"LUX Industries LimitedQ1 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to LUX Industries Limited Q1 FY20 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on data of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal and operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I know hand the conference over to Mr. Saket Todi – Promoter & Senior VP (Marketing).Thank you and over to you, sir.

Saket Todi: Good afternoon and a very warm welcome to everyone. Along with me I have Mr. Udit Todi – Promoter& Senior Vice President, Mr. Ajay Patodia – CFO and SGA, our Investor Relations Advisor. I hope you have received our result and investor presentations by now. For those who have not you can view them on our website.

As you all are aware the overall economyfacing a lot of headwinds with tight liquidity and reduced consumption as a result of this many business across segments are fighting to maintain the market shares. There has been a lot of disruption among rural household that are struggling because of drought situations and the many villages along with delayed monsoon. Despite of all this, we have maintained a performance for this quarter. As we have established well reputed brand and created products, which are very well accepted among consumers. The consumers are slowly realizing the importance of product quality and giving preference to companies who deliver the same without any compromise. This is leading to a major shift for the innerwear space and the organized player are benefiting immensely from this consumer shift, where there is less preference for unorganized player. Moreover, the surge in demand due to ecommerce channel has contributed significantly to the consumer shift. Additionally, on the macro level the favorable demographics of the country remain intact with increasing per capita incomes along with higher youth population, which will drive accelerated demand and need for more value-added premium product in the market.

We being the front runner in creating innovative product for the industry are set to benefit significantly. We continuously engage with our consumers through various marketing campaigns and promotions to educate them with our brands, and to make them aware about the quality and comfort that they are getting at competitive prices. Consumers also look for the unique product that makes them stand out in terms of style and looks. LUX being one of the few companies having strong brands and innovative edge and market reach are benefiting the most out of the shift. We continue to focus and spend on marketing activity for our brands and products which has been maintained at around 7 to 8% of our revenue over the past few years. And we expect to spend in a similar way going forward as well.

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

Udit Todi: Good afternoon, everyone. The overall performance for the first quarter of the new financial year FY20 started on a positive note. Despite of the difficult market conditions we have maintained our revenue which stood at Rs.263 crores. EBITDA for the quarter stood at Rs.36 croresat a margin of 13.8%. PAT showed healthy growth of 11% year-on-year to Rs. 20crores. During the previous quarter, we had launched the India's first scented vest range under our brand LUX Cozi and I am pleased to inform you that we have witnessed an overwhelming response for the same during the first quarter.

We have a very strong track record for launching innovative products over the last few years. And we will continue to strive harder to find more success in this area for the coming years. We intend to launch many more products in the coming months that will add to our market leadership. Our efforts to improve operating efficiency is slowly but surely giving us results and it can be seen by the improvement in profitability over the previous year. This along with the changing product mix, optimum capacity utilization and focused marketing and brand building initiative are yielding results.We have also been working on improving our working capital cycle by continuously monitoring all levers to control the same which has led to reduce working capital for this quarter. We have significantly reduced the utilizations of our working capital limits with the bank, which has resulted in finance cost reducing to half at Rs.3.4 crores, for the quarter as compared to 7.1croresin the previous year.

We expect our working capital to reduce further during the year. This will further give impetus to our return ratios and cash flows by the end of the financial year. Our main focus is on technology and automation led manufacturing, which would help us to maintain high quality standards and deliver consistently superior quality products to our customers. This focus has helped us to be a cost leader, wherein we manufacture at one of the lowest costs in this industry. Our efforts to expand our distribution footprint continues and we have maintained the investments for increasing penetration across all geographies. We have stronger presence in the Northern, Eastern and Western markets and keep engaging with our channel partners for a continued and long-lasting partnership with our brands.

Our premium brand ONNhas seen a very good pickup in volumes during the last quarter. This has been possible due to our focused marketing initiatives. We expect this brand to attain good growth in the coming quarter as well, which will help us in expanding our premium products portfolio. We have an agreement with CSE consultancy LLP, license owner of brand One8 to manufacture and market its product globally. During the current quarter, we have seen good traction for One8 products.

On the merger front,we are in the process of evaluating various options to complete the merger of J M HosieryCompany and EbellFashions Private Limited with LUX Industries and expect it to be complete as soon as possible after meeting all regulatory requirements and processes.

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

Ajay Patodia: Hello, our company reported a good set of numbers during the quarter despite facing headwinds in the economy. Our revenue remainedstable Rs.263crores with EBITDA at Rs.36 crores and EBITDA margin at 13.8%.At LUX we have always adopted cost efficient measures which has helped us deliver healthy margins consistently. As Uditji mentioned earlier, we have improved our working capital cycle and this has resulted in our finance cost reducing to half from Rs.7.1 croresto Rs.3.4 crores. Our aim is to improve the working capital cycle further. Our profit after tax has grown 11% year-on-year basis to Rs.20 crores and our profit after tax margin have also improved to 7.6%. With this, we will now open the floor for question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Himashu Nair from Systematix Group. Please go ahead.

Himashu Nair: Firstly, just wanted to understand this growth slowdown in some more detail. So, has this slowdown impacted all our segments?Can you share the growth across our economy, mid premium and premium segments separately? Is there any divergence among them or is it a flattish sort of performance across all the three categories?

Udit Todi: It is more or lessa flattish performance across all different categories. Export has seen a bit of a decline whereas the mid economic segment with the scented vest launch has seen an uptick. So, overall the other segments in our portfolio were more or less flattish.

Himashu Nair: Has there been any pricing or mix changes or even that has been flat?

Udit Todi: So, if we talk about the product mix,our economy segment comparing Q1 FY20 to Q1 FY19has been reduced by a percentage point. And the exportshas decreased by a percentage point whereas the mid segment has increased by 2 percentagepoint. So, that is how the product mix has changed vis-à-vis the last year first quarter. And this has slightly resulted in decrease in our EBITDA margin. But keeping in mind the conditions of this industry and the conditions of the market right now. We believe that we have kind of fared better than this industry.

Himashu Nair: . Secondly, on the working capital reduction. So, well done on that but just wanted to understand this interest cost is more than half. And while the working capital number if I see is down by 20%. So, is it a timing issue or what that the interest cost has fallen so drastically,while working capital on an overall basis is down about 20% on a year on year basis?

Ajay Patodia: So, talking about interest cost,during the last year over the last Q3 and Q4,FY19, we have repaid some of our borrowing due to which in the current year you will see reduced interest costs.In addition to that, the working capital requirement has also decreased as we have been able to reduce our debtor days. So, both of these factors combined together resulted in decreased interest cost.

Himashu Nair: Okay, so in that case can you share your debt number as of June 2019 versus what it was say in Q4 FY19?

Ajay Patodia: Our borrowing as onthe month of June 2019is around Rs. 135 vis-à-vis in Q1FY19 it was around Rs. 332 crores.

Udit Todi: And like in Q1 FY19 it was around Rs.332 and in Q1 FY20 it's around Rs. 135crores.

Himashu Nair: And the Q4 number would be last quarter?

Ajay Patodia: Rs. 177 around in Q4 FY19

Himashu Nair: So, this quarter also we have paid down our debt?

Ajay Patodia: Yes.

Himashu Nair: Okay.Next question is on Brand One8, if you can just share some perspective on One8, as there is a lot of talk around that brand. Can you give us some more details as to what's our strategy and what sort of growth we can look at from this brand?

Ajay Patodia: We have just launched One8 in the last month. So, you will see the actual sales in numbers in the quarter 2 results.One8 we have launched currently only in the online platform because our strategy is to not to launch it in general trade in the first phase. So, we want to first explore the online platform as well as the modern trade and then in the second leg, we will go for the general trade market.

Himashu Nair: In terms of positioning, where will you place this brandas in terms of peers? Would it be comparable to Jockey, Van-Heusen or higher or lower than them?

Ajay Patodia: It will be comparable to Van-Heusen like a little higher segment thanthat of Jockey.But mostly to Van-Heusen.

Himashu Nair: Comparable toVan-Heusen all right and any sense on what sort of size are we looking at say two, three years down the line or too early on that?

Ajay Patodia: It is too early like it has just been 20 days since we have launched it so we should wait at least for six to eight months to get a clear picture as to where we should land.

Himashu Nair: Final question on the merger, I thinkit's been more than a year since the board has approved that. So, if you guys can highlight what is the reasonthat it is delaying and what are the options that you talk about that you are considering to get this done?Any timeline by which we think we can complete this process?

Ajay Patodia: This is pending for regulatory approval. And we are looking at it and we are trying and hopeful that by the end of this financial year, we shall be able to close this merger. The management is still very keen on this merger happening. It is just that we are pending for some regulatory approval.

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

Bhargav Buddahdev: Could you let us know what has been the volume and the pricing growth this quarter compared on a Y-o-Y basis?

Udit Todi: The volume growth is almost the sameandthe quantity growth is almost flattish. So, the total net result is the same.

Bhargav Buddahdev: Okay.Is it possible to share the performance of Gen X and Lyra in terms of the revenue growth, the EBITDA growth and the debt levels?

Udit Todi: We would not have the debt levels and allready with us right now.Butthe growth in Lyra would be around 8%.The growth in Gen X is almost flattish around 1%or so.

Bhargav Buddahdev: Is thisrevenue growth right?

Udit Todi: Yes, this is the topline growth.

Bhargav Buddahdev: Could you provide any sense on the profitability?

Udit Todi: Profitability would also improve almost at the same level and little better than that of the top line.

Moderator: Thank you. The next question is from the line of Kunal Koladia from Anova Capital. Please go ahead.

Kunal Koladia: Sir, I just wanted to know that recently you have launched Cozi scented vest, so could you throw some light on how ithasbeen performing and what is the response from the market?

Udit Todi: So, as you correctly mentioned, LUX has launched a scented vest range which is for the first time in India. So, it was a new innovation from our side and it has got phenomenal response from the market.In fact if I talk about in quantity terms, we have seen about a 20% increase in volumes as far as the vest is concerned. So, that was a phenomenal performance, a salute from this industry to us. So, we are very happy with the performance of scented vest. It has also helped usto gather more market share from our peers in this particular category.

Moderator: Thank you. The next question is from the line of Rakshit Ranjan from Marcellus. Please go ahead.

Rakshit Ranjan: Can you just elaborate a bit more on the moderation that you witnessed in your sales growth momentum? Is this moderation greater in wholesale-oriented channel versus the distributororiented channel, would that be a fair assumption? Also, to what extent do you see the end consumption being equally bad as your reported numbers or is that just a channel issue largely where the channel is for some reason not stocking up?

Saket Todi: So, I believe the entire moderation in sale has been witnessed across this industry. So, we still believe that we should be doing better than our peers, but there was a general slowdown in this consumption pattern among the consumers. So, there is no differentiation between the wholesale-oriented business and the distribution-based model. I think this general slowdown is pervasive to all these different types of models of distribution. What was the second part of the question?

Rakshit Ranjan: To what extent do you see this beingmore of a channel-related issue than end-consumer demand related issue?

Saket Todi: So, we believe that this is more of a consumption-related issue than our channel-related issue.Channel-related issues will not lead early to so much of moderation in the sale. So, we believe it is more of a consumptionled problem which is happening in this industry.

Rakshit Ranjan: From the discussions you would have with your channel,do you see this being a three to six months phenomenon or isthere something more structural here?

Saket Todi: That is very difficult to answer as to how long is this moderation is going to last and when is the market going to pick up. But everyone is hoping for the best that very soon the market should come back to normalcy because the products in which we are dealing are our necessitiesso people cannot withhold the consumption of basic necessity for a long time.

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

Prerna Jhunjhunwala: Sir, I wanted to understand on the industry growth.How can we say that we have gained market share?Can you share some numbers on the same?

Saket Todi: Just to give you an example, even after the moderation in sales,we have seen volume growth of over 20%in the scented vest category. So, that is just a very good indicator as to how the company is trying to gather more market share.

Prerna Jhunjhunwala: But we have also mentioned that we have gained market share in the innerwear segment, are you talking about the particular category or the segment as a whole?

Saket Todi: Generally, when one of the major engines of your growth which is the vest and it beinga very big category in itself. Generally, the way the market reacts is if you are doing very good in one of the categoriesit automatically pulls the other categories along with it. So, since we have done pretty well in the vest category in terms of volume growth, so it has also pulled along with it the growth of other categories as well. So, that is what is making us believe that we should be doing better than what the market is doing. But the conditions of the market is such that the overallconsumption is going very slow. So, we believe that it is just a matter of time that the consumption will start picking up again.

Prerna Jhunjhunwala: Sir, do you think that the industry would have de-grown this quarter as a category?

Saket Todi: So,the kind of sense that we have got about the market it is still too early to comment on anything like that. We would wait for the numbers of all the peers and other industry performers also to give out their numbers and then we will be in a better position to comment onthat. But the kind of sense that we get is that,generally the overall consumption has been slightly on the downside.

Prerna Jhunjhunwala: We are one month past the second quarter, what is the feel you are getting from the ground market, whether consumption pickup is beginning or is it still a little far off?

Saket Todi: So, it is more or less same as the last quarter.Only that it is slightly on the better side, but still we are yet to see major improvements.

Prerna Jhunjhunwala: Sir we have seen margin decline in this quarter, so do you think the lower cotton priceswouldbenefit going forward or it’s not going to make much changeas you have to pass on to maintain market share?

Saket Todi: Yes, we believe even the lower cotton price is not going to help much although it helped to a certain extent, but most of it is generally passed on to the consumer.

Moderator: Thank you. The next question is from the line of Muskan Mansuri from ITI Capital.Please go ahead.

Muskan Mansuri: Can you tell me more about the merger?

Udit Todi: Can you please be a little more specific what do you want to know about the merger?

Muskan Mansuri: Can you throw some light on how this merger is going to benefit the company and when is it bound to take place?As like you said earlier it will happen towards the end of the year, but can you provide a little bit more clarity on that?

Saket Todi: So, the management remains committed in their efforts for the merger to go through.We are just awaiting necessary approvals from regulatory authorities that is what is taking a bit of time.And as far as how is that going to benefit, the parent company which is LUX will happen to see the figures, in terms of top-line roughly there would be a 50% to 55% increase in terms of topline as well as bottomline.However,when we talk about the dilution, the dilution which is going to take place is going to take place to the extent of about 20%. So, we believe that ultimately the EPS of the company post the merger should benefit by around 25%.

Moderator: Thank you. The next question is from the line of Bhavesh Jainfrom Varanium Capital.Please go ahead.

Bhavesh Jain: Sir are we facing challenges on export front also?

Udit Todi: No, on the export front, there has been fluctuation in the rupee to dollar price for the first quarter. So, there was some issues there. But our main season is the second quarter and the fourth quarter of a financial year. So, that would really define how our export is going for throughout the year.

Bhavesh Jain: Could you let us knowhow much have we spent forthis advertisement and promotion expenses this quarter?

Udit Todi: It's approximately Rs.33 crores for Q1 FY20 as against ~Rs. 34 crores for Q1 FY19.

Moderator: Thank you. The next question is from the line of Kedar B from Composite Portfolio Management Service. Please go ahead.

Kedar B: I just have a question on how exactly you have been able to optimize your debtors'days to such a great extent, which is obviously a very well development. Because if I look at the number starting from let us say about the past five or six years, we see that on an average you are running at receivable base of close to 100 days. And then this kind of spike post the demonetization in 2016. And then it has been high till say mid of last year. So, over the past two quarters obviously there is a fair amount of pull that the management has been able to do to bring down the debt level as well. So, just curious to know should we see this as a normalization postdemonetization or do you think this is something that's much more sustainable going forward?

UditTodi: Thisis a decision because of the policy of the company rather than just the demonetization. And this will be sustainable in fact it would improve in times to come.

Kedar B: Okay. So, are you not getting any pushback from your dealer and distributor network given that the overall business by itself has seen a slowdown? Have you been able to give higher discounts to the channel to be able to offset the debtor days?

Udit Todi: No, the discounts have no dilution with the debtor days. The debtor days is policy of the company to which our distributors are adhering to.We are very strict on our policy and we do not give any flexibility for the debtors' days.

Kedar B: Okay, fair enough. So, the second question I have is just a follow upquestion on the merger. So, whenever the merger goes through, if I have run my numbers right, the promoter holding will actually exceed the threshold of 75%. Now, given that there's been a proposal in the recent budget that the promoter holding needs to be brought down to 65%. So, just curious to know in terms of that how the mechanics works, once the merger goes through, how will you be driven?Let's say a specific amount of time to reduce it to the threshold or how that specific thing would work?

Saket Todi: So, as you mentioned, as you got your numbers correct, post the merger that the promoter holding will be exceeding the threshold limit. And we will be bringing in down back to 75%. Withregards to the budget proposal of 65% that is also something which is under the consideration and no clarity on the same has yet been received. And going by what we are reading in the newspapers and going by what people in the department are also saying that right now, it is a proposal which is not yet passed. So, depending on what stance the government has to take till then the 65% rule is still not clear. With regards to the 75% rule we are still talking to the regulatory bodies as to how this mechanics is going to work and whether a timeframe is going to be allowed for us to dilute or whether it is going to happen pre. So, as we mentioned earlier also that some regulatory approvals are pending, it is the same thing. And we are also in talks with SEBI as to how we should move forward.

Moderator: Thank you. The next question is from the line of Himashu Nair from Systematix Group. Please go ahead.

Himashu Nair: Just one clarification so as you said that things have not really improved much in the ongoing quarter. And going forward, even getting the benefit of cotton price coming down would be difficult. So, do you think we should revise downwards our vision of 13%-15% growth rate and EBITDA margin expansion of 100 to 150 basis points, especially for this year till the environment improves?

Saket Todi: So, as far as with regards to our growth estimates are concerned, what we are looking at is that we should be exceeding the market growth rate by about 400 to 500 basis points. And it depends as to how the market itself is fairing. So, we are still very hopeful that going forward, we should be able to grow faster than the market by 4%to 5% points. And as regards to EBITDA improvement is concerned, that could be more on account of product mix change. So, we are hopeful that going forward in this current year, we will be able to change our product mix slightly towards better margin products, which should lead to EBITDA margin improvement.

Moderator: Thank you. The next question is from the line of Kunal Koladia from Anova Capital. Please go ahead.

Kunal Koladia: With the launch of new products and new campaigns that we are doing, Could you tell uswhat is your outlook on the marketing and ad spendsgoing ahead, as we all know that we are witnessing a slowdown. So, are we cutting onanycosts with respect to marketing or are we going to remain at the same levels going ahead?

Saket Todi: Our ad spends have remained constant to around 7%to 8% of the total turnover.So, whatever our turnover is, we forecast our ad spends willbe accordingly and we will budget are ad spends accordingly so the result in the end comes to 7%to 8% of the turnover.

Kunal Koladia: 7% to 8% is your guidance for FY20 right?

Saket Todi: Yes, for ad spend.

Kunal Koladia: My next question is with respect to CAPEX. Can you share e the CAPEX for Q1 FY19 and what is your guidance for the full year?

Saket Todi: There is no major CAPEX involved in the Q1 FY19 and for this financial year, we do not see any major CAPEX which we need to incur.

Moderator: Thank you. The next question is from the line of KedarB from Composite Portfolio Management Service. Please go ahead.

Kedar B: This is a follow-up question. So, I understand that we have not really decided to take the exclusive buying outlet (EBO) route so far. Now, going forward,at what level do you think this may be a feasible approach for the company if we are considering this?

Saket Todi: Right now,our marketing team is not very bullish on the EBO route because it’s a very expensive form of growth. So, we are focusing more on the general trade, because that is where your cost of operations and your cost of sales are also veryoptimal. We believe that in the EBO routethe cost of sales should be very high. So, right now, we are not focusing on the EBOs much.

Kedar B: What is the proportion of sales that we get from e-commerce as a channel of sales?

Saket Todi: So, e-commerce for the mainstream LUX products is very less, but talking about our premium offerings,about 1% of saleis from e-commerce.

Kedar B: Okay, and what would this number be for the Lyra brand?

Saket Todi: It would be similar about 1%-1.5% of sales from e-commerce for Lyra brand.

Moderator: Thank you very much. As there are no further questions. I will now hand the conference to the management for closing comments.

Saket Todi: I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries for any further information,kindly get in touch with me or SGA our Investor Relation Advisor. Thank you once again.

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