Analysis: Lux Industries Ltd

Author: Haider Hussain Kagalwala

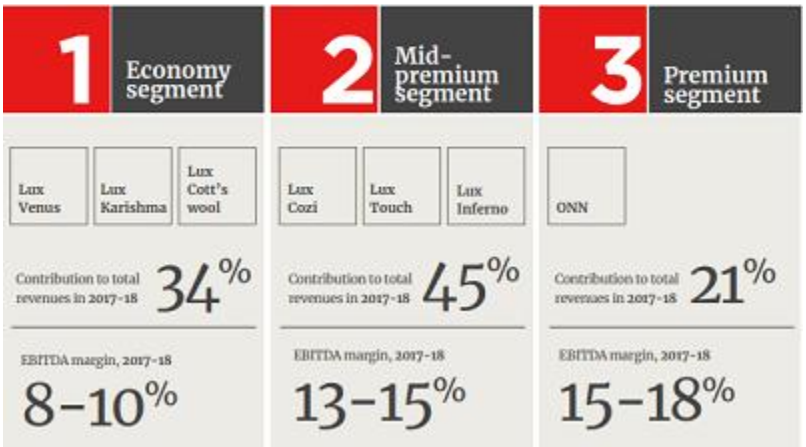
Contact Number: +91-9640191953

Email: haiderkagalwala@gmail.com

LinkedIn: https://www.linkedin.com/in/haider-kagalwala/

Products and Offerings:

- Lux Industries is primarily engaged in manufacturing of men's innerwear. Their products ranges are—Economy segment, mid segment, mid-premium segment and premium segment. Lux manufactures numerous products that can be categorized into either one of these segments. The following is a revenue wise distribution-



Saket Todi: Premium range is approximately 10%, export is approximately 10%, our mass segment product which is Lux Venus is approximately 25%, Lux Cozi, which is mid segment, is approximately 45% and approximately 10% is the winter wear.

- Further inferences have helped us understand that, the mass range including products such as Venus with a contribution of 30-35%. The mid-range includes products such as Cozi and Cozi Bigshot contributing 30-35% of sales. Winter wear sales lie somewhere in between mid-premium to premium segment with 10% contribution, and lastly ONN , One8 and Exports contribute the entirely to premium segment with a 20-25% of revenue(ONN being negligible).

In the pre-GST era, the economy or the mass segment, which is amongst the major segment in the innerwear industry, has been facing competition from the unorganized sector; however, post GST implementation, we are witnessing a gradual shift by the consumers from the unorganised player to an organized player. While formulating the marketing strategy we had anticipated the shift and to capitalise on the same we signed up Mr. Amitabh Bachchan as a Brand Ambassador for the brand Lux Venus, which caters to mass segment, which help us, strengthen the bond with the masses.

- Currently due to the recent implementation of GST, the tide has turned against the unorganized segment of the industry, hence Lux believes the organized segment in hosiery industry is to heavily benefit. The unorganized possesses around segment is 50-55% market share with mostly Economy range and winter wear products. The promoters believe they hold the potential to capitalize this opportunity, conquer the economy segment and winter wear with their superior branding and marketing stunts(Mr Amitabh Bachchan as brand ambassador) and gain more market share in the coming years.
- The promoter's believe, the competitors aren't focused or don't intend to grow their winter wear and economy products much. Further they wish to strengthen their hold over this segment, and also

believe this a catapult for their brand value. But as of FY2020, the mass segment growth is not as good as expected. The mass segments contribution has more or less remained the same.

- The promoters are currently hooked on winter wear, exports, merger plan and their and their premium product one8.
- When Investors questioned- “The operating margins would plunge if the economy segment’s share in revenue would increase”, the promoter’s said, they believe they can curb this effect by their improved manufacturing techniques, growth of ONN, winter wear and one8 sales further.
  This certainly has played out in reality. The product mix, cutting branding expenditure and manufacturing costs on whole have plunged slightly.
- One8 is a brand by Virat Kohli. Lux industries subsidiary – Artimas Fashions have a licensed agreement of manufacturing and marketing innerwear for the brand One8, further One8 will be classified as a brand under ONN. One8’s manufacturing and marketing hasn’t started in a full-fledged manner yet, the product’s sales the company says will start picking up from CY2020 onwards, and certainly has a long way to go. There’s more on product one8 and its dynamics in the next section.

Udit Todi: So if we talk about One8, we are not looking at any major advertisement expenses in the first year even we are looking at making some good profits from the brand and then may be looking at making any advertisement expenses, but as part of talking about the agreement because the Virat Kohli has agreed to contribute a certain number of days because generally the way the things works is the celebrity gives their time and you can utilize that time and whatever they want whether that is for product photo shoot or for shooting in ad film or for general marketing purposes so that would be his share of marketing and as far as if you are doing any release of media that would be borne by us, but you would also be happy to know that the brand One8 is not just restricted to innerwear. The way the brand One8 will work is that One8 also has licensing agreement with Puma whereby they will be doing sportswear, shoes, they also have a licensing agreement with the mineral water company whereby they will be producing vitamin water for them. One8 also has a licensing agreement with one of the eyewear company whereas they will be making sunglasses with the brand One8. So when you talk about marketing if any these of players advertising One8 each player gets a rub off from the other. In terms of brand awareness, I think the brand should already once everyone start launching their products in the market every one stands to gain from the other businesses.

- It not understood whether the marketing will be entirely taken care of by Lux. The promoter’s in conference call Q3-2019 mention that, the initial marketing will be done by Virat Kohli.
- One8 has lot of other products that’ll be manufactured and marketed by other brands and companies. For instance, their sportswear will be manufactured and marketed by Puma. Hence, the marketing and brand value of one might reflect among other products of one8.
- The winter wear or thermal wear sales have picked up very well in Q2-2020. Half of the sales for the quarter have been on account of winter wear. The promoters convey in explicit terms, that they’re one of the strongest players in this segment. But this seems to be a spontaneous and unexpected growth in the winter segment. The growth undoubtedly is very good, but is this sustainable, is what one shall question. It is certain that such segments of products are seasonal in nature; but at least for seasonality pro quarters, will this growth sustain year over year.

- The Q2 and Q3 of 2019, w.r.t to winter wear products did not produce such a spectacular result, but can the same be witnessed in FY21 shall be determine

Udit Todi: Thank you Himanshu. Thank you for your congratulations, and yes as you have seen the quarter two numbers are really well, so quarter one was very sluggish for us, but towards the end of quarter two all the festive seasons are started coming in, so the Diwali sales and the Durga Pooja sales a lot of sales were captured by the end of quarter two, seen growth overall across all categories across summer products and talking about winter products. So winter has been one of our forte, we are very strong in the winter segment, I believe we are one of the market leaders operating when it comes to thermal wearwear and there has seen almost more than 50% jump in sales. So as you mentioned about the 27% growth which is coming in for the quarter two we would attribute almost half of it to winter sales and growth in winter and the rest half is coming from the existing product categories which are basically Lux Cozi, Lux Venus on an export.

- Well, post-merger, the company will have brands Lyra (women's wear) and Genx (sportswear) under one roof. This would help them diversify their product categories even more, allowing them to step into women's wear and sportswear.
- Now can they optimize their business, while also diversifying their offerings to this extent, has to be judiciously gauged moving forwards.

Revenue and Market Share:

Growth%										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales Growth		55.88%	5.18%	26.36%	25.85%	4.40%	3.51%	1.82%	12.48%	12.17%
PBT Growth		85.88%	64.59%	44.34%	57.74%	45.05%	15.71%	17.11%	31.34%	27.78%
PAT Growth		89.37%	68.94%	43.92%	54.20%	44.14%	13.51%	16.19%	30.56%	30.08%

Sales Growth	10 years	5 years	3 years	OP growth	10 years	5 years	3 years
	15.36%	6.78%	8.71%		38.27%	20.99%	24.04%
PAT Growth	**10 years**	**5 years**	**3 years**	**PBT Growth**	**10 years**	**5 years**	**3 years**
	41.62%	26.42%	25.43%		41.66%	26.96%	25.26%

- The sales growth has suffered very much after Mar-14. The sales growth average over 10years has severely deflated, due to the minuscule growth rates attained post demonetisation.
- It is fairly possible that sales growth has declined post demonetisation and GST implementation. Promoters have mentioned this several time in concalls too. Pre demonetisation era, company enjoyed very healthy volume growth rates.
- The sales although have started picking up since Mar-17. Better conclusions can be draw here once we move to the peer group analysis.

- The profit growth on the other hand has kept doing better and better. This solely due to the margins growth rates. Margin growth rates are result of better efficiency, product mix and reduced branding expenditure.
- Profit growth at a stretch of 10years CAGR is 40%, but for the past 5 years the growth is relatively lesser due to the stifled volume growth.

- Post GST implementation the company believed they can improve volume growth, since the unorganized sector is doomed to collapse; and their market share (mostly mass products) is a whopping 50%.
- On a quarterly basis, some quarters witness better value growth and some better volume growth.
- Currently on a yearly basis company has not performed significantly in volume terms, but only in value terms. This is attributed to product mix, reduced branding expense and exports mostly.
- The company also seems quite hooked on its premium products and their growth. One8, exports, ONN, winter wear and Ebell's products all come under the premium segment and are performing fairly well. These seem to be the prime focus of the company.

Niket Shah: Okay. The second question is on your category wise growth your premium, medium and mass segment, which segment and you all should grow at a faster pace over the next two to three years?

Saket Todi: For us the mass segment will be growing as the fastest rate because as the GST has come in the unorganized market is going to go down and for that in the unorganized market 90% of it in the mass segment because of that the mass segment is completely open for us and this is the first season, like the season starts in the month of February-March in the hosiery segment, so after GST this is the first season and we have witnessed the shift from the unorganized to the organized segment now in the mass segment as well as we have a premium brand ONN, which witnesses a growth of around 30% to 35%.

- It would be extremely important for one to monitor mass products growth. Since they've spent tons of money in getting Mr Amitabh Bachchan to endorse it.
- Currently we in winter wear segment and ONN is doing much better than what their mass market products. It to be seen, whether they can strike a balance between their premium and mass products.
- Their market share currently in the organized sector is 15%, and in that of peer group is 19%. Going forward can they beat the industry growth rate in terms of value and volume growth; and can improve their market share, is crucial to come to draw an conclusions.

Branding and Advertisements:

- Advertising until now has been arguably the company's main lever to improve their sales and grab more market share. The company has been spending stupendous amounts of money into Advertising. Selling, Administration and other expenses combined, are almost 50-60% of PAT for the last three years.

> **It would have been** easy investing moderately in brands; we invested an aggregate ₹346 cr in our brands across the five years ending 2017-18 instead.

- The following is a snap taken from annual report 2018. In total, they've spend 386cr as of 2019.

- But is all this branding expenditure paying off? Because, when we view sales growth, the volume growth hasn't been very impressive.

9.93	13.40
₹, revenue generated from every rupee of brand spending, 2017-18.	₹, revenue generated from every rupee of brand spending, 2018-19.

- The company in its 2019 annual report says, every rupee invested in brand has resulted in Rs.13 as revenue.

A	B	C	D	E	F
	2015	2016	2017	2018	2019
Sales	908.96	940.87	957.97	1,077.51	1,208.68
RevenueEarned 5 years	5,093.99				
Branding Exp	386				
Revenue/Brand	13.20				

- Well, the calculation sits well here undoubtedly. But this certainly isn't in any way a right depiction of performance. Sales growth is a result of several aspects – such as distribution network, products quality, brand value etc. Without marketing too, the brands would sell, but maybe lesser relatively.
- When we look at sales growth along with growth in each category. It is no surprise that, the volume growth since the last five years is very less. The mass products haven't gained more market share (despite GST implementation), instead the premium wear products are making greater strides.

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.

- In Q3-2019 concall, Mr Udit Todi has mentioned they plan to spend 7-8% revenue into branding. Previously it was on a higher end – close to 10%.

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	2.92%	4.28%	5.97%	6.47%	7.99%	8.94%	10.04%	12.49%	14.32%	14.92%
NPM%	1.32%	1.61%	2.58%	2.94%	3.60%	4.98%	5.46%	6.23%	7.23%	8.38%
Raw Material Cost	54.64%	67.08%	64.05%	66.69%	50.37%	58.06%	49.83%	22.41%	38.36%	36.40%
Power and Fuel	0.03%	0.10%	0.04%	0.03%	0.02%	0.01%	0.01%	0.01%	0.51%	0.40%
Manufacturing Expense	35.20%	0.15%	17.15%	20.87%	0.20%	0.20%	0.21%	44.04%	32.40%	28.69%
Employ Cost	0.81%	0.75%	0.84%	1.03%	1.38%	1.48%	2.17%	2.62%	3.48%	3.60%
Selling and Administration Exp	13.80%	6.59%	12.75%	15.67%	9.51%	34.88%	37.24%	16.53%	14.23%	11.66%
Other Expenses	0.98%	25.90%	2.07%	1.14%	30.53%	1.68%	1.96%	2.58%	1.55%	1.44%

- Here it is evident that the selling and admin expenses range from 14-16%. But this can be misleading, since for some years, the expenses such as manufacturing have been either merged into selling and admin, or the other expenses. Hence it is very difficult to obtain appropriate figure of brand expenditure.

- When it comes to brand ambassadors, the following developments have taken place in the last five years–
  - ⇨ Varun Dhawan as brand ambassador for Luz Cozi and Lux Cozi Bigshot. He poses as a youth icon, and might be ideal to promote their mid segment brand, is what the company has to say.
  - ⇨ Amitabh Bacchan posing as brand ambassador for Lux Venus. After GST implementation, the unorganized sector has lost their pricing advantage. The unorganized sector is mostly involved in sales of economy range products. To capture this market share of economy segment products, Mr. Bachchan is hired, who poses as a widely recognized and admired personality, and might be ideal to help promote their product and appeal middle class and lower-middle class families.
  - ⇨ Kartik Aryan as brand ambassador for Lux Inferno. Lux inferno has witnessed very good growth in the recent quarters. The winter saleswas much higher when compared in Q2-2020 relative to Q2-2019.
  - ⇨ Parneeti Chopra is the brand ambassador for Ebell Fashions product – Lyra.
  - ⇨ Sharukh Khan was initially the brand ambassador for Lux's premium brand ONN, but later they decided not to have any brand ambassador for premium brands. Saket Todi and Udit Todi in conference calls have mentioned that, premium products are better suited to premium advertising; brand ambassadors work better to target the masses.

Prerna Jhunjunwala: So, do not you think your mass and mid segments have very strong brand ambassadors and they will grew at a higher rate than ONN because of higher brand recall?

Udit Todi: No, I think it is totally a marketing teams call whereby they say that it is better in fact in the premium segment, it is better not to have a brand ambassador. In fact to spend the same amount of money see by the amount of budget, which you have allocated for advertising in the premium segment we spend in other ways rather than spending it on a brand ambassador.

- One shall keenly keep a track of branding expenditure from here on. Since, promoters mention they want to cut costs. Further, sales growth shall be monitored alongside.
- Mass market products development, along with the mid segment has consistently been similar. Will they be able to grab market share, and improve volume, is a question of immense importance.

Udit Todi: As I mentioned earlier, our Home Grown Brand by the name of ONN is a brand which is owned by the company, and this brand has been performing pretty well. It has contributed to about 11% of the topline and when we talk about One8, One8 is a licensee brand and in fact One8 will also be co-branded as One8 by One, so even when you are marketing One8 products there will be a good amount of rub off which will be accruing to the Home Grown Brand.

- ONN as brand has been doing very well. ONN contributes 10-11% to revenue. Further, ONN also helps improve margins. One8 is most likely to benefit ONN as brand too. But it is still important to keep a close watch over how the market reacts to one8, and does one8's brand value also reflect in that of ONN.

Udit Todi: So if we talk about One8, we are not looking at any major advertisement expenses in the first year even we are looking at making some good profits from the brand and then may be looking at making any advertisement expenses, but as part of talking about the agreement because the Virat Kohli has agreed to contribute a certain number of days because generally the way the things works is the celebrity gives their time and you can utilize that time and whatever they want whether that is for product photo shoot or for shooting in ad film or for general marketing purposes so that would be his share of marketing and as far as if you are doing any release of media that would be borne by us, but you would also be happy to know that the brand One8 is not just restricted to innerwear. The way the brand One8 will work is that One8 also has licensing agreement with Puma whereby they will be doing sportswear, shoes, they also have a licensing agreement with the mineral water company whereby they will be producing vitamin water for them. One8 also has a licensing agreement with one of the eyewear company whereas they will be making sunglasses with the brand One8. So when you talk about marketing if any these of players advertising One8 each player gets a rub off from the other. In terms of brand awareness, I think the brand should already once everyone start launching their products in the market every one stands to gain from the other businesses.

- The following is statement from concall transcript Q4-2018. As of 2020, the promoters have said, the changes might take time to reflect. One8's manufacturing has started. But, full-fledged manufacturing, branding and advertising is yet to take place; and these developments shall be watched closely.

'Are you sure you can raise prices in a commoditised market?'

Product relevance: Lux invested quality material and contemporary designs (European and American influences), enhancing aspirational value

Evolved brand ambassadors: A continuous change in brand ambassadors enhanced brand relevance and vitality; the selection of Varun Dhawan as brand ambassador for [Lux Cozi] enhanced youthfulness, fun and fashion, strengthening premiumness

Event engagement: Lux sponsored the KKR team in the IPL, now an international cricket event, enhancing visibility and respect; Lux also sponsored the Bollywood Awards Ceremony TOIFA in Vancouver in 2016, strengthening its pan-India visibility

Spending: Lux invested around 8% of annual revenues in marketing and other sponsorships – an aggregate ₹277 crores in the five years ending FY17

- Well, the company has incurred heavy branding expenditures—in sponsoring IPL teams and hosting Bollywood Awards Ceremony. There have been no mentions of the following hefty expenditures in concalls. It also very difficult to judge the viability of these branding stunts. Do they concern business development or is it just unnecessary extravagant branding?
- Lastly, it is important to follow the newly introduced products and their branding schemes. Winter wear, Lyra, Genx and one8 shall be closely followed; to understand whether company's branding stunts are really paying off to the extent they should.

Raw Materials and Manufacturing

- "There are different processes in manufacturing, if you take the first step, which is knitting that would be in-house, but the second step which is processing that is completely outsourced and third step, which is cutting that is again in-house and the fourth step, which is stitching in the premium segment, where the company controls EBITDA margins to an extent, is also done in-house, whereas the mass and the economy segment, it is completely outsourced. There are certain steps in production which is outsourced and certain steps which is in-house".- Q1-2019
- "In manufacturing there are five processes which is involved, we purchase the yarn which is the raw material so yarn is fully outsourced as the raw material. Then we knit the fabric, the fabric knitting process is fully in-house. Then after that is processing where the raw fabric is converted into processed fabric white colour bleached so that is completely again outsourced. Then is the cutting after we receive the finished fabric we cut it into pieces where we control the costing where I just said we have improved that is now completely in-house. Then is the stitching, stitching is 90% outsourced and then is the packing and dispatch which is in-house. So if you would see in a particular product, there are processes, which is in-house and there are processes, which is outsourced. So no particular product is completely in-house or completely outsourced."- Q2-2018
- It is clear from the above concall transcript statements, that cutting and stitching are two places where the company controls cost. For the premium segment, the stitching is done inhouse, and for the mass and mid-segment, it's outsourced.
- Yarn and cotton prices fluctuate quite often. But, company says there aren't dependent on any sole supplier, and their supply chain includes thousands of suppliers. And further, they've comfortably been able to pass on prices to the consumers. Despite this —for a particular quarter they mention that their margins slipped due to an increase in raw material prices. This requires a bit of delving into, to gain further insights.
- After the addition of Dakuni plan since 2016, the company says— they've able to handle and control production costs much better.

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	2.92%	4.28%	5.97%	6.47%	7.99%	8.94%	10.04%	12.49%	14.32%	14.92%
NPM%	1.32%	1.61%	2.58%	2.94%	3.60%	4.98%	5.46%	6.23%	7.23%	8.38%
Raw Material Cost	54.64%	67.08%	64.05%	66.69%	50.37%	58.06%	49.83%	22.41%	38.36%	36.40%
Power and Fuel	0.03%	0.10%	0.04%	0.03%	0.02%	0.01%	0.01%	0.01%	0.51%	0.40%
Manufacturing Expense	35.20%	0.15%	17.15%	20.87%	0.20%	0.20%	0.21%	44.04%	32.40%	28.69%
Employ Cost	0.81%	0.75%	0.84%	1.03%	1.38%	1.48%	2.17%	2.62%	3.48%	3.60%
Selling and Administration Exp	13.80%	6.59%	12.75%	15.67%	9.51%	34.88%	37.24%	16.53%	14.23%	11.66%
Other Expenses	0.98%	25.90%	2.07%	1.14%	30.53%	1.68%	1.96%	2.58%	1.55%	1.44%
MF+Selling+Admin+Other Expenses	49.98%	32.65%	31.97%	37.67%	40.24%	36.76%	39.41%	63.15%	48.19%	41.79%

- When looking at expense as a %, the raw material prices—that is the procurement of yarn and conversion to fabric has been descending as a % of sales. Only a severe fall in Mar-17, followed by a spike in Mar-18 is what requires a much thorough look.
- Manufacturing expenses for a couple years has been lesser 1%, and the real expense tends to reflect in either selling & admin expenses or other expenses. This certainly is a weird pattern, and will be dealt with in another section. But as of now, when look at a combination the all three, an average of 25-40% of sales over years in witnessed. In fact, it has been increasing over the years, with certain sudden falls and rises.
- It is difficult to understand their manufacturing expense, since some it, when viewed as a combination is distorted severely due to the selling & admin, and other expenses.
- Promoter's answer to the following is- "The other expenses include the Administration part, the selling part and the advertisement portion. During the first half, the sum spent on advertisement has increased i.e.

from Rs 76 crs in H1 FY17 to Rs. 111crs in H1 FY18. However, it is balanced in the current quarter. So when you see the result for the full year it is on the sales."

- According to the promoter's most of their gain has been on account of product mix and manufacturing efficiency.
- For most of their premium products such as ONN, Inferno and export products(depends on country), the manufacturing predominantly is carried in house to control cost and provide better product quality.
- It important to gain more clarity over what is with the manufacturing and other expense fluctuations. Raw material costs despite reducing over the years, has experienced some severe plunging and rising in the recent years. Further the promoters say they've been able to offset manufacturing costs, but differences are mostly witnessed in raw material prices.

Fixed Assets and Capacity Utilization:

- The company believes in maintaining an asset light model. Stitching for mid and mass products helps them do this effectively.
- In total the company has 6 manufacturing units across the following geographical locations.

Location	No. of units
Tirupur, Coimbatore, Tamil Nadu	1
B.T. Road, Kolkata, West Bengal	2
Dankuni, Kolkata, West Bengal	1
Dhulagarh, Kolkata, West Bengal	1
Ludhiana, Punjab	1

- Company has been investing in imported knitting, cutting and sewing machine year over year. This is mainly to improve efficiency and reduce costs as a whole. But as we have seen above, it is arguably very difficult to get appropriate figure for manufacturing costs. Where on the raw material side, they've done pretty good.
- In 2016, they added a new facility at Dakuni, Kolkata— of 6lakh square feet and a product capacity of 5 lakh garment pieces a day.
- In their annual reports they mention they have a total capacity of 1800- 2000lakh garments.
  - ⇨ On calculation these are the figures,
    Dakuni Plant's capacity = 5lakh x 30 x 12=1800.

Hence, most of their other plants are practically immaterial to their production capacity. Most of their production comes from Dakuni plant itself.

- When we go through their annual report in 2016 they have 11- facilities, in 2017 they have 6- facilities and in 2018 only 5-facilities.

2016-

Our production assets

Production	No. of units
Tiruppur, Coimbatore, Tamil Nadu	2
Agarpara, Kolkata, West Bengal	2
Belgachia, Kolkata, West Bengal	1
B.T. Road, Kolkata, West Bengal	2
Dankuni, Kolkata, West Bengal	1
Dhulagarh, Kolkata, West Bengal	1
Roorkee, Uttarakhand	1
Ludhiana, Punjab	1
Total	**11**

2017-

Location	No. of units
Tirupur, Coimbatore, Tamil Nadu	1
B.T. Road, Kolkata, West Bengal	2
Dankuni, Kolkata, West Bengal	1
Dhulagarh, Kolkata, West Bengal	1
Ludhiana, Punjab	1

2018-

Our manufacturing facilities

We have five manufacturing facilities in five locations across India.

Tirupur, Coimbatore, Tamil Nadu	1
B.T. Road, Kolkata, West Bengal	1
Dankuni, Kolkata, West Bengal	1
Dhulagarh, Kolkata, West Bengal	1
Ludhiana, Punjab	1

- While studying the CFI for the period, it is evident that no fixed assets have been sold.

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
Cash from Operating Activity +			-24	-21	16	-40	-10	-19	81	21	-2	193
Cash from Investing Activity -			-10	9	-3	-31	-13	-34	-25	-20	-19	-15
Fixed assets purchased			-7.90	-0.04	-3.10	-28.67	-13.51	-34.17	-23.85	-21.00	-17.58	-12.41
Fixed assets sold			0.12	9.02	0.02	0.03	0.24	0.07	0.06	0.05	0.21	0.17
Investments purchased			-0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.10	0.00
Investments sold			0.05	0.00	0.00	0.00	0.00	0.19	0.00	0.00	0.00	0.00

⇨ Delving deeper into the following is required, and understanding the right reason for this. The following has not been discussed in concalls or annual reports too. Is this some sort of financial manoeuvring or is it simply a misconception?

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Assets	8.41	21.18	20.38	27	31.75	37.38	37.3	114.07	126.35	132.24
Growth%		151.84%	-3.78%	32.48%	17.59%	17.73%	-0.21%	205.82%	10.77%	4.66%
CWIP	6.73	0	0	17.58	20.44	52.63	72.37	11.38	5.31	0.41
Borrowings	84.04	131.32	131.9	185.06	237.52	278.99	225.44	290.72	329.14	180.94
Growth%		56.26%	0.44%	40.30%	28.35%	17.46%	-19.19%	28.96%	13.22%	-45.03%

- The fixed assets over the years, have increased sixteen-fold(x16), and borrowing have grown 2-fold(x2.3). The value of fixed assets relative to borrowings is very less. We'll resolve this while analysing peer companies. Debt will we analysed in a separate section
- Before 2017, most fixed asset addition was less of facility additions, but more of equipment purchase as we understand looking at the CWIP. After 2016, the fixed assets increased by a whopping 205%, this has also reflected in CWIP form 2013-2016. This was the addition of the Dakuni plant in Bengal.

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Asset Turnover	39.71	35.18	26.35	29.20	29.64	26.30	25.20	12.66	8.96	9.35
ROFA%	52.56%	56.57%	68.05%	85.90%	106.83%	130.85%	137.49%	78.81%	64.79%	78.36%

- Before addition of the Dakuni plant, from 2011-2016— the fixed asset turnover ratio averaged out at 26. But after the addition—the asset turnover ratio tumbled severely to 12.

- The increasing ROFA% , dipped quite severely after 2016. Following in the footsteps of NFAT.
- Mr Saket Todi has mentioned in concall Q2-2018, that they've been utilising 75-80% of capacity. And moving forwards, the plant utilisation will catch up in the coming years(By FY2020).
- The promoters have also mentioned that the capacity utilization differs from that of other industries. It cannot be assessed only through number, the following image attached below is the answer given by Saket Todi-

Saket Todi: As we mentioned in our previous con-call when we talk about the hosiery industry there is no such concept like capacity utilization because the mode of production under which we are operating is pretty much flexible. So, it's more of a marketing and warehousing concern rather than manufacturing everything ourselves. So, for us capacity utilization wouldn't be the correct metric for judging the performance of the company. But just to give you an overall picture whenever we talk about our Dankuni plant right now the situation is such that we are almost fully utilized under the Dankuni plant and within the next 2 to 3 years we will also be looking at expanding our production facilities.

- But it is not understood that why did the ratios and percentages start dipping—only after 2016(Addition of Dakuni Plant), before that everything seemed perfect and inline. It does make sense though, that various operation are involved, some are carried out in house and others outsourced; hence, the process's may not be streamlined and require different time periods and resources for completion. This area might require some more digging to develop a better understanding of what is, and what is not.
- Promoters have mentioned, they do not wish to proceed with any capex for the next 3-4years, and will further focus on optimising current capacity and focus on product mix.

Debt, Interest, Equity and Stability:

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Sep 2019
Share Capital +	5	5	5	5	5	5	5	61	61	5	5	5	5
Reserves	11	14	17	24	37	56	86	127	174	241	313	409	460
Borrowings	59	56	84	131	132	185	238	279	225	291	329	181	197

- It is evident that borrowings have been highest from 2014-2018,this was the period where the Dakuni plant was set up along with several purchases of imported technology. They've successfully been able to pay off their debt post 2018. Currently the promoters say they have working cap loans at most.
- Reserves have grown year over year steadily.
- The sharecap's rise and fall is most probably attributed to dilution of stake to merge subsidiary companies. Requires a further analysis certainly.

Financial Stability										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Interest Coverage	2.08	3.22	3.96	4.19	3.99	4.61	7.89	5.44	6.07	7.64
Debt/ Equity	3.78	4.48	3.13	3.02	2.62	2.11	1.26	1.18	1.03	0.44
Woring Capital/Sales	27.21%	26.74%	28.02%	29.12%	31.69%	35.30%	31.31%	42.84%	47.82%	37.86%
	104.87	166.88	169.01	301.24	328.13	401.16	428.79	481.51	661.27	582.26
	31.40%	32.06%	30.87%	43.54%	37.69%	44.13%	45.57%	50.26%	61.37%	48.17%

- The debt to equity has been quite high from 2010-2017. What is worth noticing is that the debt to equity has depicted a pattern of purely descending pattern. And in 2019 and slipped very low proving the company's ability to manage debt effectively.

- The interest coverage Ratio too depicted a similar pattern, it witnessed slight dip in Mar-17 and Mar-18 and resurfaced in Mar-19. But this could be mostly associated with the margins; and less with volume growth and capacity utilisation.(referring to yearly sales growth for instance)

- The promoters have mentioned in recent concalls that most of their loans currently are working capital loans. Referring to their 2019 annual reports financial statement, we dicsover that 173 cr in short-term borrowing out a total of 180cr. For years such 2016 and 2017, the long-term borrowing figure has been higher such as 40-50cr.

- *86cr of expenditure for Dakuni plant has been incrementally managed through long-term borrowing and the rest through accruals. The long-term borrowing have been paid back by 2018.

- So all these years, the company was heavily dependent on short term borrowing to manage their working capital needs. The scenario is still the same, we'll discuss this further while analysing cash conversion.

Employee Cost:

- Employees as of 2018 have been 1407. Employee costs have risen year of over year consistently.

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	2.92%	4.28%	5.97%	6.47%	7.99%	8.94%	10.04%	12.49%	14.32%	14.92%
NPM%	1.32%	1.61%	2.58%	2.94%	3.60%	4.98%	5.46%	6.23%	7.23%	8.38%
Raw Material Cost	54.64%	67.08%	64.05%	66.69%	50.37%	58.06%	49.83%	22.41%	38.36%	36.40%
Power and Fuel	0.03%	0.10%	0.04%	0.03%	0.02%	0.01%	0.01%	0.01%	0.51%	0.40%
Manufacturing Expense	35.20%	0.15%	17.15%	20.87%	0.20%	0.20%	0.21%	44.04%	32.40%	28.69%
Employ Cost	0.81%	0.75%	0.84%	1.03%	1.38%	1.48%	2.17%	2.62%	3.48%	3.60%
Selling and Administration Exp	13.80%	6.59%	12.75%	15.67%	9.51%	34.88%	37.24%	16.53%	14.23%	11.66%
Other Expenses	0.98%	25.90%	2.07%	1.14%	30.53%	1.68%	1.96%	2.58%	1.55%	1.44%

- It is not understood why the employee costs have increased, while the promoters talk about automation, imported machines and efficiency.

One explanation given by promoters is- "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."

- The business seems to be asset light and manpower dependent to a certain extent. This partially answers, that scrutinizing the capacity utilization directly and with numbers tends to produce a distorted picture. Hence, manpower might be play a major role and determine their capacity utilisation.
- A track of number employee and capacity utilisation shall be tracked along side in the coming quarters and year

Distribution Network:

- The promoters say they have more than 900 distributors who have been associated with company since decades.
- In their Q3-2018 concall they've mentioned- "We are the first innerwear company to **organize distributors and owners conference within and outside India.** We have more than 900-

distributors and more than 50% of them are working with us for more than ten years translating into relationship stability and continuity. And as a testimony to that our distribution attrition is made less than 1%."

- Organizing a distributors and owners conference might help maintain better understanding with distributors and maintain ease of business. They've also said they've established a firm credit period with their distributors, to improve their receivables positions. Receivables positioning will be further looked into while analysing cash conversion.
- It is not very clear whether the expenditure to organize a distributor's conference is fruitful to the business in any meaningful way. It can be argued that, this might improve understanding among the company and its distributors, and promote a long-term relationship; and help distributors adhere to company policies and strategies much easily.

Saket Todi: Right now our major way of distribution is through a dealer network, wholesaler network and the large format stores. So, the dealers sell it to the wholesalers who sell it to the retailers who sell it to the consumers. currently we are not directly associated with our consumer except few exclusive brand outlets which arenine right now. But when we grow those EBOs as well as in thepast we have also launched few consumer schemes which links the Company directly to the consumer which in future we might continue depending on the market scenario.

- They have a pretty intense distribution network, which is mostly B-B in nature. While Mr Saket Todi mentions – The consideration of EBO' further, shifting their business to B-C in the coming future. Mr Udit Todi on the other hand, has clearly mentioned in Q-1 2020 concall that they are not bullish on EBO's; it is an expensive form of growth and not suitable currently.

We have had a very strong presence in North, East and Western part of the country generating approximately 85% of the revenues from these zones. However, we are relatively weaker in the southern states and our endeavor is to focus on that area is by increasing the distributor strength. Considering the young demographics of our country, Lux agreement with CSE

- The following is a snapshot from concall Q2-2019.
  North, East and West of India = 85% of revenue
  Exports=10% if revenue
  South India =5% of revenue

  Well it is evident that the company is extremely weak in southern parts of India.5% of their revenue comes from south India. They've conveyed in other concalls that they are trying new touch points, and looking forward to increase their stake in the southern markets. But this commitment is not being met with action. Further, the company in annual reports and concalls has barely mentioned any strategy going forward.

- The growth in winter wear for Q2-2020, is majorly attributed to seasonality and distribution policies is what the company has said.
- The figures bellows depicts the increasing retailers and distributors of Lux industries. But despite such a large distribution network and numerous associated distributors, what matters is can they improve their volume growth, sales growth and working capital conditions. If they can't do the following, then the huge numbers are of no significance

product availability. perspective of prevailing

	FY00	FY05	FY10	FY15	FY17
Number of distributors	300	400	650	900	900
Number of retailers	75,000	120,000	260,000	450,000	450000

Kunal Bhatia: Okay. And also in terms of your distribution because there just disconnect between other players because we have been talking about 450000 reach vis-à-vis if you look at other company say a

Dollar or a Rupa it is about 118000 and 84000 so and the topline say in case of rupee is almost similar so where is the disconnect here? Are they not showing or what do we have in addition?

Saket Todi: We cannot comment about our competitors on such a comment, but our distribution basis 4.5 lakhs, retail base.

- The following is a statement from the concall transcript Q3-2018. Well, it might be that Lux is trying to grow at a rate faster than its business model allows. Something similar is witnessed w.r.t capacity utilization too. The following shall gravely concern an investor, and in no way shall be neglected.

Exports:

- Exports contribute 10% to revenue with 18-20% margins. Exports undoubtedly fall in the premium segment, since it allows the company to command relatively higher margins.
- The company endeavours to improve exports over the coming years.

	2016	2017	2018	2019
Sales	940.87	957.97	1,077.51	1,208.68
Export	117	105	103	136
Export%	12.44%	10.96%	9.56%	11.25%

- Well, the export as a % of sales has been close to an average of 10-11%.But since the last 4 years, export numbers seem to be stagnating. It depends further on how many countries do they export to, and what their results further turn out to be,
- The company in its 2018 and 2019 annual report has mentioned that they wish to touch 175cr of export by FY2020. They've also targeted a sales figure of 1500cr as of 2020. Now, it'd be great if they manage to achieve these figures— and that would convert to11.6% of exports as of sales.

Countries exported

FY13	FY14	FY15	FY16	FY17
22	32	46	47	47

- The number of countries they export to has grown substantially over the years; But, growth in export in terms of revenue has not be as impressive. They export several countries, but in pretty minuscule amounts.
- But as of annual report 2019, the number countries they export to have been the same, they might now improve volume of exports, rather than maybe the number of countries they export to.
- The countries they majorly export to are- African, Middle Eastern and European countries.

- The Export only under the brand Lux, and do not classify products into sub-brands, as it is done in India.
- The category of product depends on the country.

January 22, 2018

Saket Todi: See the export is growing continuously. In the last two three years there were stagnant in the exports because our major importing countries were the African country Nigeria, Ghana, Benin, Togo, Sudan, Algeria, and also western part of the Africa so there were high currency fluctuation, last six to eight months it has stabilized to a certain extent and because of that the export from this year last three months have started going up very well. As well as we are moving to newer avenues of export, which is the European countries so soon we will be starting to export to countries like France and Germany as well as in our industry we are a leading exporter in our own brand.

- The snapshot above in from concall Q2-2018, where the reason for stagnation of export numbers is specified. Further they are looking to exploit developed markets of Europe (Along with African and GCC countries), but there has been no recent development witnessed to the same. Any conclusion can be drawn only after FY2020 results, again, even that is debatable.

Cash Conversion and Operational Efficiency:

- The company's cash conversion is dependent on receivables, payables and Inventory management.
- Each of these can be linked to some or the other aspect of their. We'll go through all three individually and then bring them together.
- Receivables: Their main debtors are their distributors (domestic and export). The distributor's debtors are the wholesalers, the wholesalers debtors are the retailers. The retailers are positively the ones who receive cash up-front, this cash travels down the whole network— backwards and find its way back to Lux Industries.
- Inventory: Inventory management is attributed mainly to their anticipation of sales and seasonality. And further how well they manage their SKU's
- Payables: Their creditors are the millers, from whom they purchase raw material. The work that is outsourced, will also count as payables.
- Now as we study the conversion of all three, it might help us understand better of where does lux really stand.

Effeciency of Operations										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Receivable days		79.98	60.04	67.42	81.64	90.68	99.57	102.69	126.47	128.28
Payable Days		10.93	9.12	8.33	5.54	8.38	11.04	10.09	10.10	10.84
Inventory Days		79.47	66.83	97.67	89.93	70.58	78.11	83.97	101.34	93.18
CCC		148.51	117.76	156.75	166.03	152.87	166.64	176.57	217.71	210.62

- Receivables days have increased at pretty good pace over the years. The inventory days have witnessed improvement from Mar-12 to Mar-17, but increased going forwards (NO significant improvement). They payable day on the other hand—have mostly remained low and consistent.
- What we infer from here is that — the company doesn't exercise much control over its suppliers. When the suppliers demand payments, the company is bound to pay up; since the suppliers don't consider Lux as much of a significant entity.
  The debtors on the other hand, almost take forever to pay up. The cash comes very slowly through their distribution network.

The inventory days are almost similar across the industry. They probably need to stack-up tons of inventory together, in order to facilitate their operations. So production first is completed based on anticipating of demand; then later on, the sales is carried out.

Q4-2019

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.

Q1-2019

Saket Todi: As you mentioned at the end of last quarter, there was an increase in working capital which was primarily on account of us stocking up an raw material because the prices of raw material was on the increase, so we had funds available with us due to which we stocked upon raw material that is one of the primary reasons why you have seen an increase in working capital, which was only towards the end of Feb and beginning of March, which is not a very true reflection of what happened during the year. Nonetheless, on the balance sheet the working capital looks slightly inflated and this year onwards as mentioned from the last one and a half months, we have also made a concerned effort towards reducing the working capital dates by (a) reducing the debtor days because we reduced our credit period, and so that effect of such policy will be visible to you over the next two to three quarters and we believe that by the end of this financial year, we will be able to reduce our working capital days.

- There several such instances, for several quarters, where the promoters have said they'll be able to reduce their working capital days. But when we refer to results on a yearly basis, the working capital and cash conversion and not improved, in fact it has worsened over the period. It further is to be seen, whether in FY2020 and FY2021 can they improve their working capital for real.

Effeciency of Operations										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Receivable days		79.98	60.04	67.42	81.64	90.68	99.57	102.69	126.47	128.28
Payable Days		10.93	9.12	8.33	5.54	8.38	11.04	10.09	10.10	10.84
Inventory Days		79.47	66.83	97.67	89.93	70.58	78.11	83.97	101.34	93.18
CCC		148.51	117.76	156.75	166.03	152.87	166.64	176.57	217.71	210.62
CFO	-24.30	-21.27	16.11	-40.21	-9.82	-18.98	81.09	20.52	-2.33	192.80
PAT	4.42	8.37	14.14	20.35	31.38	45.23	51.34	59.65	77.88	101.31
C-CFO vs C-PAT	10 years	5 years	3 years							
CFO	193.61	263.28	292.08							
PAT	414.07	366.79	290.18							

- When we look at the CFO, it is not surprising to see, that it has also been either low or negative for several years. Despite the interest and depreciation that is added back, the CFO is much lower than PAT.
- This trend is followed by all players in the industry. All of them have working capital intensive operations.

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.

- During Q4-2019, the company has pledged margins to improve CFO and cash conversion. Well this certainly has reflected in 2019 cash flow statement. Well, this could be on account of cash flows from previous year, that wasn't received under the stipulated time period. Since last year CFO was -2cr.
  This area requires deeper analysis, and conclusions can be drawn if this consistency can be maintained.
- Well the company's cash flow has improved on a 10years basis due to the whopping 193 CFO in 2019.
- A similar trend is witnessed in free cash flows too. These good figures are also attributed to the stupendous amount of CFO that came in during 2019. They've further used this cash to clear their borrowings, which is a very good sign. As of now, they're left only with working capital loans.

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Inventory Turnover	6.10	7.16	5.74	4.72	5.11	5.40	4.84	4.43	4.05	4.39
Debtors Turnover		7.11	6.39	6.84	5.63	4.20	3.79	3.62	3.25	3.19
CFO	-24.30	-21.27	16.11	-40.21	-9.82	-18.98	81.09	20.52	-2.33	192.80
CAPEX		6.04	-0.80	24.20	7.61	37.82	19.66	15.78	6.21	0.99
Free Cash Flow		-27.31	16.91	-64.41	-17.43	-56.80	61.43	4.74	-8.54	191.81

	10 years	5 years	3 years		10 years	5 years	3 years
FCF	100.40	175.21	249.44	**FCF/CFO**	46.07%	66.55%	85.40%

- It further depends on how well they manage their working moving forwards, and how the CFO and FCF figures turn out in the coming years.

Return on Equity:

- ROE here will help us develop a better understanding of the quality of the business. Further, we'll use Du-Ponts analysis to gain a much more in-depth analysis of the same.

Du-ponts Analysis using Fixed Assets	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
ROE%	19.89%	28.57%	33.55%	33.25%	34.56%	34.28%	28.71%	24.26%	24.44%	24.48%
NPM%	1.32%	1.61%	2.58%	2.94%	3.60%	4.98%	5.46%	6.23%	7.23%	8.38%
Fixed Asset Turnover	39.71	24.58	26.86	25.62	27.42	24.32	25.22	8.40	8.53	9.14
Leverage Ratio	0.38	0.72	0.48	0.44	0.35	0.28	0.21	0.46	0.40	0.32

- The ROE% has decreased severely from Mar-11 to Mar-16. Further on, from Mar-17 to Mar-19, the percentages have been almost stagnant.
- Well, from Mar-11 to Mar-16, the fall is justified; since, the NPM% have increase yoy, NFAT has remained constant mostly and the leverage ratio has seen a decline. The ROE% in this case is attributed solely by the fall of leverage ratio, being a very good sign.
- After Mar-16, while the Dakuni plant was added, the NFAT has fallen severely. It is understood that new capacity takes time to come to optimal capacity utilization, but the fall here is too severe. The

leverage ratio has risen (mostly due to capex of Dakuni plant and Purchase of imported equipment) and has stabilised the ROE%.

- Further improved performance shall be marked by, consistent NPM%, rising NFAT and consistent or a tumbling Leverage Ratio.

Merger of Entities:

- Lux industries has taken the decision to bring the entities – J.M Hosiery and Ebell Fashions, under one roof; consequently a merger of all three entities.
- J.M’s dominant product is Genx – engaged in manufacturing of sportswear.
- Ebell’s dominant product is lyra– engaged in manufacturing of women’s wear (Leggings predominantly).
- As of Q2-2020, the merger is still under process. Dilution of stake has been carried out, but certain regulatory needs are yet met, and Approvals are still on hold.
- The company has mentioned that the margins of Ebell are higher than than of Lux, and margins of J.M are similar to that of Lux.

Saket Todi:	For J.M. the EBITDA level margin would be approximately 12% and for Ebell, it would be approximately 18%.
Parthiv Jhonsa:	Okay 18% to 20%. Okay and what kind of topline these companies do in FY2018?
Saket Todi:	For FY2018, the figure for Ebell was little shy of Rs. 200 Crores, it is about 198 crores

- NPM% though for Ebell is 10%, and for J.M is 5-6%. J.M has a healthier OPM% compared to Lux, but a slightly lesser NPM%.
- Ebell’s and J.M’s revenue top-line and bottom-line growth is fairly good for most quarters.
- Further it is clear that a merger will help increase market share to an extent, help margins stay constant and reduce debt/equity of the company.
- J.M and Ebell both have mostly individual products (90% of revenue comes from here), posing a concentration risk. Well, if merged — it widens Lux’s product offerings and help them enter into newer categories, and resulting in advanced market share. If they utilise this opportunity well and tune other aspects, it might flee a lot industry competition.

Peer Comparison:

- Lux Industries have three upfront peers in the industry- Page Industries, Dollar Industries and Rupa and Co.
- We’ll carry out financial and ratio analysis for the following companies them against each — to understand industry trends better.

Revenue and Profit Growth:

Page Industries-

Growth%										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales Growth		44.84%	41.70%	25.81%	35.53%	29.95%	16.34%	18.54%	19.87%	11.79%
PBT Growth		49.99%	52.79%	23.56%	40.92%	25.63%	16.97%	15.08%	31.07%	17.10%
PAT Growth		47.82%	53.68%	25.06%	36.66%	27.47%	18.11%	15.01%	30.31%	13.53%
Sales Growth	10 years	5 years	3 years		OP growth	10 years	5 years	3 years		
	26.68%	19.15%	16.68%			28.37%	19.25%	17.96%		
PAT Growth	10 years	5 years	3 years		PBT Growth	10 years	5 years	3 years		
	29.08%	20.70%	19.38%			29.66%	21.02%	20.88%		

Dollar Industries-

Growth%										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales Growth		12.83%	109.21%	16.56%	23.50%	10.92%	4.72%	16.86%	4.45%	11.15%
PBT Growth		2.19%	96.32%	29.53%	24.19%	49.44%	32.92%	63.20%	43.54%	15.89%
PAT Growth		3.99%	53.14%	27.08%	22.83%	41.76%	35.48%	65.05%	47.21%	17.54%
Sales Growth	10 years	5 years	3 years		OP growth	10 years	5 years	3 years		
	20.49%	9.52%	10.70%			37.04%	26.18%	27.01%		
PAT Growth	10 years	5 years	3 years		PBT Growth	10 years	5 years	3 years		
	33.68%	40.55%	41.88%			37.36%	40.07%	39.50%		

Rupa & Company-

Growth%										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales Growth		20.52%	10.79%	16.59%	9.09%	7.54%	4.34%	7.69%	2.52%	3.06%
PBT Growth		31.38%	25.09%	52.02%	5.85%	2.36%	-2.17%	12.59%	16.87%	-10.85%
PAT Growth		33.78%	29.26%	48.71%	1.99%	3.18%	-3.29%	9.63%	19.30%	-13.97%
Sales Growth	10 years	5 years	3 years		OP growth	10 years	5 years	3 years		
	8.98%	5.01%	4.40%			14.53%	2.99%	4.55%		
PAT Growth	10 years	5 years	3 years		PBT Growth	10 years	5 years	3 years		
	12.75%	2.34%	4.01%			13.42%	3.27%	5.47%		

Lux Industries-

Growth%										
	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales Growth		55.88%	5.18%	26.36%	25.85%	4.40%	3.51%	1.82%	12.48%	12.17%
PBT Growth		85.88%	64.59%	44.34%	57.74%	45.05%	15.71%	17.11%	31.34%	27.78%
PAT Growth		89.37%	68.94%	43.92%	54.20%	44.14%	13.51%	16.19%	30.56%	30.08%
Sales Growth	10 years	5 years	3 years		OP growth	10 years	5 years	3 years		
	15.36%	6.78%	8.71%			38.27%	20.99%	24.04%		
PAT Growth	10 years	5 years	3 years		PBT Growth	10 years	5 years	3 years		
	41.62%	26.42%	25.43%			41.66%	26.96%	25.26%		

- Well, it is clear that sales growth rates for all companies have dipped post demonetisation and GST implementation. The entire industry, even the leader here has been hit. Sales growth rate have fallen more than 50% for all companies.
- The one hit here the hardest has been Rupa, followed by Lux. Page has survived this relatively very well, and dollar has just done enough to keep up.
- Sales growth on a 10year basis and has followed the same pattern— Lux has done the best and dollar has just done enough.
- Hence Lux and Rupa are weaker when it comes to grabbing market share, it to be seen whether Lux’s position improves from here on, or deteriorates.

- When it comes to profit growth on a 10year basis, Lux tops the list. Second in line is dollar. Page industries doesn't do as well, since over the last 10 years Page's margins and remained same and profit growth is majorly im terms of volume. Page's margins currently are at its max it seems.
- When we bring attention to recent years, Dollar tops the list, followed by Lux. This is because Dollar has been able to manage better volume growth and value growth together. Where as for Lux, the PAT growth has mostly been on account of value growth%.
- Dollar in growth rates has done very well. But we shall also understand that Dollar is relatively smaller in size when compared to Lux and Page Industries, hence, the growth shall be considered keeping this in mind. Further Lux's future depends on how well they maintain margins and bring in volume growth.

Margins:

Page Industries-

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	19.23%	18.73%	21.50%	20.70%	21.57%	20.76%	20.97%	19.48%	21.23%	21.66%
NPM%	11.67%	11.91%	12.92%	12.84%	12.95%	12.70%	12.89%	12.51%	13.60%	13.81%
Raw Material Cost	33.14%	48.63%	42.21%	44.09%	44.42%	43.42%	42.51%	45.04%	40.08%	47.57%
Power and Fuel	0.89%	0.89%	0.76%	0.75%	0.71%	0.65%	0.59%	0.55%	0.53%	0.55%
Manufacturing Expense	14.36%	11.22%	8.13%	8.58%	8.92%	9.09%	9.31%	8.00%	6.95%	6.97%
Employ Cost	17.48%	18.49%	16.34%	16.39%	15.84%	16.75%	17.42%	17.65%	15.94%	16.39%
Selling and Administration Exp	17.46%	11.54%	11.17%	12.02%	13.40%	13.83%	13.44%	13.61%	12.42%	12.01%
Other Expenses	-2.08%	0.31%	0.46%	0.19%	0.00%	0.11%	0.09%	0.19%	0.36%	0.45%

Dollar Industries-

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	4.16%	4.11%	7.46%	8.11%	6.53%	7.72%	8.78%	11.38%	13.44%	13.26%
NPM%	2.87%	2.65%	1.94%	2.11%	2.10%	2.69%	3.47%	4.91%	6.92%	7.31%
Raw Material Cost	60.08%	54.26%	0.00%	52.58%	54.14%	52.89%	55.74%	42.91%	50.64%	46.13%
Power and Fuel	0.04%	0.04%	0.00%	1.59%	1.02%	1.00%	1.38%	1.20%	1.19%	1.51%
Manufacturing Expense	24.61%	23.95%	0.00%	22.69%	20.68%	17.20%	23.02%	18.18%	21.63%	21.44%
Employ Cost	0.37%	0.33%	0.00%	0.71%	0.76%	0.97%	1.31%	2.46%	2.86%	3.27%
Selling and Administration Exp	11.17%	17.60%	0.00%	24.40%	20.44%	20.08%	26.35%	22.21%	16.64%	17.85%
Other Expenses	-0.01%	0.41%	92.54%	-9.38%	-5.44%	0.91%	-7.97%	0.39%	0.39%	0.53%

Lux Industries-

Margin Ratios										
as a % of Sales	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM%	2.92%	4.28%	5.97%	6.47%	7.99%	8.94%	10.04%	12.49%	14.32%	14.92%
NPM%	1.32%	1.61%	2.58%	2.94%	3.60%	4.98%	5.46%	6.23%	7.23%	8.38%
Raw Material Cost	54.64%	67.08%	64.05%	66.69%	50.37%	58.06%	49.83%	22.41%	38.36%	36.40%
Power and Fuel	0.03%	0.10%	0.04%	0.03%	0.02%	0.01%	0.01%	0.01%	0.51%	0.40%
Manufacturing Expense	35.20%	0.15%	17.15%	20.87%	0.20%	0.20%	0.21%	44.04%	32.40%	28.69%
Employ Cost	0.81%	0.75%	0.84%	1.03%	1.38%	1.48%	2.17%	2.62%	3.48%	3.60%
Selling and Administration Exp	13.80%	6.59%	12.75%	15.67%	9.51%	34.88%	37.24%	16.53%	14.23%	11.66%
Other Expenses	0.98%	25.90%	2.07%	1.14%	30.53%	1.68%	1.96%	2.58%	1.55%	1.44%

- When it comes to OPM%, Page has to witnessed much change in margins since they are already maxed out. Lux and Dollar have growth their margins at a similar rate and pace. Marginal differences, similar on performance basis.
- When it comes NPM%, Page has done marginally well. Page's NPM% are similar to OPM% of the other two entities; demonstrating dominance.
- When considering raw material costs, Lux has outperformed the other two entities after Mar-17. This is the time, where addition of Dakuni took place. Lux has very lower credit days, but enjoys better raw material prices.

- The lower raw material prices could also be attributed to bleaching, stitching and conversion to fabric. Or it could also be the other way around, it might be that Lux avails cash discounts, since they pay up way before time. This argument here could swing both ways, and require much more in depth analysis to come to a conclusion.
- Manufacturing expense is lowest for Page Industries. Again demonstrating leadership and competitive advantage. For Lux here seems to be some kind of a mix of selling and admin expenses, other expenses and manufacturing expense. Since manufacturing expenses for certain years is close to zero.
- Page Industries spend stupendous amount in employee costs, when compared to Lux and Dollar. Lux and Dollar have similar employ expenses, but Page Industries commands thrice as more of employee cost as a % of sales (3x) at the least. This also might be due to increasing white collar job to improve business administration and strategizing.

Fixed Assets and Capacity Utilization:

Page Industries-

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Asset Turnover	4.38	5.76	6.94	7.31	7.79	7.91	8.28	9.40	10.76	10.59
ROFA%	51.07%	68.63%	89.70%	93.88%	100.84%	100.50%	106.71%	117.62%	146.40%	146.29%

Dollar Industries-

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Asset Turnover	48.04	31.40	13.86	9.49	9.93	9.00	8.97	11.18	12.92	14.84
ROFA%	138.00%	83.13%	26.86%	20.05%	20.88%	24.16%	31.17%	54.86%	89.38%	108.58%

Rupa & Company-

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Asset Turnover	8.95	7.64	6.33	6.41	6.29	6.91	6.94	6.72	6.66	6.63
ROFA%	42.33%	40.10%	38.76%	50.05%	45.96%	48.45%	45.08%	44.45%	51.29%	42.57%

Lux Industries-

	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Fixed Asset Turnover	39.71	35.18	26.35	29.20	29.64	26.30	25.20	12.66	8.96	9.35
ROFA%	52.56%	56.57%	68.05%	85.90%	106.83%	130.85%	137.49%	78.81%	64.79%	78.36%

- NFAT has been highest for Dollar Industries. Page and Lux seem to be very close, Page being much more stable. Rupa ranks the lowest here.
- ROFA% has been highest for page, due to higher margins. And has kept increasing undoubtedly on volume growth mostly. Dollar too is has showed immensely good return in term of profits from assets. Lux before Mar-18 (addition od Dakuni plant) was head to head with page in term of return on assets.
- Dollar has witnessed a fall in NFAT and ROFA% in year 2011-2012; similar to the fall experienced by LUX in 2016-2017. Page and Rupa have not demonstrated any such signs, signalling consistency. For Dollar too, this is a long gone event. It is only lux to have witnessed this fall in recent years.
- This fall in ratios when examined closely is a result of huge capex carried out in a very short time frame.

- It is difficult to say whether this is a result of bad capital allocation; since we've already seen that numbers don't do the justice in such businesses. It is import to further monitor sales growth with margin improvements, to draw any meaningful conclusions.
- As of now in both growth and margins, along with asset utilization; Page and Dollar top the list. Lux's capital allocation might require more time to reflect in numbers.

Cash Conversion and Operating Efficiency:

- Cash conversion is without doubt a troublesome area for all companies in this Industry.
- When receivable days are viewed individually for all companies – Lux, Dollar and Rupa do not differ much. Currently the receivable days, for all three them is indistinguishable. Rupa was relatively better when it came to receivables before Mar-18. Lux and Dollar on the other hand similar to each other since the beginning.
- Page Industries dominance is depicted by its receivable days. Page certainly has a very smooth distribution network, and very good industry presence. Page's receivable days is 1/10th of the other players.
- When it comes to payable days, everyone struggles with very low payable days. Seems to be an industry trend. Page has the lowest Payable days, but has countered the same through its receivables. It might be that lower payable days might avail cash discounts, helping margins.
- When it comes to inventory days, due to high number of SKU's everyone has similar inventory levels. Page still has the highest inventory turnover.
- Cash conversion cycle here is lowest for Page Industries, and very much similar for the rest of them.
- It to be seen further, how the other three entities manage their working capital with their growth rates.
- It comes CFO and FCF, page is undoubtedly the most consistent with these parameters. Page has proven – that they can growth with the least capital expenditure, produce 80-85% of free cash and collect their receivable within a stipulated time period – that reflects in their CFO too.
- Dollar performs the worst in term of CFO and FCF. They are unable to collect their receivable in time, or collect them at all. Their CFO for most years is either negative or zero. There's barely any CFO to generate free cash flow to the business.
- Rupa is more consistent than Lux when it comes to CFO and FCF generation. Lux has only been able to generate a high CFO in 2019, that has reflected in their FCF too.
- Rupa even though struggles at certain points, is still relatively much better at collecting its receivables when compared to Lux and Dollar.
- Well Page is the only company that has grown at very good pace and has also mastered working capital management. Dollar does great with growth rates and margins, but suffers terribly here. Rupa doesn't growth much, has the lowest margins; but, has a cash rich business
  Lux on the other hand, has low volume growth, great margins and has started to show some change in terms of cash flow.
- Volume growth and working capital management are two area, where if Lux improves; they might be able to leave a lot of their competition behind. This can only be ascertained with how results turn out from here on.

Page Industries-

CFO	29.76	-0.16	122.59	87.14	74.75	167.00	219.17	273.59	452.77	229.71
CAPEX		11.47	16.26	32.01	34.19	40.95	-0.33	43.18	36.24	11.40
Free Cash Flow		-11.63	106.33	55.13	40.56	126.05	219.50	230.41	416.53	218.31

	10 years	5 years	3 years			10 years	5 years	3 years
FCF	1401.19	1251.36	1084.75		FCF/CFO	86.14%	88.31%	92.30%

Effeciency of Operations	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Receivable days		24.89	25.80	26.65	27.23	24.67	22.50	21.87	22.35	19.44
Payable Days		10.75	9.65	6.55	4.37	6.15	6.50	5.29	4.54	4.58
Inventory Days		139.86	126.33	108.10	125.05	123.85	116.38	118.27	102.09	94.28
CCC		153.99	142.47	128.20	147.90	142.37	132.38	134.85	119.90	109.14
CFO	29.76	-0.16	122.59	87.14	74.75	167.00	219.17	273.59	452.77	229.71
PAT	39.61	58.55	89.98	112.53	153.78	196.02	231.52	266.28	346.98	393.94

C-CFO vs C-PAT	10 years	5 years	3 years
CFO	1656.32	1416.99	1175.24
PAT	1889.19	1588.52	1238.72

Dollar Industries-

CFO	3.36	1.84	6.21	0.00	0.00	3.01	7.56	43.03	-31.08	0.84
CAPEX		5.81	46.23	-0.24	19.84	10.09	-1.38	-9.48	-4.33	1.69
Free Cash Flow		-3.97	-40.02	0.24	-19.84	-7.08	8.94	52.51	-26.75	-0.85

	10 years	5 years	3 years			10 years	5 years	3 years
FCF	-36.82	6.93	33.85		FCF/CFO	-117.22%	29.67%	166.34%

Effeciency of Operations	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Receivable days		100.12	124.34	81.33	86.91	91.30	95.36	101.05	102.65	122.12
Payable Days		19.00	21.89	10.06	7.25	11.18	13.86	12.52	10.92	12.62
Inventory Days		85.66	135.51	96.65	79.61	63.70	83.05	99.46	100.46	119.78
CCC		166.78	237.96	167.92	159.27	143.81	164.55	187.99	192.19	229.28
CFO	3.36	1.84	6.21	0.00	0.00	3.01	7.56	43.03	-31.08	0.84
PAT	5.52	5.74	8.79	11.17	13.72	19.45	26.35	43.49	64.02	75.25

C-CFO vs C-PAT	10 years	5 years	3 years
CFO	34.77	23.36	20.35
PAT	273.5	242.28	209.11

Rupa & Company:

CFO	-25.77	-17.38	45.73	26.68	77.20	54.50	164.88	97.74	15.02	-27.15
CAPEX		24.29	7.60	23.58	5.42	6.35	9.19	4.54	6.21	9.08
Free Cash Flow		-41.67	38.13	3.10	71.78	48.15	155.69	93.20	8.81	-36.23

	10 years	5 years	3 years			10 years	5 years	3 years
FCF	340.96	341.40	221.47		FCF/CFO	77.98%	89.33%	88.41%

Effeciency of Operations	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Receivable days		70.80	65.16	70.15	68.17	69.95	66.77	68.92	93.87	121.83
Payable Days		6.85	7.39	6.42	4.62	8.07	10.32	9.35	8.85	10.43
Inventory Days		124.54	130.21	132.48	132.87	135.77	124.81	107.35	104.66	116.32
CCC		188.48	187.98	196.21	196.42	197.65	181.26	166.91	189.68	227.72
CFO	-25.77	-17.38	45.73	26.68	77.20	54.50	164.88	97.74	15.02	-27.15
PAT	25.19	33.7	43.56	64.78	66.07	68.17	65.93	72.28	86.23	74.18

C-CFO vs C-PAT	10 years	5 years	3 years
CFO	411.45	382.19	250.49
PAT	600.09	432.86	298.62

Lux Industries:

CFO	-24.30	-21.27	16.11	-40.21	-9.82	-18.98	81.09	20.52	-2.33	192.80
CAPEX		6.04	-0.80	24.20	7.61	37.82	19.66	15.78	6.21	0.99
Free Cash Flow		-27.31	16.91	-64.41	-17.43	-56.80	61.43	4.74	-8.54	191.81
	10 years	**5 years**	**3 years**			**10 years**	**5 years**	**3 years**		
FCF	100.40	175.21	249.44		**FCF/CFO**	46.07%	66.55%	85.40%		
Effeciency of Operations										
	Mar-10	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**
Receivable days		79.98	60.04	67.42	81.64	90.68	99.57	102.69	126.47	128.28
Payable Days		10.93	9.12	8.33	5.54	8.38	11.04	10.09	10.10	10.84
Inventory Days		79.47	66.83	97.67	89.93	70.58	78.11	83.97	101.34	93.18
CCC		148.51	117.76	156.75	166.03	152.87	166.64	176.57	217.71	210.62
CFO	-24.30	-21.27	16.11	-40.21	-9.82	-18.98	81.09	20.52	-2.33	192.80
PAT	4.42	8.37	14.14	20.35	31.38	45.23	51.34	59.65	77.88	101.31
C-CFO vs C-PAT	**10 years**	**5 years**	**3 years**							
CFO	193.61	263.28	292.08							
PAT	414.07	366.79	290.18							

Conclusion:

Well, it evident from the analysis that Lux's performance severely struggles in several aspects. Some of these aspects aren't very obvious and transparent too; it is for this reason I haven't analysed the company any further. I believe what I've drafter currently offers a sufficient picture of how the business has performed and what the management has to say with respect to the same. In my opinion, the management is striving for growth and is way too diversified, without paying attention to underlying fundamental problems in their business.

These are only certain aspects where the business lacks and is not transparent, there are several other problems associated with the business; some that my analysis might highlight and some I've not even laid a finger on yet. I personally do not see how sustainable this business model is, and for how long can they maintain this growth rate .Dollar Industries ltd has also started catching up with Lux, this will inevitably lead to intense and destructive competition.

Further, I believe one might consider a short-term investment w.r.t to seasonality and sales of winter wear products with extreme caution. Apart from this, I do not see much long-term value in Lux; and I'm quite doubtful of the fact, that whether they'll resolve the fundamentals problems associated with their business in the near future.

Thanks for reading my analysis of Lux Industries Ltd. I hope it helped you draw necessary insights into the workings and health of the business.

Regards,

Haider.