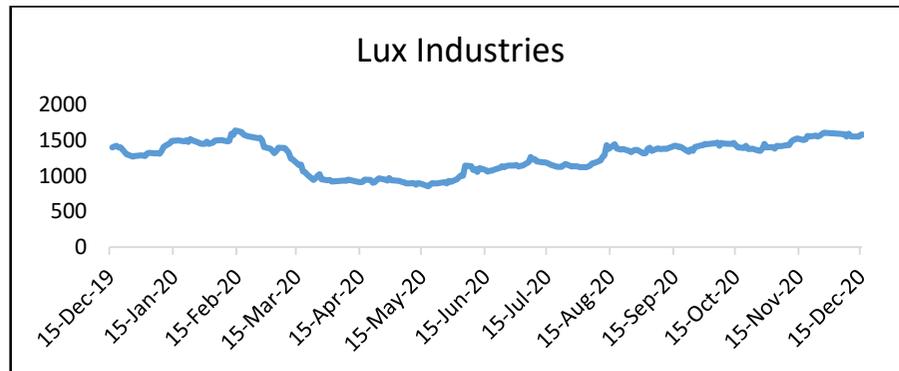


Performa Financials of Lux International combined with E-Bell Fashions and JM Hosiery

	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	1567	1789	1786	1678	1935	2157
Growth (%)	14.0%	14.2%	-0.2%	-6.1%	15.3%	11.5%
EBITDA	219	258	268	256	304	343
EBITDA Margin	14.0%	14.4%	15.0%	15.2%	15.7%	15.9%
Growth (%)	31.9%	17.9%	3.9%	-4.6%	18.8%	12.8%
Depreciation	11	13	15	15	16	17
Other Income	3	10	6	8	9	9
Interest Cost	34	33	21	21	16	12
Tax	62	73	62	57	70	81
PAT	115	149	177	171	210	242
PAT Margin	7.4%	8.3%	9.9%	10.2%	10.9%	11.2%
Growth (%)	35.8%	29.5%	18.4%	-3.2%	22.8%	15.2%

(Source: Company, HDFC sec)

One Year Stock Price Chart



(Source: Company, HDFC sec)Disclaimer



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