"Lux Industries Limited Q4 FY20Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Lux IndustriesLimited Q4 and FY20 EarningsConference call. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. The statements are not guarantees of future performance and involves risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saket Todi – President (Marketing), Lux IndustriesLimited.Thank you, and over to you, sir.

Saket Todi: Good morning and a very warm welcome toeveryone. I, along with me have Udit Todi and our CFO, Mr. Ajay Patodia and SGA, our Investor Relation Advisors. I hope you have received our result and investor presentation by now. For those who have not, you can view them on our website. Before we proceed with the highlights for the year and the quarter gone by, I hope you and your near ones are safe and healthy. The last few months have been tough for everyone and I am sure all of us both in work and personal life have discovered a whole new way of living. These are challenging and uncertain times as India got struck by COVID 19 Pandemic in mid-March 2020, since then the government across States started implementing stringent lockdown measures which led to destruction and halt in economic activities across industries and sectors.

We were growing at a healthy rate until the last few days of the quarter where we had to temporarily shut down our plants and business operations as per Government's lockdown directives. This led to the loss of revenue and thus in turn impacted our bottom line. Despite these challenging situations, our performance has been noteworthy, and we have been able to maintain our margins which are way better than the industry average.

We have been able to resume a plant operation from May 2020 after taking all regulatory approvals and are adhering to all regulatory norms of social distancing, health and safety. Since lockdown restriction has eased out in major cities and States of the country, we are seeing good traction in sales and distribution part. We are expecting a gradual demand uptake in the coming quarters and we hope things will normalize to pre-COVID level as soon as possible. The inner wear industry is filled with advancements and we have already been at its forefront. Over the years there has been an evident shift in the industry and this situation has been no different. Our decades of experience in the industry, strong business model in place, team of experienced professionals coupled with the state of art manufacturing facilities gives us a confidence about adapting to these changing business environments and respond suitably to fulfill the needs of our customers.

I am happy to state that during the quarter, the board of Directors have recommended a final dividend of Rs. 2.5 per equity share of Rs. 2 each. This will take our total dividend paid for the year to Rs. 12.5 per equity share. Our dividend payout is in the line of, with our endeavor to maintain a payout ratio of 25% of the annual standalone profit after tax for the company. Also the group debt level as in March 2019 was around Rs. 185 crores, out of which we have been able to retire most of it in the current quarter due to the strong demand.

With this, I will now ask Mr. Udit Todi, who is spearheading the strategy for the company to share his thoughts.

Udit Todi: Hello, good morning and a very warm welcome to everyone. I hope everyone is keeping safe and my prayers to those who are fighting this out.

Now coming to our quarterly and yearly performance as on 31st March 2020, we have delivered a better than expected fourth quarter considering several operational challenges amidst lockdown in the second half of March 2020. Our manufacturing, marketing, sales and distribution team continued business as usual until 22nd March 2020 and we were going atan desirable pace until government directives to temporarily shut our business operations amidst lockdown. Despite these hurdles, we have been able to demonstrate better operating matrices which are better than industry averages. This is an outcome of our continuous focus on brand building activities, strong product portfolio and adoption of latest technology in our manufacturing processes.

On the supply chain aspect, we have one of the largest distribution networks in this industry having strong presence in North, East and Western parts of the country. During these testing times, we have been in constant connect with our distributors, dealers and retailers who have managed to provide us with valuable data points to sense the market pulse. As we are aware that lockdown restrictions have eased out in most parts of the country, we are witnessing good demand trajectory in the rural and semi-urban areas. This is mainly attributable to our widespread dealer network, strong band equity and goodwill. Our Industry is extremelyfragmented with multiple small players with limited financial resources. We believe there is bound to be a consolidation in this current market situation which will throw us both short term and longterm opportunities. Given our financial stability and response strategy, we feel confident of emerging as a stronger player from this pandemic and grab the market share from the un-organized sector.

Now on the working capital front – our focus has been to constantly shorten our working capital cycle and thus in turn to improve our operating cash flows. For the year ended 31stMarch 2020 our working capital cycle has reduced since September 2019. Going forward, our aim is to reduce our working capitals even further. Our proposed scheme to merge JM and Ebell Fashions Private Limited with Lux Industries Limited is on a speedy part and we expect it to complete as soon as possible. We believe this merger will strengthen our position and will help us fulfill financial objectives, not only in terms of growth but also in terms of strength and efficiency of our balance sheet. This will ultimately lead to long term value creation for our stakeholders.

Lastly, if not for COVID, we would have seen a revenue growth of 8% for the quarter with EBITDA and PAT growing by 6% and 22% respectively. We have seen minimal impact on Q1 since we re-started operations in May. For the quarter, our revenues would be impacted between 5% to 12%, we have seen good traction in the domestic market in May and June. Our revenues would be slightly lower only due to reduced exports since there are global restrictions on the same. With this, I would like to handover to Ajay ji to provide the financial highlights for the quarter and full year.

Ajay Patodia: Thank you Uditji.Our company reported a strong quarter end year ended 31st March 2020. Our revenue for Quarter 4, FY2020 stood at Rs. 288.2 crores versus Rs. 391.2 crores, registering a de-growth of 26%. This was on account of loss of revenue due to plant shutdown. Our EBITDA stood at Rs. 47.7 crores as compared to Rs. 64.6 crores in Quarter 4, FY2019. We have been able to maintain our EBITDA margin at 16.5% as compared to Quarter 4 FY2019. Our PAT for the quarter stood at Rs. 29.8 crores versus Rs. 36.8 crores in quarter 4, FY2019. PAT margin for the quarter ended stood at 10.3%, showing an improvement of 90 basis points compared to 9.4% in the same period last year.

Coming to quarterly performance of JM Hosiery, clocked at a revenue of Rs. 80 crores while Ebell revenue stood at Rs. 61 crores. Now coming to our yearly performance, our revenue stood at Rs. 1,209.9 crores vis-à-vis Rs. 1,260.1 crores, revenue remained flat on account of some impact of plant shutdown due to COVID. Our sales and marketing expenses stood at Rs. 89 crores which is approximately 7.36% of our revenue. We have invested Rs. 566 crores in our brand across the eight year ending FY2020. EBITDA for FY2020stood at Rs. 190 crores as compared to Rs. 187 crores in FY2019, registering a growth of 2% year-on-year basis. The EBITDA margin has seen an improvement of 33 basis points which stood at 15.7% versus 15.4% in FY2019. PAT for FY2020 stood at Rs. 122.5 crores as compared to Rs. 98.8 crores in FY2019, recording a growth of 24% year-on-year basis. The PAT margin stood at 10.1%, a stellar improvement of 200 basis points as compared to 8.1% in FY2019.

Coming to yearly performance of JM Hosiery & Company, it clocked a revenue of Rs. 309 crores while Ebell Fashions revenue stood at Rs. 271 crores. Thus, making the group turnover around Rs. 1,790 crores.. For FY2020, our return of capital employee stood at 27.8% whereas return on equity stood at 24.7%. Net debt to equity ratio for the year stood at 0.3.

With this, we will now open the floor for questions and answers.

Moderator: Thank you very much, we will now begin the question and answer session. The first question is from the line of Lakshmi Narayan from ICICI Mutual Funds, please go ahead.

Lakshmi Narayan: I just want to know what is the mixed of exports and domestic for the full year? How was it last year FY2020 and FY2019?

SaketTodi: The export is around Rs. 135 crores which is same as 2019 and domestic sales remains at around Rs. 1,075 crores.

Lakshmi Narayan: And what has been our distribution expansion this year, how many footprints we have actually expanded?

SaketTodi: The net distribution expansion has been the same. The distributors' numbers have been the same as on FY2019. There have been new distributors who have added plus some of the distributors have retired also.

Lakshmi Narayan: What is the total EBO reach you have via these distributors, what is the mix across the regions, if you can give some idea?

SaketTodi: We are not exactly presentin the EBOs, our channel of distribution is a wholesale channel of distribution, who in turn send to the MBOs and finally it will get considered.

Lakshmi Narayan: What is the reach of our MBOs, I made a mistake. I should not have asked EBOs.

SaketTodi: Okay, the total reach of our MBOs is approximately between 2.5 lakh to 2.75 lakh.

Lakshmi Narayan: And what is the distribution, your sales across the various regions; North, East, West and South?

SaketTodi: The Eastern would be around 27%, the Western would be around 19%, the Central would be around 16% and the Northern would be around 35% and the remaining is for the South India.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss, please go ahead.

Nihal Jham: Thank you so much. I hope Saket and both of you are doing fine. My first question was just to specifically understand, in Q4 when you say that there was a de-growth of 26%, is basically that you were not able to ship the orders to the wholesale channel and that is why you have calculated the impact, is that the right way to look at it?

SaketTodi: More or less, yes. That should be the right way to look at it but because we always have a March scheme for our distributors, so that came to a calculation that there were orders which we had to ship as well as we had to receive few orders from our distributors on the front so that they can close the scheme and achieve the target.

Nihal Jham: Sure, the other question is that you know, inner wear is mainly a non-essential category and in Q1 for most part of the country you had an impact and most of the shops were closed and even for some of the other categories that we have checked, Q1 has been quite a washout. What is surprising is that, howis that only your sales have fallen 5%, 10% which I think as you have given the breakup is only for the month of April? So, again, is it that you have sent it to the distribution of the wholesale channel and you will wait for them to liquidate it in the coming month, how is that the impact is much lesser than what other players have experienced and despite the fact that being a non-essential category, there was a complete lockdown for Q1?

UditTodi: So, actually what you are trying to say is that the kind of products which we are selling which is basically men's innerwear category, even though the government does not classify it as essentials but in practical daily purposes it is the most essential product which all of us would use on a day to day basis. Although during the lockdown, I mean during the first few days we were not able to sell but the consumption of our product had not stopped even for a single day, there has not been a single day during which any of our consumer will not be using our products. So, during this time the consumption has been proper and after the lockdown was announced on the 22nd of March and we have been able to resume our operations from 29th of April, which is end of April, beginning of May. So, since the beginning of May, we have been started to ship all our orders to our distributors and dealers and coming to the 2nd part of your question which was that whether the dealers are stocking the products and not being able to liquidate them, so I would just like to give you a better understanding of the same. In fact our dealers and distributors have been dealing and have quite done so, they are paying us upfront money for all the products which they are purchasing because in turn the sales which they are also seeing cash sales happening. So, in fact the credit in the system has gone down substantially, we have been taking upfront money from our distributors and our distributors have been taking upfront money from our retailers, so whatever goods we have shipped has ultimately got liquidated even and the distributor and the retailer point, so the entire supply chain right now is kind of going on a hand to mouth basis, so the demand in the current quarter we are seeing is pretty good.

SaketTodi: Also, I would like to add to it that the product category which we deal in, is not a cyclical purchase, like our consumers who purchase our products, it is a necessity purchase for them, they do not have an habit of buying it once every year or once every 8 months or 10 months, they have a habit of buying when it is required for them or when the products are in such a bad shape that they need to require or buy a new product. So, our product does not fall into cyclical purchase category but into a necessity purchase category. So, there has been a continuous purchase and demand of our products to our consumers as they require it, as they do not have any other choice at that time.

Nihal Jham: Absolutely so, Udit if I just clarify better on that, would it be right to say out of the 2.5-2.7 lakhMBO outletsthat you mentioned in the start of the call, most of them are obviously not in the top 10 cities where there was limited lockdown and they continued through the quarter, would that be a right way to think of it?

UditTodi: That would be absolutely right, most of these retail counters would be outside, although we have a lot of retail counters even in the urban areas but a bulk of it would be in the non-urban areas and even during the lockdown by different kind of means all of them were more or less operational because under the rural side, even in the rural areas, the lockdown I think, the impact of the lockdown was not felt so much. So, our products have been able to do quite well in fact it is just an insight which we received during these lockdown days that, in the rural belt a lot of kirana stores have also started selling basic men's innerwear, so that again became a new sort of a counter during this lockdown. That is what the people came up that was a different kind of a solution which the retailers and distributors have come up with, so all of these combined has helped us achieve good sales figure for quarter 1 because right now also quarter 1 is underway and we will not be able to give you any exact numbers of the same but just to give you a guidance that quarter 1 sales and demand both have been pretty good and the entire channel and pipeline right from the manufacturer down to the distributor and the retailer has been on a hands to mouth basis and the channel is quite empty right now.

Nihal Jham: Sure, just one last question from my side, could you update on how the performance of Onn and One8 was for the entire of this year and if you have any targets for the next year?

UditTodi: So, as far as Onn is concerned for the year FY2020, we have in fact seena growth of about 5% vis-à-vis the company sales have remained flat, Onn as a sector has grown 5% and considering our middle and the economy segment, so the middle segment has done better than the economy segment, so overall the product mix has change for towards the betterment of EBITDA margins.

Nihal Jham: And One8?

SaketTodi: One, actually the distribution of it had just started during the quarter 4 of FY2020, so it will be unwise to compare it with the quarter 4 of FY2019.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: You have mentioned that your manufacturing capacity is for about 2000 lakh of garments each year, so could you just share with us what has been the production in fiscal year 2020, in terms of pieces?

UditTodi: Could you please comeback with the question once again?

V.P. Rajesh: I wanted to know the garments pieces that you have produced in fiscal year 2020, given that you have mentioned your capacity is 2000 lakh?

SaketTodi: This is actually the sales of our products in pieces, not actually the manufacturing in the year FY2020.

V.P. Rajesh: So, you are saying 2000 lakh garments pieces were sold in fiscal year 2020, is that right?

SaketTodi: Yes.

V.P. Rajesh: Okay and so, if you look at your price range,it varies from Rs. 50 – Rs. 1350 per piece, so what will be the average selling price across all your products?

SaketTodi: Yes, average selling price ranges around Rs. 61-63 per piece.

V.P. Rajesh: Across all the pieces, right,.

SaketTodi: Yes.

V.P. Rajesh: And then lastly in terms of these two subsidiaries that you are combining with the main company, how about the EBITDA margins for this, first 9 months during the Q4, so I am just curious what were the EBITDA margins for these two businesses for the first 9 months of the last financial year?

SaketTodi: EBITDA margins for Ebell Fashions stood at around 18% and EBITDA margins for JM stood at around 11%.

V.P. Rajesh: And why was JM Hosiery down so much in Q4 as compared to

SaketTodi: No this is an average of an annual number.

V.P. Rajesh: Right, so my last question was in terms of Q4 decline in JM Hosiery, it was 36% right whereas Ebell was only down 10%, so what is the reason behind it, is it that JM Hosiery is selling different kind of innerwear or it is something unusual there?

UditTodi: Exactly, so the product offerings between JM and Ebell Fashions are quite different, so for Ebell it was primarilywomen's wear which is outer wear garments and when it came to Genx it was a mix of innerwear as well as outer wear, primarily men. So, owing to the difference in offering, it is showingin, plus corresponding period for J.M.'s has witnessed very high sales figure in FY2019. So, when we are comparing it to FY2019, therefore the decline looks a little more sharp.

V.P. Rajesh: And just one last question, what is your sales from let us say, rural and semi-rural markets versus the urban markets?

SaketTodi: See actually we have a wholesale selling policy, so if a distributor is present in the urban market, this is not necessary for them to sell to the retailer then the urban areas. So, it is very difficult to assess that how many retailers are exactly there in the urban market as how many retailers are there in the rural market but overall on an average when we take out it is an 80% - 20% ratio, 80% should be rural and 20% should be urban.

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

Sachin Kasera: Sir just one question on working capital you mentioned that you have reduced it quite a bit in the June quarter, did you give any number, June quarter how much reduction you have been able to achieve in the working capital?

SaketTodi: June quarter, which year?

Sachin Kasera: June quarter of the ongoing year, this quarter which has just ended, ending today you mentioned that sales werelimited between 5% to 12% but you also mentioned that you have been able to reduce the working capital this quarter, so can you give us some sense how much has been the reduction?

SaketTodi: The reduction has been drastic, but we will not be able to give you the numbers right now, that we will be able to give you by the end of this quarter.

Sachin Kasera: Sure, but this reduction is consequence to a lower revenue or the reduction that we have achieved you think would be sustainable?

SaketTodi: The reduction is mainly due to the strong demand in the market because the channels are empty and their distributors are demanding the products and they are ready to pay upfront.

Sachin Kasera: Okay, so we have seen reduction on both; inventory as well as receivables?

SaketTodi: Mainly receivables.

Sachin Kasera: Okay fine and secondly on this merger, now what are the timelines that we are looking on and what are the permissions which are pending, you mentioned that you now hope to complete soon but just for an update, what are the pending permissions and what you think is the likely timeline by when the permission should come in?

UditTodi: So, application for merger has already been filed with the NCLT and it is pending before NCLT but as we know under the current COVID situation, the courts are also not functioning in full strength and capacity. So, everything is taking more than natural time in its due course, so we are already pushing them for giving us a hearing date and it is up to the courts now to provide us with a date and take it forward. So, that said and done, we still believe that by within this financial year or say by within this calendar year, by November, December we are pushing them and trying to get it done by December this year.

Sachin Kasera: But now other than NCLT, there is no other permission which is pending as far as regulatory authorities is concerned, right?

UditTodi: No, we are pending before NCLT.

Sachin Kasera: Okay and you shared the EBITDA number for both JM and Hosiery for FY2020, can you also share the PAT number, that will be really helpful?

UditTodi: So, both the companies are right now Private Limited and their accounts have not yet been audited, so we will not be able to share with you the exact PAT figures but the sale figures are more or less accurate as well as the EBITDA margin guidance is, you know the figures will be in line with the guidance and I mean right now that is all that we can comment on the group companies.

Sachin Kasera: Sure, but can you just once again share the EBITDA numbers for both FY2019 and FY2020 for JM and Ebell?

SaketTodi: Yes sure, we will do that. For FY2020, the EBITDA level is around Rs. 70 crores of JM and Ebell and for FY2019 same would be at around Rs. 60 crores.

Sachin Kasera: Okay, so 60 versus 70 was EBITDA. And just one thing, do these companies have any debt term level balance sheets or they are more or less debt free companies?

SaketTodi: They aremore or less debt-free, but they do have debt as I mentioned that there is a total consolidated, debt is at around Rs. 185 crores.

Sachin Kasera: Okay, I missed that. You mean to say including Lux, JM and Ebell put together, Rs. 185 crores as on March.

SaketTodi: Yes, that is correct.

Sachin Kasera: So you have any number in mind for this year, where would you like it to be like Rs. 120 crores, Rs. 100 crores, what is your internal target for this number for FY2021?

UditTodi: So, going forward, in the current year as we have already mentioned during the beginning of the speech, that Ebell is more or less debt free, Lux is almost debt free and there is a certain limited amount of debt in J.M., so at the group level if you see, by within this current year we will be less than about Rs. 100 crores, much within Rs. 100 crores.

Sachin Kasera: Sure, and any idea on the CAPEX number this year?

SaketTodi: Right now, there are no plans of any CAPEX but if there will be any, we will be informing you as soon as some decisions is taken at the board level.

Sachin Kasera: Sure, thank you and all the best.

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

Prerna Jhunjhunwala: Thank you for the opportunity, Sir congratulations on thisreduced receivable numbers. I would just like to understand whether these numbers are sustainable going forward, the moment you know market become normalised and competition starts getting in again for you or there is enough inventory on the shelf, right now there is not enough inventory, so will be able to reduce that receivables levels, so that would be the right way to put it.

UditTodi: So, as you see, our intent has always been to reduce our working capital days and requirement and we have been able, we have always been guiding that and we have been able to achieve that in the last four quarters at least but right now under the COVID situation, it is an unprecedented situation, none of us have gone through this before. So, how the exactly, how the market place out in the coming future is really hard to comment as of now but yes, this intent is always there to reduce the working capital and as of now at least in the first quarter, we have seen the receivables, you know we have seen very strong receivables right now but how much of it will be sustainable going forward, is right now little difficult to comment. We believe that in the next quarter, in the next three months the entire picture will become much more clear and we will be able to give you a firm guidance as to what we will be able to achieve for the full year.

Prerna Jhunjhunwala: No, I am asking for three to five years' position, like when the shelf space you know gets again filled and there is enough pipeline in the supply chain.

UditTodi: Looking at the long-term period, as we have always mentioned that we overall, it is one of the most important objectives of the company to reduce its working capital and we have already been able to do that in the last year. In FY2020, the working capital compared to FY2019 on account of receivables and everything has been in a much better shape and going forwardin the next three to five years we will be able to reduce it further.

Prerna Jhunjhunwala: Okay, Sir my next question is on competitive intensity, do you see shift from unorganised to organised segments happening because they will be facing supply chain issues much more than us?

UditTodi: Exactly, I think the impact of COVID with regards to the unorganized to organized shift will be much stronger compared to a demonetization or a GST implementation, the COVID is a much stronger consolidation factor compared to the previous two incidents because right now, under the current circumstances, production is actually a quite a big challenge for the unorganized players, we being a much organized player and having a much older presence than the rest of the players we have been able to ramp up our productions to almost pre-COVID levels right now but that is not the same for the entire industry, the entire industry even right now is struggling with production issues, so thankfully our company has been in a better shape but overall the industry position with regards to supply is not a very happy picture, so we believe that going forward this should lead to a better market share being captured from the unorganized sector. In fact going forward we are looking at everyone is starting to prepare for the winter season and not many manufacturers will be able to achieve even pre-COVID last season winter figures but we as a company are aiming at an increased level of production compared to last year winters anticipating that going forward not, we will be able to again capture good market share from the unorganized players, so we are quite upbeat about the shift from the unorganized to the organized sector. And as far asthe winter products is also concerned, last season the entire winter products at the channel level also got sold. So, the channel right now is also quite empty, plus not many people will be able to supply this time, so all these factors combined together we believe that going forward the winter season also should look good this season and monsoons as we are seeing that the prediction for monsoons has been great, India has not seen such a good monsoon for many years right now. So, with all the money flowing into the rural sector, the demand from the rural side in the summer as well as continuing into the winter season should be pretty strong.

Prerna Jhunjhunwala: Okay, sir that is quite helpful can you throw some light on innerwear versus outer wears sales because you do quite a lot of outer wear also what would be your percentage on outerwear's and how has been the demand in the outerwear versus inner wear for you?

SaketTodi: Right now, our outerwear percentage in comparison to innerwear is very minimalistic, so it will not be wise to say a growth in outerwear because the percentage growth can be a big number but the absolute number will not have a big effect on the overall sales of the group company.

Prerna Jhunjhunwala: Okay because we are seeing good demand for casual wear because everyone is working from home, so that segment as per our channel is showing a good traction, so I thought maybe it will…

SaketTodi: No doubt there is a good demand for casual wear but what we are seeing that there is a better demand for innerwear. And the products which we supply as I said before as well that our product is a necessity product because it is not a cyclical purchase for a consumer.

Prerna Jhunjhunwala: Okay that is helpful. Sir, my last question would be on the sales loss in 4Q it is almost Rs. 120 crores odd loss that you were saying in the month of March and that too in a period of last 15 days even if we assume that there were logistical disruptions, starting from 15th of March also, that is quite a huge number considering the, is it a normal practice or was there something exceptional in this quarter?

UditTodi: It is quite a normal practice, see what happens is during the year ending there are lot of year ending targets which the distributors are given, so during the last 2-3 weeks of March a good bulk amount of sales happen because of closing their incentives and target schemes. So, that is the period when they really stock up, so that is the exact period when we lost of sales because of the implementation of lockdown and so, I think a lot of sales even the sales which were locked during the end of March a lot of it has also spilled over to quarter 1 this year. So, therefore we are seeing quarter 1 to be good.

Prerna Jhunjhunwala: So, sir did you carry forward their incentive scheme because of the inability of the people to...

Management: No, we have not done that.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Sir my question relates to Other Expenses which are comparatively down in this quarter, 4th quarter, any specific reason for that, is there a reduction in the spend or what could be the reason.

UditTodi: So, looking at Other Expenses which have been done our advertisement has been more or less flattish compared to the corresponding period in the previous year. It has been roughly similar excepting a small amount of decrease itself but a big number which was featuring in FY2019 March was FOREX loss, FOREX currency translation which has not happened in this year and so we will do one thing there is an entire list of Other Expenses which have happened for both the period. You can just, we will be able to share the details with you over mail maybe so that you can analyse the different headings for yourself. You can analyse them for yourself, you will get a much clear picture as to what is happening within the company.

Sunil Jain: Sir one question related to Q1 results where you had said that sales has bounced back in Q1 but we are seeing a lot of cost we are seeing lower, if it is a yarn cost and all, so are these need to be passed on or is there any possibility that we can retain that?

UditTodi: So, I think you brought up a really nice question mentioning in the interview today in the morning, so the yarn prices are really down in the current quarter and since but the demand has been pretty strong and there are lot of logistical challenges itself, so we have been able to retain the benefits of the yarn prices within the pricing itself. So, the reduced prices have not been passed on, thebenefit of it has been absorbed by the company and also the advertisement expenses for Q1, Q2 should be on the lower side because we are trying to cut down costs of advertisement in the first two quarters. So, overall if you look at FY2021, the advertisement percentages should be coming down as a percentage of sales, the advertisement expenses should be coming down.

Sunil Jain: And sir this one more question about this Operation of Production sides, we are seeing a labour issue, so now the things are getting resolved also, so what is the status now means at what levels the productions are running right now and are we expecting in coming one or two months?

UditTodi: So, in our industry the most labour-intensive part is stitching of garments and stitching of garments is one area which we are getting done on a job working basis. And all these job workers, which are more than 500 in number are in and around our manufacturing facility itself. So, these have been helping us in two ways, number 1 is, during the lockdown we were spared off the labour cost because of them being on a job working basis, so that has helped the company reduce its cost and b) because of them being in the vicinity of their manufacturing plant we have been able to resume our supply of, supply of goods have bene able to come back to pre-COVID levels because most of them were in and around Bengal itself, they were not migrant labourers. So, supply challenges we were able to overcome because of owing to both these factors.

Sunil Jain: So, the production level at current point of time is at normal levels?

Management: So, the current production is almost at par with pre-COVID level.

Sunil Jain: Okay and sir last question relating to export, you said that the export got some impact in Q4, so how is the situation and what is the outlook for the export for the year?

SaketTodi: For the year, the outlook of export does not look that great because we have been exporting to more than 40 countries and each country has a different policy for the COVID 19 situation. So, it is very difficult to find out that what exactly will be our export and how much we are going to grow in the exports because if the situation of India improves and the country where we are exporting the situation of that country does not improve, so still the export does not take place.

Sunil Jain: And sir margins in exports are similar to India or they are different?

SaketTodi: Better than India.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: So, you indicated about some part through salesfrom Q4 to Q1 of about Rs. 150 crores, so will we able to achieve the entire Rs. 150 crores of that in Q1?

SaketTodi: No, actually see there has been a sale loss of around Rs. 135 crores and that is due to the targets incentives which we had with the distributors and the same target incentives has not been carried forward for the current year. So, there has been no pass on from the previous year's orders to the current year, it is a freshly new order and these new orders and supplies are being taking place mainly due to the strong demand in the rural markets and the channel being empty.

Devanshu Bansal: Are there any attractive trade schemes for the whole sale channels which could have helped these sales in Q1 for FY2021, I am talking?

SaketTodi: So, currently we do not need any attractive sales scheme, because whatever is being produced on a day to day basis is getting supplied to our distributors, so we are working on a hand to mouth basis.

Moderator: Thank you. The next question is from the line of Aviral Jain from F.G. India. Please go ahead.

Aviral Jain: Yes, thank you. My only question was what is the ball park contribution or the share of unorganised players in the domestic and you can talk about shared by FY19, FY20 numbers and because what I understand is the unorganised players are really struggling to get the supply chain right and which is their company has been….

UditTodi: So, talking about the unorganised sector, the unorganised sector, again it is a guesstimate. There is no formal study which is conducted to give us an exact figure but the idea, the sense which we are getting is, in the mass market segment, the unorganised sector is roughly about 40% to 50% of the market.

Moderator: Thank you. The next question is from the line of Abhishek Rathi from India Ratings. Please go ahead.

Abhishek Rathi: Sir my question was again on the demand side, where you have clearly mentioned that it is a currently a hand tool of situation but given that we have been taking a very declining demand, we have seen that in Q3 and now in Q4. What will be an outlook for FY2021, would it be a 70%, 80% or 90% of a normal was?

UditTodi: So, see it will be difficult to comment as to what the entire guidance for FY2021 would look like. Right now, we are just three months into this current year and as you see this current year has been acting quite funny for everyone. It is very difficult to project as to what will happen three to six months down the line. Right now, what we are witnessing is what we have shared in Q1 but going forward for the entire year, I think we should wait for another two to three months. Maybe in the next con call, we will be able to have a much clear picture as to what FY2021 would look like. Right now, well Q1 FY2021 looks fantastic, great but for the entire FY2020 right now it is difficult to commit on any guidance.

Abhishek Rathi: Okay and on the ad and promotion expenses, as is there will be in FY2021 which is an uncertainty, what would be the guidance for this year on the ad and promotions?

UditTodi: So, ad and promotions as we have sent a, will be brought down so generally on an average we maintain about 7% to 8% of sales as advertisement expenditures which under the current year will be brought down. What exactly would it be, it is tough becauseit is a very big call for the companies under, you know it is a discussion at the board level, it is a board level discussion, but yes to give you a ball park sense we are believing that it should be down by about a percentage or a percentage or two.

Abhishek Rathi: Okay and my last question would be on the export side, so we have been hearing in the market and the industry that there is a sourcing away from China everywhere flowing in the world. Do you see the impact actually coming in, in the form of inquiries or higher export orders from existing clients who were buying from China or other countries?

SaketTodi: To the countries where we have been, exactly they are mainly in Africa and the Middle East, so there the under garments has been primarily bought in these countries through India itself and China does not play a major role here but in the highly organised developed countries like

Europe and America, yes China does play an important role out there but currently we are not focusing or we are not present in those countries but yes we are receiving positive inquiries but still it is yet to get converted.

Moderator: Thank you. The next question is from the line of Kedarfrom Composite PMS. Please go ahead.

Kedar: My question is on the trajectory of the advertising spends fromhere with a medium-term perspective? So, the general run-rate of 8% of sales which we have been sticking to for the past couple of years, so do you see that moving linearly as you start offeringit at a higher revenue base or how should we look at it going forward?

SaketTodi: For the next three to five years, we believe that this 8% would be stagnant but for the current year due to the COVID situation as we are uncertain about the next three to four months that how the market is going to take place due to COVID, so we have stopped advertisement as well as another important even for this is that whatever we are producing, it gets easily absorbed in the market due to the current high demand situation.

Kedar: In that case, if you are working with a static target of say 8% of revenue, so going forward, in the sense what sort of thought process or internal framework do we have to ensure that the effectiveness of or the ROI of this is very high because as you knowit is an intangible and you cannot directly measure whether what you are actually investing in terms of market development, is that translating into the ground or not.So, just curious to figure out in the sense three years to five years' horizon, can we get to a situation where say your revenue base is actually 50% higher compared to the current level but your advertising expense may let us say, move from a level of Rs. 90 crores to Rs. 120 crores, which in turn can actually unlock a lot of value both for the people running the business as well as for the shareholders.

UditTodi: So, see what has happens is, every industry or every company so as to say has an optimal level of advertising spend as a percentage of revenue which is achieved over a longer period of time in the long run. So, when the company was started ten to fifteen years back, the advertising spends were much higher and as and when the revenue base kept on growing, the ultimately the percentage kept on dropping and it came roughly, we kind of believe that 7% to 8% was that optimal level which we kind of maintain in the long term. Now talking about the ROI of the advertising spends, what happens is, when you stop spending on a brand, in the first one or two or three years you will not be feeling any impact but the impact is felt only in the long term when the people start, you know you need to, your brand always needs to be afresh in the minds of your consumers. Brand image is something which takes time to build, it takes at least three to four years to build that imageand people also do not forget that image in three to four years. They take time to forget that image. So, in order for the brand to be relevant in the minds of the consumer, a certain amount of money has to be spent which what we maintain is, in the long term 7% to 8% of our top line. Also, as and when the company grows you keep on launching newer and newer products under newer and newer sub-brands or mother brands. So, in order for newer products to become more popular, we garb out the advertisement expenditure from the same pool which is about 7% to 8%. So, the pool is 7% to 8%, maybe the ad spend on a certain established product might go down and a certain newer product might be more but overall the pool is 7% to 8%.

Kedar: So, the second question I had was that, what is the proportion of sales from the online sales so far, I know it is low but what has been the range for FY2020?

UditTodi: So talking about online sales the kind of products which we are dealing with is present in every nook and corner. So, online sales for us as a channel is quite minimal and for the mass and the medium segment products, online sales do not matter much because the products are really present across everywhere. Yes, the online sale becomes quite relevant when it comes to the premium category. So, for our premium category, the online sales are contributing anywhere around 1.5% to 2% of our top line.

Kedar: Okay and is this number consistent for the Lyra brand as well or is that at a slightly higher number?

UditTodi: No it is consistent, even the Lyra brand it has been similar about 1.5% of our top line is coming in from online.

Kedar: Okay, so one final question from my side is, right now we seem to be on a relative basis under represented in the Southern part of the country. So, do we have any plans of targeting that in the medium term or do you think it is a better idea to focus on the stronger areas where we are already present?

Management: We have always been quite strong in the Northern, Eastern and Central belt of India. Southern has been a relatively weak for us and we have been focusing on that market and over the last two to three years we have seen good results also coming in. So, it takes time to develop a market, so we believe we need another couple of years then we see South India also emerging as a big contributor into the top line.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we will take this as the last question. I would now like to hand the conference over to the management for closing comments.

Management: 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 us or strategic growth advisors, our investor relation advisors. Thank you once again.

Moderator: Thank you. On behalf of Lux Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.