



“Lux Industries Limited Q4 FY-21 Earnings Conference Call”

May 26, 2021

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MANAGEMENT: MR. SAKET TODI – PRESIDENT (MARKETING), LUX INDUSTRIES LIMITED
MR. Udit TODI – EXECUTIVE DIRECTOR, LUX INDUSTRIES LIMITED
MR. SAURABH BHUDOLIA – CFO, LUX INDUSTRIES LIMITED



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Moderator:

Ladies and gentlemen good day and welcome to the Lux Industries Limited Q4 FY21 Earnings Conference 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. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 from Lux Industries Limited. Thank you and over to you sir.

Saket Todi:

Good afternoon and thank you everyone for joining the earnings conference call to discuss the performance for the quarter and full year ended 31st March, 2021. Along with me, I have Mr. Udit Todi – Executive Director, our CFO, Mr. Saurabh Bhudolia and SGA – our Investor Relation Advisors.

I hope you and your family are keeping safe during this tough time. The second wave of COVID which started in the first quarter of FY22 has been more severe than the last year. We at Lux Industries understand the importance of following the necessary COVID protocols issued by the authorities and we extend full cooperation in the fight against COVID. Our employees have been made aware of the need to adhere with these guidelines undertaking all the precautions.

We are pleased to report the resilient performance for the quarter gone by. After the initial challenges posed by the restrictions and lockdowns at the start of the year, we have bounced back extremely well to cover the lost ground but also outperform last year numbers as well. The performance has been majorly driven by progressive improvement in demand and consumption across the innerwear industry. We've witnessed healthy traction for our economy and mid-premium categories and saw a gradual pickup in our premium and export segment. While demand remains strong, the supply situation over the next few months is likely to be adversely affected, impacted by the disruptions from COVID-19 lockdowns in India. But we expect it to be better than last year as businesses are more prepared than last year and the lockdowns are restricted to certain states and not the entire country.

We expect Quarter 1 FY22 to be relatively weak due to the pandemic and expect to improve gradually from the second quarter. We will remain well equipped to address these challenges and drive consistent competitive and cash accretive growth over the medium to long-term. The innerwear industry is constantly evolving and we have always been at the forefront of this evolution, having implemented innovative ways offering differentiated products in the market by undertaking breakthrough marketing and brand promotion activities. Our commitment towards addressing environment, social and governance related issues has been unparalleled.



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We understand the need of a sustained progress of society to pursue the long-term goals that are beneficial for the community and helps us to make a difference in society by giving back in equal measures.

Coming to our performance for the quarter and the year ended 31st March 2021:

FY21 net revenue is up by 17% to Rs. 1,965 crores whereas for the Quarter 4 FY2021 is up by 49% to Rs. 601 crores, highest ever quarter in the history of Lux. Between the categories, premium segment has registered a total growth of 48% whereas mid-premium and economy has registered a growth of 42% and 59%. Overall volumes for FY21 and Quarter 4 '21 increased by 13% YOY and 29% YOY respectively which was well above the industry average.

Given our steady increase in volume and other strategic initiatives we have been able to increase our market share during the year. Lux enjoys approximately 15% market share in the organized men's innerwear category. In line with our guidance for advertisement and the marketing spend for FY22, our spending for the years stood at Rs. 106 crores which is approximately 5.4% of the total revenue. We expect to gradually reinstate and make it back to 7% of our revenue for the current financial year. With this I will now ask Mr. Udit Todi share his thoughts.

Udit Todi:

Hello, good afternoon and a very warm welcome to everyone. I hope everyone is keeping safe and healthy during this situation. I am glad to share that during Quarter 4 FY21 we have completed the merger of J.M. Hosiery Company and Ebell Fashions Private Limited with the company Lux Industries Limited. The merger of these two companies with Lux will strengthen our presence across geographies and product category and bring in a lot of operational and financial synergies.

Our company has posted robust performance for the year ended 31st March '21 despite COVID19 pandemic induced challenges. Also, with the completion of merger we are reporting the merged financials for FY21 as well as FY20. Besides, these companies will also help us strengthen our post-merged business model. J.M. Hosiery & Company Limited with the brand GenX and others, while Ebell Fashions Private Limited with the brand Lyra. Their coming into Lux's umbrella will strengthen our overall portfolio. This in turn will help us leverage our men's innerwear portfolio with a value-added women's wear portfolio which will make it possible for us to carve away a larger share of the overall wardrobe spending. This merger will also help to unlock substantial value for our stakeholders and streamline the business as well as help us to achieve a newer growth trajectory.

Our EPS post-merger FY21 stood at Rs. 90.25 versus Rs. 48.66 pre-merger state last year. We have a strong presence in Central, Eastern, Northern and Western parts of the country and our plans to foray into Southern region of India very soon. The region-wise revenue contribution as of now stands at Northern India being about 30%, Eastern India about 28%, Western India 21%, Central India 18% and South India 3%. While revenue split from segment stood as follows, mid-premium contributing 57%, economy about 31% and premium about 12%. Lux which is a



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dominant player in the men's innerwear segment is also accelerating its growth driver via new expansions to capture market share in the ladies and kids' segment.

With the business of GenX and Lyra getting merged into Lux, the company will have a larger product offering that also offers premium innerwear under the brand ONN and One8. Post-merger Lux Industries Limited would be among the top company in terms of volume pan-India wise reaching up to 300 million pieces for FY21. Online sales, which has more than doubled in the last few quarters and continuously showing this same growth trajectory and is expected to reach the Rs. 100 crores mark within the next 3 to 4 years. EBOs, under the name of Cozy World are the new offerings which will again help us to accelerate and achieve our vision.

In working capital side, we have been able to continuously optimize our working capital cycle days. For the year ended '21 our working capital days stood at 122 days, a significant improvement of 38 days over the last year. We continue to maintain our net cash company status and have a gross cash and cash equivalent balance of Rs. 261 crores. We believe despite the challenging situation caused due to COVID19 your company has demonstrated superior execution during the recent past and has successfully leveraged the power of our brands and our distribution network to sail through these tough times. We have always strived to make our product available with speed so that they are always available on the shelves when the customer needs them. This has been able to be achieved with a 95% fill rate versus an industry average of 80%.

With this I would now request our CFO – Mr. Saurabh Bhudolia to take you through the financial performance.

Saurabh Bhudolia:

Thank you Udit ji, hello everyone. A very good afternoon and a warm welcome to all. Our company reported a strong performance for the quarter and full year ended 31st March 2021.

Our revenues for Quarter 4 FY2021 stood at Rs. 601 crores versus Rs. 404 crores registering a stellar growth of 49%. Our EBITDA has stood at Rs. 129 crores as compared to Rs. 66 crores in Quarter 4 financial year 2020, a strong growth of 95%. We have been able to improve our EBITDA margin by more than 500 basis points so current EBITDA margin percentage is at around 21.45% as compared to 16.4% in Quarter 4 2020. Our PAT for the quarter stood at Rs. 91 crores versus Rs. 41 crores in Quarter 4 last year which registered more than double growth of 118%. PAT margin for the quarter stood at Rs. 15.07% showing an improvement of more than 470 basis points as compared to last year same quarter.

Moving to our yearly performance:

Our revenues stood at Rs. 1,965 crores vis-à-vis Rs. 1,674 crores. We are happy to share that we have registered the highest ever revenue in FY21, registering a growth at a rate of 17% over the same period last year. Our sales and marketing expenses stood at Rs. 106 crores which is approximately 5.4% of our revenue. In last 5 years we have invested around Rs. 641 crores to



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build our brand. EBITDA for current year stood at Rs. 393 crores as compared to Rs. 275 crores same period last year, growth rate at a rate of 43% YOY. The EBITDA margin has seen an improvement of 355 basis point which stood at 19.99% versus 16.4% in FY20. PAT for current year stood at Rs. 269 crores as compared to Rs. 177 crores last year FY20, growth rate at a rate of 52%. The PAT margin has also shown a big improvement with (+300) basis points as compared to last year same period.

Our return on capital employed also went up by 2%. Last year it was 34% where as in this year the ROCE is coming at 36%. As rightly said by Udit ji our working capital days reduced to 122 days as compared to 160 days last year, significant improvement by 38 days in the working capital cycle. The debt-to-equity ratio for the year stood at 0.13 multiple.

During the FY2021 company has generated an operating cashflow of Rs. 389 crores out of which around Rs. 66 crores we have been used for the purpose of CAPEX. Another Rs. 112 crores has been used to repay the borrowing. As on closing date, the net cash positive with company is around Rs. 138 crores with investment and the cash being invested in the bonds, the gross cash flow is coming at Rs. 261 crores.

Our prudent financial decisions have helped us reduce our debt and become a net cash positive company. Please note the numbers highlighted in the speech and the presentations are consolidated numbers, post-completion of merger with our group companies J.M. Hosiery & Company Limited and with Ebell Fashions Private Limited.

Now let me quickly give you an update on the dividends:

Considering the current pandemic situation, the Board of Directors of the company has decided to conserve the cash and postpone the decision to declare any dividend for the financial year ended 31st March 2021. Looking at how the pandemic situation will evolve; the Board of Directors would consider rewarding the shareholder in the due course of time.

Additionally, on implementing better compliance and governance we have continued our engagement with EY as our internal auditor and we have also inducted Economic Laws Practice, ELP as our compliance consultant for the purpose of indirect taxes. The journey towards to appoint a Big 4 is already on and we are expecting that Big 4 should be on board in the next 12 to 18 months.

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 Varun Goenka from Nippon India AMC.

Varun Goenka:

I have three broad questions. One like you said in your presentation 30 crores pieces around Rs. 1,960 crores revenue so our average ASP comes to around Rs. 66. I thought it will be good to have your view that how do you, based on the product mix and how do you see this ASP moving,



at what rate should it grow, that's one. Second in terms of our dealer throughput where are we today and where do you think because we are launching so many adjacencies of women's wear and kids' wear. Where do you think, this can go to? And final point our mix around top 8-10 cities sales versus the next 15-20 semi-urban, urban, rural however we be capture it, if we get that data?

Udit Todi:

You first mentioned about how the ASP would evolve in the coming few years. As we see that the product mix has now been changing with athleisure coming in, women's wear coming in. That is why a change in ASP has already been witnessed and going forward we are seeing that the yarn prices are on the high. The yarn prices are still on the increase so as the input cost increase our output cost will also go up which would result in a higher ASP which would be an organic growth in ASP. Apart from that also we are expecting that in the current fiscal year the ASP should go by about 5% and at the same time we will be also looking at a better product mix, if I talk a slightly medium-term to long-term, we would see that the product mix would be changing towards higher ASP products such as outerwear and garments. As the company goes ahead, we will be selling more of garment wear rather than innerwear which will gradually lead to a higher ASP inorganically also. Coming to your next question you had mentioned about the dealer throughput. So, in the earlier presentations we had mentioned that we are having about (+950) odd dealers which has now after the merger, and everything increased to about (+1150) dealers. So, as a company policy what we maintain is in any kind of a market we assess the market situation, what is the depth of the market, what is the requirement of the market and if we feel that we could get a better throughput by appointing a new distributor only then do we go and appoint a new distributor over there. So, that decision is taken on a market-to-market basis because in some markets the distributors and dealers are so strong that they can handle maybe all the two-three-four brands combined together whereas in certain markets; the markets which are very remote and maybe a Tier-III or a Tier-IV city over there you will have to depend on a single particular dealer so as to say. It truly depends on the market but yes going ahead we see that South India is one of the regions where the company is aggressively looking to market itself. That will be one area where we believe that inorganic growth in terms of sales, in terms of network and distribution, we will be seeing a good amount of sales going ahead from the South Indian market.

Varun Goenka:

Our sales mix towards however we capture metros, non-metros, semi-urban, urban, rural, if we have that?

Udit Todi:

We do not have that quite handy with us right now but we will ask our IR team to get back to you once we have the data with us. You have done a more of a geographical split and a category wide split, but I mean Tier-I and Tier-II split we do not have it handy with us. We will get back to you.

Moderator:

The next question is from the line of Bhargav Buddhadev from Kotak.



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- Bhargav Buddhadev:** My first question is that post-merger our revenue size has become close to about Rs.2000 crores. Do you believe that, at this time the acceptance of the brand amongst our customers as well as the trade channel can significantly improve and this in turn can help us push our new categories like the ones you mentioned like women's wear and kids' wear?
- Saket Todi:** Can you come again with the question again. Actually, it wasn't very clear.
- Bhargav Buddhadev:** I said that our revenue size is now close to Rs. 2,000 crores. So, given our size, do you believe that the acceptance of the brand with our customers as well as the channel partners can see a significant fillip and they can consider us more seriously given that we are now close to Rs. 2,000 crores and post this, will that be easier to push our new categories like women's wear and kids' wear more successfully?
- Saket Todi:** Yes, as we can see that in the last financial year there has been a very huge shift from the unorganized segment to the organized segment and the brand which has the most pull towards the consumers; consumers are opting those brands in the organized segment. We are seeing that the brand has a very strong acceptance in the organized market mainly towards the mid-premium and the economy category and out there we are witnessing a very strong growth which we haven't witnessed in the last few fiscal years as well as to launch new segments. So, we haven't concluded as of now that those new segments will be launched under the brand Lux or any other brand or it can be a new brand altogether in itself. So, we haven't concluded that and as it will get concluded then we can be able to give you a better picture that how that particular brand would be moving forward in this new segment.
- Bhargav Buddhadev:** The second question is on working capital. We have done a very good job in terms of reducing our cash conversion cycle to about 122 days in FY21. Now that we are a size to recognize that Rs. 2000 crores; do you think we can go aggressive in terms of improving this further and if so, what could be our targets that you are looking at in the next 2 years?
- Saket Todi:** For this financial year, I don't think so it would be possible to reduce the working capital further because as we are seeing the pandemic which is spreading out throughout the country. So, it would be very unclear for us as of now that where the working capital stand but our target majoritively would be to maintain the working capital as it was last year and for a long-term view over 3 to 5 years yes our target would be to reduce the working capital if the situation in the country remains normal.
- Bhargav Buddhadev:** My last question is on price hike. Do you believe that the inflation which we have seen in raw material has been broadly passed on to the price hikes or are we still in that journey of passing the entire inflation?
- Saket Todi:** Till now we have passed on whatever inflation has been taken place. We have passed on completely that to our consumers and it has been very well accepted in the market. The inflation started in the month of November and the price hike started soon in the month of mid-December.



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December-January-February-March there were different trenches in which the prize hike had been taken place and there has been no adverse effect because of that.

Moderator: The next question is from the line of Nihal Jham from Edelweiss.

Nihal Jham: First is if I look at the performance of the three categories that is in the premium, the mid-premium and economy; for the year as a whole we do see the divergence that economy has definitely outperformed. I know you have alluded to the fact that there has been a big shift of unorganized to organized. Other than that, anything worth highlighting about what has caused such a strong divergence specifically maybe related to the other two segments also?

Udit Todi: As you see during the last year, the COVID pandemic was in full swing and it was the rural towns which were doing, Tier-II-Tier-III cities were doing much better than the urban areas. When you look at the rural areas, the consumption is more for the economy products compared to the mid and the premium segment products. That is why, that is one of the major reasons because rural market being more functional and more operational, we saw a shift slightly the economy products fared well compared to the mid-premium and the premium products and that was primarily on account of (a) unorganized to organized shift and (b) on account of the rural demand. Going ahead as a direction we have always maintained that we are looking at increasing our portion of mid-premium and premium segment and if you leave aside this exception of the COVID year, if you look at the trajectory of the segment wise split we have fairly moved more so towards the mid and the premium segment.

Nihal Jham: Just a related question. This quarter's performance obviously includes the consolidation. If you were to compare this number to 2 years back not last year because last year, I know you mentioned there was an impact which happened and that sales got spilled over to May and June but compared to 2 years back how is the growth been this quarter?

Udit Todi: Right now, we are talking mostly on basis of the merged number because even the FY20 numbers were revised for a like-to-like comparison, we had revised the FY20 numbers again on a merged entity basis. Talking about any figure for the pre-merged basis we will ask our IR team to get back to you.

Nihal Jham: The second question was now with the J.M. and Ebell being merged and the process more or less clear. We also see that there is an addition to the board related to those company. But generally, as the new entity forms what is the potential structure? Do we expect that you would have separate brand heads for those new brands and what is it that would change now that it is a part of the Lux entity? I am just trying to think aloud that would the marketing spends potentially be higher or any other things that you would want to highlight post-merger?

Udit Todi: Post-merger, the directors have a very clear-cut role with regards to what brands they are looking after. So, even apart from being collectively together in a strategic decision-making process but on a day-to-day operational basis every director is taking care of a particular brand as per say.



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With regards to your marketing expenditure, last year we had seriously cut down on our marketing expenditure and this year we were kind of contemplating on bringing in back to normalcy but after the second wave of the COVID and supposedly talks of a third wave also coming in; we will be looking at revising our marketing expense down again this year. Yes, we have also added a few independent directors on board with us. I would just ask our CFO to take you through them.

Saurabh Bhudolia:

So, like this time Board of Directors has approved to take two independent directors on the board. One is Mrs. Ratnabali Kakkar, another one is Mr. Rajnish Rikhy. So, let me quickly take you through with the candidature of Ratna ji Kakkar. Like Kakkar is graduate in B. Honours from the University of Calcutta and she has done the Business Administration from IIM Calcutta. She has overall 40 years of rich experience in banking and financial services. She has taken the citizenship in London, based out in London and she has a very good relations with several banking factories based out in London and I believe she will add so much of the value in Lux by bringing the financial decision and to make it more governance and risk compliance company. Whereas Rajnish Rikhy, he is a law graduate and holds a Master degree Business Admin from Faculty of Management Studies, Delhi University. Overall, again he has a 30 years of industry experience in sales, marketing and so as other function. He has worked and advised clients across pharma, FMCG, education etc. He has also served as the Chief Revenue Officer at TV Today Network Limited, India Today Group. He was also associated with the Times Group as Director Response and he also served as the group CEO and Business Director at Kantipur Media. I believe the company is moving towards to pick the further state to professionalize the entire culture and the way of working. It should be more corporate governance, risk control managed company and with this I believe once these two luminaries will be on the board, it will really help company to scale up further.

Nihal Jham:

I actually had my last question on this incremental aspect of corporate governance. It's a commendable part you mentioned that you are looking at appointing one of the big four auditors also. As a timeline, isn't there a possibility that in the upcoming AGM you can change the auditors or there are certain other processes because of which you are giving 12-to-18-month timeline?

Saurabh Bhudolia:

Nihal like on this AGM if you are asking me specifically could be very difficult because just few months back, we have started our journey. We are fixing the entire process and the system and I believe on a shorter view it will not be before 12 months and on a larger timeline, this is not more than 18 months. Between 12 to 18 we are very confident that the Big 4 will be on board.

Moderator:

The next question is from the line of Ajay Khandelwal from BOI AXA Mutual Fund.

Ajay Khandelwal:

I wanted to know with the kind of changes that we have done in our supply chain and considering that our fill ratio is highest in the industry; what kind of working capital we can expect and



maybe qualitatively if you can highlight how we have achieved this and how is trade has responded to this, how is competition responded to this, that will be helpful to understand?

Udit Todi:

As a company policy we have looked at, even in during the last four to five con-calls we have always mentioned that we are looking at bringing on our working capital days. There were a couple of levers which we have used to bring it down. IT has played a very important role in fact in bringing us down. We have invested a lot of time and effort in setting up our IT team. All our dealers and distributors have now access to their set of accounts on their mobile phone itself. So, that was one very big lever and on the other hand, even in terms of credit period days the company has become more strict with terms to credit days. Earlier, the company was slightly more flexible but over a period of time we have gradually reduced the credit days because a good amount of brand pull is now there in the market for our products. So, even the dealers are now reducing their credit days and they have been paying up quicker. That was one of the major factors. The other factors if you also see that, there has been slight change in the credit outstanding days for our vendors because we believe that we do not want to increase our working capital efficiency by penalizing our vendors. Thirdly if you see our stock turn ratio has seriously increased. We have been able to manage our stock more efficiently. On basis of these two or three grounds we have been able to reduce our working capital days. Right now, the current situation it is difficult to project how this year will play out with regards to working capital, with regards to going forward how the performance plays out but going by the experience which you had last year as soon as the markets open up; we see that our products are one of the basic necessities which the customer needs. So, when it comes to apparel, vest and brief is one product that you cannot postpone the consumption of. Given our past experience we are optimistic about the way going forward but quite difficult to say how the year plays out. I think we will be able to project it better at the end of Quarter 1. Once we meet again for the Quarter 1 con-call we will be able to give a clearer picture with regards to that aspect.

Ajay Khandelwal:

I am trying to understand from the perspective of not compromising on our fill ratio. Will these levels be sustainable and if competition extends credit period then do we need to change our course?

Udit Todi:

No, not at all. We believe that even 122 working capital days is, we believe that it's slightly on the higher side and if I talk about medium to long-term, we will be willing it to reduce even further from here. And talking about competition, see every brand has their own brand strength and brand pool in the market. We believe that the brand equity which we have enjoyed right now, the amount of money which we had invested in branding over the last 4-5 years. This is the time to reap the benefits and we believe that any effect of competition extending their credit period will not have any impact on our credit outstanding. In fact, I think it even works out to better because if the competition ends up giving more credit your stock turn increases even better. It always works out. It's a very counter-intuitive fact but in case the competition increases that credit period turns out to be favorable for us.



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- Ajay Khandelwal:** In our journey of branding where are we? What kind of expenses we are looking at as we are to the largest competitor in the industry? Our ad expenses are far higher so where are we in terms of developing our brand and in terms of because we are changing our product mix moving towards more value-added high premium brands? So, where are we in that journey?
- Udit Todi:** I am sorry could you please be a little more specific as to what exactly do you want to know.
- Ajay Khandelwal:** What could be our brand expenses to sales and where are we going to spend and put our energies?
- Udit Todi:** At the company level historically, we have maintained an average of 8% of our top line as brand expenditure. Last year was an exception, because of the situation we had brought it down to 5% and this year again we will be reviewing it whether to maintain at 8 or may be bring it down to 6% to 7% and the way this ad expenditure budget is split across different brand depends upon different kinds of market situations and the company's policy as a whole. So, as you very correctly mentioned we are looking at preimmunizing our product portfolio from economy to mid and from mid to premium. The company spends more on their premium and mid-premium offerings rather than the economy offerings.
- Ajay Khandelwal:** Any kind of margin pressure do we expect in near-term in terms of raw material prices?
- Udit Todi:** Wherever the raw material prices increase the company always ends up passing it on to the consumer and we have done that historically, we have done that last quarter, last to last quarter and we will be doing it again. Our margins do not get affected by any inflationary pressures on the input side.
- Moderator:** The next question is from the line of Ankit Kedia from Phillip Capital.
- Ankit Kedia:** My first question is on the ASP. If I look for the full FY21, the ASP increase in premium was normally at 10% vis-à-vis 6% but in Quarter 4 the price increase in premium is 12% vis-à-vis 18% in economy. What would be now the absolute price differential between economy to mid-premium to premium category now, first. From a customer upgrade perspective, right? What kind of money does a customer need to spend to upgrade from economy to mid-premium for us?
- Udit Todi:** Generally, what happens is, whenever the input cost go up, the percentage of cotton in the entire product is obviously more so in the economy products and as you move up the ladder the percentage contribution of the raw material drops down because your margins increase. So, whatever inflationary pressure is there is definitely passed on to the consumer.
- Saurabh Bhudolia:** So, Ankit, like rightly said by Udit ji. Again, the question what you are asking like how much the extra bucks, a customer need to incur while moving from one basket to another basket, right? So, if you will see my average pricing for the premium products say like ONN or One8, it is coming in the range of around Rs. (+150) where as my economy range starts from say Rs. 30-35, still say Rs. 60-70 types. It all depends in which product we are buying, which kind of category we are buying otherwise the difference between the economy and the premium would



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be very significant. There is a range of around Rs. 30 to Rs. 80 in economy where as premium starts from say around 150-180-190-200 types.

Ankit Kedia: My second question is regarding GenX. Now if I look at JMHL had a Rs. 300 crores top line which got merged but if I look at the athleisure part of GenX is only a Rs. 100 crores business. So, the remaining Rs. 200 crores of business of this company predominantly lies in which brand or which category if you can help us understand because our understanding was bulk of that business is actually Athleisure and GenX.

Saket Todi: Actually, the business in JM which was majoritively under the brand GenX we have done a brand restructuring which started last year and which is continuing for this year and will go ahead for the next year as well. So, it's a complete 3-year project and in that project we have restructured many of our products under the GenX brand to come under Lux Venus and Lux Cozi because we have believed that such product can have a better pull in the market as they are dedicated to such kind of consumers which are very well attracted towards the Lux brand. So, Lux Venus, Lux Cozi and Lux Karishma are the three brands which are carved out of the business of JM and GenX which is mainly the athleisure in it has total revenue of around Rs. 103 crores and out of it is majoritively dominated by the athleisure and the total athleisure wearing in the company which including GenX, Lyra, ONN and One 8 is approximately Rs. 150 to Rs. 160 crores.

Ankit Kedia: My last question would be on the margins front, now with the merger coming in do we expect any merger synergies to come in given that as you just said that in GenX brand have been restructured some of the existing brands in the company. They could be HR, advertising overlap which could have happened, so the 20% margins which we saw this year given that the A&P spend was lower and even in FY22 you're guiding for lower A&P spends. Can we safely assume if the commodity price inflation remains the way it is we will be able to achieve the 20% EBITDA margins even in FY22?

Saurabh Bhudolia: The thing is that definitely as rightly asked by you this merger is going to bring some level of the synergy on the table. We are also expecting the way we have restructured the brand and the way we have seen the sales go on to double, other aspect of the business we are expecting around 150 basis point kind of margin improvements should be there for the current year. And like last year we have a spend around 5.5% in advertisement but few minutes back as we clarify that this year again that advertisement cost can bounce back to around 7%. It may offset to my incremental margin, so EBITDA definitely we can maintain at the same level.

Moderator: The next question is from the line of Shalini Gupta from Quantum Securities.

Shalini Gupta: I wanted to check with you, say last year lot of the economy business was driven by rural sales and now this year we have a situation where rural sales have impacted because of far higher COVID impact over there. Also, now in the rural India there is lot of lockdowns and all that which were not there last year. Also, we have a high base of rural last year in terms of income.



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What is your outlook in terms of top-line growth going forward as in which segments do you see pushing your growth in the future in financial year 22?

Saket Todi: So, for the rural-urban share, the rural has approximately 70% of the market share and the urban has around 30% of the market share. Now coming that the rural demand would be weak what we have deciphered since the last 12 months that because of COVID the unorganized production is getting shut down and that production benefit has been taken place by the organized sector. If even if the demand is going down by a few basis points the production or the supply in the economy segment which is towards the rule areas, rule part of the country is getting down by a much further basis. That is why there is a new market being created new consumer segment being created in the rural economy and the brand which has the most hold in the organized sector will benefit out of it.

Shalini Gupta: So, since you restricted the number of questions to, the couple of like some data points which you had mentioned earlier in the presentation you said economy segment grew by 42% correct?

Saket Todi: Yes.

Shalini Gupta: Mid and mid-premium segment?

Saurabh Bhudolia: So, economic segment has grown at a rate of 30%. That is a complete sales growth for economic. Mid-premium is around 13% and premium is 7% that is for the year. Economy has grown by 59% in the quarter, mid-premium is 42% and premium is 48% put together the total growth for the company is coming at around 48% to 49%.

Shalini Gupta: So, what was the volume growth?

Saurabh Bhudolia: The total volume growth for the quarter is around 29% to 30%. Balance is because of the price growth and the mix.

Shalini Gupta: I wanted to ask you basically you have seen a huge jump in your gross margins, so how much would you about 10% is because of price increase and the rest is because of mix change?

Saurabh Bhudolia: Right. Even if you see my presentation, we have factored at around 13% to 14%, we have gone the price hike since Quarter 4 and balancing because of the change in mix. That has given me a leeway to have my margin more stronger as compared to last year same quarter.

Shalini Gupta: My last question, what is your raw material outlook?

Udit Todi: The raw material prices right now because majority of the raw material comes from Tamil Nadu and Gujarat, so Tamil Nadu again is a state which is under complete lockdown right now, Gujarat has just opened up. But you know talking to the people in this industry and the people those who are in the yarn manufacturing, we get a sense that the raw material prices are on the inflationary side they are growing once the market opens up we expect the raw material prices to go up. As



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we have always mentioned, and we will mention it again that if we face any increase in raw material prices we increased the price of our products pass it onto the consumer and maintain our margins impact.

Moderator: The next question is from the line of Punit Mittal from Global Core Capital.

Punit Mittal: My first question is related to your advertisement and branding spend, how much off of the total amount that you spend as a percentage how much is going towards the new gen digital advertisement in terms of advertisements on Facebook, Instagram and so forth?

Udit Todi: So, from this year as you mentioned one of our focus areas is growth coming in from our e-commerce sales. We are getting our webpage and we are getting our every platform ready and along with that we'll also be looking at increasingly spending on the digital platform. So, right now most of our sales are happening to third party websites like Flipkart, Myntra and Amazon. So, whatever e-commerce sales we get the company spends roughly about 5% of sales from the e-commerce platform in the digital advertising space and going ahead we believe that we are looking at a very high growth rate coming in from the e-commerce sector and therefore we will also be considerably increasing our Ad spend, diverting more of our ad spend towards the digital space because that is where we believe that the future lies.

Punit Mittal: And a related question on that, you have highlighted historically you spend about 8% of the revenues on advertisements and branding. Now given the base is already large of Rs. 2,000 crores right now and going forward as you grow the base becomes even bigger and also the fact that we mentioned that you do enjoy very big brand, pulling brand equity in the market at this stage. So, given these two factors do you think, how do you explain that 8% which is quite a sizable number and as a base effect goes higher, it's a large number to spend also given where the competition is. How do you explain that and do you really think it's necessary for the company to spend that a higher number in terms of advertisement?

Udit Todi: The position that right now we have reached about roughly Rs. 2,000 crores in sales and one of the major reasons for us outperforming our peers in the market was because we've always invested in our brand building exercise and whatever brands that the company now has under its belt, every brand if you see is set to reach the Rs.500 crores mark and become a Rs.500 crores brand. All of this is only achievable on grounds of spending your Ad expenditure on maintaining the brand building exercise. So, that is one area where we believe that it is more so often investment rather than an expenditure and over the past 5 years we've always invested in our brands and we believe that it's a number which has already been factored into our costing and into our margins. So, going ahead it should be somewhere in the similar zone.

Punit Mittal: My second question is regarding your push into the Southern region of India, so is there any specific strategy that you're adopting for the Southern market because a new region for you and what are the challenges that you see for you to penetrate deeper into that?



- Udit Todi:** So, see the South Indian market if you see is a very peculiar market it behaves very differently from Northern India because there is a language barrier the entire North India speaks and understand Hindi and English as a common language but when it comes to South India all the four states of South India have their own regional languages and Hindi is not quite popular over there. So, that is why our advertisements kind of do not make a mark in the South Indian market. So, yes, as a strategy from in the next we believe in the next 2 to 3 years we'll be kind of investing in local advertising, adopting more of the local strategy to penetrate that market. They are having local pocket players in every state and we believe that the company has always been very-very strong in its marketing strength and marketing team. So, with the required amount of effort dedication and advertisement we will be able to correct that market.
- Moderator:** The next question is from the line of Arpit Shah from Stallion Assets.
- Arpit Shah:** I just had like three questions for you, if I look at the Leader. Leader is getting aggressively on the rural front with the new portfolio, how do you look to defend that such a player in that kind of a market? And if even if I look at all other player let's say Rupa or Dollar are all focusing on expanding distribution, they are focusing on premiumization of the portfolio. So, how do you differentiate yourself from that competition?
- Saket Todi:** See the most differentiating factor is a brand which is not available with our competitors and as we see that in the market and the research which we also conduct in the market that our brand has been projected as the most pull brand. So, we believe that this is a USP which we have which our competitors don't have. Because that is the reason, we have been able to lower our debtor days in the market and our distributors are paying up pretty faster than that of our peers.
- Arpit Shah:** As I look at your sales mix this year, we have seen a big jump in the economy segment and despite that you've seen a big jump in margins and which is broadly matching to the Leader. So, where do you see, the margins going let's say in the next 3 to 4 years, we are broadly 20% to 22% let's say for Quarter 4. So, where do you see it going in the next 3 to 4 years qualitatively?
- Saket Todi:** For the current financial year our target is to maintain the last year financial year margin which is approximately 19.99%. Because we see a good improvement in the gross margins which can be adjusted with the margins going down due to advertisement, so the net margin should remain the same.
- Arpit Shah:** If you can just provide some color on how the working capital can move in the next 3 to 4 years, we are broadly at 122 days right now. So, how do you expect in the next 3 to 4 years what would be the trend be like?
- Saurabh Bhudolia:** What we see that anyway in last 12 to 18 months we have worked very rigorously to bring down our working capital cycle and by seeing the current pandemic it is not advisable as well as we are not taking any aggressive decision for the to reduce our working capital at least for this year. It would be very unfair if I can say anything immediately that's how it will look like after 2 to 3



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years because I believe we should wait for some time let this pandemic get over. Our economy should get stabilize, we should be back to the normalcy and then we will rethink and replan our working capital cycle as strategy.

- Arpit Shah:** What would be the reinvestment plans going forward? Given the cash that you have generating around Rs. 350 to Rs. 400 crores, what would be a typical reinvestment plans going and would you be spending on brands, would we be spending on capacities, would you be spending more on promotional advertising more, how's the reinvestments would look like?
- Saurabh Bhudolia:** So, the cash can be mainly used for two-three different purpose, like as you rightly said a part of the cash can be used for the purpose of expansion. Definitely a substantial chunk of the money should be used for the purpose of rewarding the shareholders, who has actually put their hard-earned money in the company to get into the growth path. So, I believe these are the two-three verticals where definitely companies evaluating that how and when how much the investment can be done.
- Moderator:** The next question is from the line of Sufiyan Lakdawala from Lalkar Securities.
- Sufiyan Lakdawala:** So, company has a CAPEX plan of Rs. 110 crores expansion plan, so will it be towards which products segment?
- Saket Todi:** The majority of the CAPEX will be dedicated towards economy in the mid-premium segment because as currently we are seeing that the demand in the economy in the mid-premium segment is so strong that it might not be possible for us to cater to the whole demand in the market. So, our immediate requirement would be to set up the CAPEX for economy and the mid-premium segment.
- Sufiyan Lakdawala:** So, what will be then your total capacity, can you give segment wise?
- Saket Todi:** The total capacity would be very difficult to predict as of now because the CAPEX is the factory is still under construction and take at least next 12 months more to completely start up with it, but majoritively will be dominated by the economy and mid-premium segment.
- Sufiyan Lakdawala:** The total is will be Rs. 110 crores CAPEX for FY22?
- Saurabh Bhudolia:** It will be over a period of 12 to 18 months, the CAPEX we have already started incurring the CAPEX, but I believe I think the current pandemic it may be delayed by around 3 to 6 months. So, there will be a spillover to FY23 as well. But the company is not holding the entire project, as and when one of the facilities will be up and running, we will start using that facility.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Capital.
- Shirish Pardeshi:** I have got two-three questions, when I refer your slide 35 and which says that your ASP growth is 13% while in reality the yarn prices has gone beyond. So, would you be able to help me to



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understand what is the weighted inflation we are facing and what extent we have taken the price increases or is there any more price increases are in pipeline?

Saket Todi: Actually, whatever there's an increase in the yarn prices that doesn't reflect the increase in the price of the product totally, because there is a percentage of the yarn which goes into the production. Other processes which is, stitching, dying, bleaching, cutting, packing and all other overheads are also a part of the product. So, according to the yarn prices increment there has been an increase in the actual costing of the product by approximately 13% and for which the increase in the cost we have taken place.

Shirish Pardeshi: You mean to say that if I understand correctly the current inflation is 13% which is weighted and you have taken a complete pass on, if there is further price increment, we will wait for another price increase?

Saket Todi: So, that completely depends on the yarn prices, how would they act after the Tamil Nadu market is open? It completely depends on that but what we are seeing and what we are hearing was around is that there will be again an increase in the yarn prices, so there will be a further increase in our sales price.

Shirish Pardeshi: You did mention in the beginning that FY21 volume was 300 million pieces.

Saket Todi: Yes.

Shirish Pardeshi: So, does that include the two merged entity or it is outside?

Saket Todi: Yes. It includes all, Lux includes now everything.

Saurabh Bhudolia: So, it's a number of the complete consolidated Lux Group of Companies – Lux, Ebell, JM and Artimas.

Shirish Pardeshi: Would you be able to split like you gave me a split of revenue by segment which is premium, mid-premium and economy for value, can you split that 300 million pieces for volume also?

Saurabh Bhudolia: So, in the percentage terms it's already there in the deck, if you see like the volume percentage between premium, sub-premium and economy it is there on the slide number 20. But it is just from the growth perspective. If you need the absolute number definitely my IR can provide those numbers to you.

Moderator: The next question is from the line of Nikhil from SIMPL.

Nikhil: I have two questions; one is if you look at our realization it comes to around Rs. 66 per piece, so is on the total sales and volume. Now if you have to move on the higher price band then our premium brands like ONN, One 8, Lyra and some of the thermals and all have to contribute. Thermals has grown very strongly, on ONN and if you look at the trajectory of the brand ONN



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and Lyra and all how do you see the growth for brand ONN and for Lyra? If you look at there is lot of competition, even organized unorganized and even the listed player both are also there in the legging segment. How do you see overall price range moving up for Lyra and connected question is if you look at our P&L based on the annual report for Ebell which we had shared or the Ad spends and promotion is almost 12% to 15% of sale? Would you say that the quantum of investment which were doing behind Lyra will sustain or would that also come back to 7% to 8% which we are guiding for the company level. If you can just help me on these two brands because these will drive the premium journey a lot.

Udit Todi:

As you had mentioned, so last year was an exception because of the COVID scenario in which we had seen a slight decline. In Lyra we were able to capture 90% of sales of what we did in the corresponding period last year. So, because as you know in the COVID scenario women's wear all across the economy whether it is apparels, whether it is cosmetics, whether it is any other segment as products being consumed by women has taken the majority of the hit. So, even despite that situation we were able to recover 90% of our sales which we believe was also commendable tasks and going ahead as you mentioned, right now about 80% to 85% of our sales is being driven by the legging segment and going ahead, we are expanding more so in the athleisure for women under the same brand Lyra and also in the innerwear space which is lingerie for women. So, these are the two areas which are our focus areas for growth within the same brand and we believe those are the areas where we will be able to build the brand better and at the same time get better margins and better ASPs. So, our products in the athleisure and in the innerwear, segment are already out there in the market and they are doing quite well. It is just that in the next maybe 2 or 3 financial year, we'll be able to ramp it up and maybe multiply 2X every year. That is what we're looking at when it comes to the brand Lyra so we believe that in the next 2 to 3 years will be see a good major driver of the growth coming in from Lyra and as well as ONN is concern again if you see make in exception of the last year if you see the last-to-last year the growth has always been there in the premium segment. Again, even within the portfolio of the ONN athleisure as a category has been doing quite well and performing quite well. So, these are the reasons I believe that the ASPs will be higher and at the same time it will be one of the major growth drivers for the company. I believe I've been able to answer your question.

Nikhil:

So, just two things, one is since we are adding more product lines behind Lyra so the investment behind Ad spends and promotion which was like clearly higher compared to our company average of 12% to 15%.

Udit Todi:

I'm just cutting you in between but we believe that even if you look at the balance sheets of Ebell Fashions which was mainly Lyra our Ad expenditure has in fact been at par with what we do in Lux which is about 8%. In fact, it was slightly lesser than 8%, it was about 6% to 7%. So, we believe that 6% or 7% even during the current financial year is what we are guiding as advertisement expenditure and our Ad expenditure will remain in the same category.



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- Nikhil:** If I'm not wrong the number from the annual reports which I get, the Ad spend, and promotion was around Rs. 30-40 crores on a top line of Rs. 200 crores to Rs. 300 crores. This is based on the annual reports which you have filed, probably I can take this off-line.
- Udit Todi:** Between which financial year?
- Nikhil:** From '18 to '20, '21 number we don't have.
- Saurabh Bhudolia:** We are taking these questions.
- Nikhil:** I will take it offline. Second question was as you mentioned that on the unorganized side as you said that in the rural, many of the plants have been shut down and supply is a major issue. Over the last one year what we have seen is we have done a great job in reducing our working capital but even for our listed competitors they've been able to do a decent job in reducing the net working capital days. One thing which you mentioned that even if the player or the unorganized regional or the competitors even if they increase the credit period it will be beneficial for us. I didn't get it intuitively if you can just spend some time and help me understand why it should be beneficial? I would have thought that the distributor would be like going for a product where he's getting a more credit period or probably better margin.
- Saket Todi:** It is a completely market driven strategy and it's a marketing call. So, what happens is, it is not that whoever is giving maximum credit period his products will get sold first. It is always what the customer is demanding in the market what gets sold. If the customer comes and demands that I want a particular brand called Lux from the market, so the distributor will always have to supply that brand first. So, the credit period is a direct function as to what your brand pull is. That is already mentioned that even after we have reduced our credit period in the market and you know if the competition reacts whatever way it will not affect our brand pool in the market. Because ultimately when the customer is coming into the shop and asking you for the particular branded product that retailer as well as the distributor has to supply that particular brand and that is how the marketing always works.
- Moderator:** Thank you ladies and gentlemen due to time constraints we will take that as the last question. I would now like to hand the conference over to Mr. Udit Todi for closing comments.
- Udit Todi:** I would like to take this opportunity to thank everyone for joining this call. I hope we've been able to address all your queries, for any further information kindly get in touch with Strategic Growth Advisors those who are our investor relations advisors. Thanking you once again for participating in the call.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Lux Industries Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.