“Lux Industries Limited
Q2 & H1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Lux Industries Limited Q2 and H1 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the 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, Promoter and President, Marketing of Lux Industries Limited. Thank you and over to you Sir!

Saket Todi: Good evening and a very warm welcome to everyone. I hope that everyone is keeping safe and healthy during this pandemic. Along with me, I have Mr. Udit Todi, Mr. Ajay Patodia and SGA our Investor Relations Advisor. I hope you have received the result and investor presentation by now. For those who have not, you can view them on our website. I am happy to share that your company has delivered another quarter of steady performance in the backdrop of the continuing macroeconomic challenge on an account of COVID-19 pandemic and nation wise lockdown thereafter. For the half year gone by, we witnessed several structural changes across the industries both in Indian and international markets and innerwear industry was no different.

The Indian innerwear industry has been continuously evolving and there has been a structural shift during this pandemic. Customers are becoming more informed about the use of branded quality products, which helping us penetrate better not only in the organized market, but also gain share from the unorganized sector. We are seeing significant green shoots in the tier 2 and tier 3 towns, which continue to outperform the metro cities. Youth residing in metros and mini metros were mostly working from home has started engaging themselves with premium wear innerwear and active wear products with significantly led to the increase in the volumes of branded and the comfortable innerwear products.

In addition to that we saw significant demand coming from e-commerce space as compared to the previous quarters. With this behavioral and preferential shift coupled with good winter wear product off take, we have been able to grow our revenue for the quarter by around 9% compared to the same period last year. Going ahead, we expect a larger share of pie from the branded players and expect to outperform the industry trends.

Now coming to our company, over the years we have undertaken several initiatives to improve of getting efficiencies and optimize costs, which is helping us yield stronger results and constantly outperform the industry standards. Our state of art facility, strong product portfolio management quality products, as well as innovation in products and services has helped us to meet customer expectation even in the difficult business environment.

Now I would also like to share an update on our winter wear segment, which had also witnessed strong volume growth. We have a wide range of winter wear products, which are available at retail points spread across India as well on several online platforms. Our winter wear product endorsed by Mr. Kartik Aaryan and Mr. Amitabh Bachchan as a good brand recall, which is helping us to off take the winter wear product despite the cuts in the ad spend, which is by around 3% to 4%. We are on track on of maintaining our advertising marketing expense of around 4% to 5% for the full year ended March 2020-2021. With this I will now ask Mr. Udit Todi, who is heading the strategy for the company to take the speech forward.

Udit Todi: Good afternoon and a very warm welcome to everyone. We had witnessed a strong growth during the quarter and our results demonstrate the growing profitability despite unprecedented situations rising due to COVID-19 pandemic and its repercussions. However, the latest news of Pfizer COVID-19 vaccine to be 90% effective has given us new hope in fighting the pandemic soon. We have always believed in constantly evolving and adopting ourselves with ever changing environment by taking several strategic initiatives. Our initiatives involve brand building and strengthening of our product portfolio, implementation and adoption of latest technology in our manufacturing processes to improve quality, which has helped us to stay ahead of the curve in this industry and which is clearly reflected in our Q2 results.

Despite being present in an industry where there are larger number of unorganized and small scale manufacturing units, we have been able to establish and leverage our parent brand Lux in a way that we are not only been able to gain market share from unorganized sector, but also penetrate in the organized space. 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. Our distribution network of approximately 950 distributors has helped us in last mile delivery of our products during this lockdown. Going ahead, it will be our effort to further invest and improve our distribution and reach in our country.

Now coming to our working capital cycle, our endeavor to optimize our working capital has started reaping benefits. For the half year ended September 30, 2020, our working capital requirement reduced by 86 Crores and is now standing at about 413 Crores compared to 499 Crores on September 2019. We also reduced our debt and as of now become a net cash company. During Q1 of FY2021, our export market was impacted due to supply chain disruptions; however, in Q2 FY2021 we saw some encouraging responses on the export front and expect export trade to return to normalcy in coming few quarters.

We continue to engage with our customer through various social media campaign and advertisements and carry out various brands building activity, which has helped us in maintaining strong brand recall and loyalty. We believe that with the compliment of improving exports, traction in e-commerce sale, better product mix, celebrity endorsements and high-quality products should further enhance our revenue across segment. We expect the second half of the year to be better in terms of revenue as well as profitability compared to the first half. Our proposed scheme to merge J.M. Hosiery and Ebell Fashions Private Limited with Lux Industries Limited is on track. Post our merger, we believe to further strengthen our position not only in terms of growth, but also in terms of product portfolio reach and efficiency of our balance sheet, which will ultimately benefit our stakeholders at large.

Now, I handover to our CFO, Mr. Ajay Patodia to provide you an insight of our financial performance.

Ajay Patodia: Thank you Udit ji. Besides uncertain economic condition, our company reported a strong growth for the quarter and half year ended September 30, 2020. Our revenue for quarter stood at Rs.388 Crores as against Rs.355 Crores registering a growth of 9% compared to same period last year. This is mainly attributed to high volume growth in winter wear made premium and premium product category. Our EBITDA for the quarter stood at Rs.74 Crores registering a growth of 37% as compared to Rs.54 Crores during the same period last year. Our EBITDA margin stood at 19.1%, which have seen a significant improvement of 380 basis points year-on year, which was majorly attributable to better product mix and product cost rationalization measure undertaken by us. Our PAT for the quarter stood at Rs.51 Crores registering a growth of 25% as compared to Rs.41 Crores during same period last year. We have also seen an improvement in PAT margin by basis point to 160 basis points driven by our business efficiencies. We have reduced our working capital cycle over the last year. This has helped reduce our interest cost as well. Our interest cost for the quarter stood at Rs.2.3 Crores only. The revenue of J.M. Hosiery Limited is Rs.91 Crores in Q2 FY2021 while Ebell Fashion revenue stood at Rs.53 Crores. Now coming to our half year performance, our revenue for H1 FY2021 at Rs.635 Crores as against Rs.618 Crores for the same period last year despite demand uncertainty on an account of COVID-19 pandemic and nationwide lockdown, which led to a significant loss of revenue and profitability we were able to register a revenue growth of 3% year-on year basis. EBITDA for H1 FY2021 stood at Rs.121 Crores as compared to 90 Crores in H1 FY2020 signifying a strong growth of 35% year-on year, the EBITDA margin significantly improved by stellar 460 basis point, which stood at 19.1%. During the period, we have taken significant cost cutting measures majorly on our advertising and marketing expense, which we plan to keep at 4% to 5% of the revenue as against 7% to 8% historically. PAT for H1 FY2021 stood at Rs.82 Crores as compared to Rs.59 Crores in H1 FY2020 registering a growth of 37% year-on year basis. The PAT margin stood at 12.8% for H1 FY2021 showing an improvement of 320 basis point year-on year. The revenue of J.M. Hosiery Limited was Rs.159 Crores in H1 FY2021 while Ebell Fashions revenue stood at Rs.69 Crores. With this, we will now open the floor for question and answer.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Hi, Mr. Saket and Mr. Udit, firstly congratulations on the very good performance especially in the bad situation. Three questions from my side, first on the performance, if I look at your margins, one key driver has been the gross margin improvement and you mentioned about the mix improvement and I think in Q1 itself we said that there was an increase in demands of the economy segment, so if you could just highlight in the last 3 months what has changed and specifically if there is any specific category, which is higher margin, which had done in this margin improvement for us? I will come on the other two questions afterwards.

Udit Todi: Nihal, as you can see that we believe that the main boost in profitability coming on the EBITDA front on an account of reduced advertisement expenditure, so the contribution from the gross margin is not so significant as is the reduction in the advertising spends, although the product mix has definitely shifted more towards the mid premium segment from the mass segment we have shifted towards mid premium, but overall we believe that the main driver of EBITDA improvement was an account of reduced A&M expenses.

Nihal Jham: Okay, this is because if I compare from last year also there has been a 500 bases improvement and even from last quarter from 47% gone to 57%, I think the previous trajectory has been similar on the gross margin?

Udit Todi: Nihal, what we believe is that we have to also take into account subcontracting and jobbing expenses because as the nature of the business stands, which we really look at gross margins after taking subcontracting and jobbing expenses, which is very, very integrate part of your manufacturing process and this is directly linked to production, so if you factor job expenses into an account subcontracting expenses into an account, after that you will get a realistic picture of gross margin.

Nihal Jham: I got that, that will be helpful. This is the followup, could you just give the sense of what was the advertising spend this quarter compared to the last quarter of FY2020?

Udit Todi: So, this quarter we spend roughly about 15 Crores in advertisements which for the corresponding period last year was about 25 Crores.

Nihal Jham: On the advertising part, I think in the opening remark you mentioned that longer term you are looking at bring it down to 4% to 5%, now ideally lux as a house has quiet a few brands some which are well established which does not need branding and other which we are trying to grow, so in that background once things normalize do you still expect that the brand spends of 4% to 5% would be enough for you?

Udit Todi: Nihal, I believe that what we have mentioned even during our calls was that the 4% to 5% bracket of advertisement expenditure for the current year given the COVID-19 scenario we had cut down our expenditure, but historically we always spend around 7% to 8% of our topline on advertisement and we believe that it is a very comfortable percentage to be in and given the number of brands that we had in-house we will require that sort of budget going forward also, so as you very correctly mentioned if we have to nature our brand, build our brands stronger then we are looking at from the next year onwards, next financial year onwards, we will be looking at bringing back our advertisement expenditures to a historical normal level of about 7% to 8%, so the current year is just an outlier because of the current COVID-19 situation, otherwise historically we maintain 7% to 8% and that is what we believe we will maintain going forward also.

Nihal Jham: That is helpful. Last question from my side, on the recovery that you have seen in terms of growth being for H1 or for the second quarter, is it possible to give a sense how the difference has been between the rural and say the top 7-8 cities and I ask this because there has been quite a divergent if I check with some of the other retailers, so I just wanted a sense from you and that will be helpful?

Udit Todi: You have seen again the Q1 the majority of the growth, which are witnessed was coming from the rural sector because the urban sectors were witnessing a stricter lockdown, but talking about Q2, we believe that lockdown rules was relaxed during Q2, so during Q2 there was growth, which was coming in both from the rural as well as the urban sector, so both sectors have performed equally well in the current quarter that is for the current half year and going forward we believe that in the next half of the year, the growth should be even better because of the festive demand, which you are seeing right now, it is quite a very good demand picture right now, which we are witnessing whether it be summer products or winter products overall all sort of products are witnessing very good demand at least until now what we witnessed during the Deepavali sales, so we are very upbeat about the performance going forward and we believe that H2 will be better than H1 and the kind of support, which our customers have before in the company by purchasing our products only reinstates the fact that our products are more of a basic necessity or basic essential for them rather than something, which can be postponed and that is quite visible if you see even during the Q1 sales, the sales of the company we had bounced back to about 95% of our sales, so we are very thankful for our customers in that aspect that they have always been loyal to the brand and these are the basic essentials that you need to consume them.

Nihal Jham: So, that is helpful. Thank you and wish you all very Happy Deepavali. Thank you so much.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Good evening to everybody. Sir, I just wanted to check you have the pending merger with the group company that is going to really strengthen the company, but when I see the numbers I find that the return ratio will come down quite substantially post the merger, so if you can discuss some logic behind the merger and why is the merger taking so long, it was first announced in July 2018 and it is not yet ratified so if you could talk about this?

Udit Todi: Shalini, just to talk about just to spend some sometime on the merger, the merger was announced quite back in 2018, but in fact we have also mentioned it in our presentation and in our balance sheet as well, so we had a very successful hearing with the NCLT about one month ago all the 3 company is involved, which is Lux, J.M. and Ebell fashion are scheduled to have their EGM on the November 27, 2020 itself whereby all the shareholders will be meeting up, all the debtors and all the creditors will be meeting up and process is already on a faster track than what we were in a previous call, so compared to previous call we have already moved one step ahead and after our November 27, 2020, extraordinary general meeting, we believe that after that it should not take much time because the ball has already started rolling and now it the time of we get about approximately 3 months so what we are targeting is that by around mid of February or end of February is what we are looking at closing the merger provided subject to that all the regulatory body take up the case as we have already been doing, so we are already there and the merger process is already underway in fact on the last call we have already made a lot of progress. Talking about the financials of the merger we believe that we somehow could not get the point as to how the return ratios are deteriorating because if you look at the numbers 2 years ago as well as last year the listed entity, which is Lux Industries Limited has always been EPS accretive deal for Lux Industries Limited. If you add up the toplines and the bottom lines and if you happen to take into account the valuations, which is happening as well as the profitability, which is coming in you will only see that EPS we are expecting to shoot up by about 23% to 25%.

Shalini Gupta: No, we are not talking about EPS, I am basically talking about the ROC and ROE, so EPS I am not at all contesting that will go up, but what I was really surprised by is the fact that the return ratios are coming down, I mean basically I really do not want to say anything on the ratio?

Udit Todi: So, taking about ROC and ROE, if you look at our second quarterly results Lux itself is a net cash company as of now and given the COVID-19 scenario we believe that it was quite a feed for our company to in fact achieve that even under such very difficult time the company has in fact been able to retire all debt and become net cash even talking about Ebell Fashions Private Limited that also is the net cash company as on date and there is very limited amount of debt, which is in the books of J.M. Hosiery, but if you look at the group entities combined, the debt will again come down to zero, so we believe that going forward the return ratios will definitely bounce back.

Shalini Gupta: No, it not about return ratio basically the capital employed is going to go up because of the price tag you are paying for the merger, it is not about debt, it is not about EBITDA and stuff like that, it is basically about the money that you are paying for the two companies, so because of that the capital employed goes up and because of that the return ratio has come down, those are very good company, very good brands, no doubt about that, I guess I will take this offline and I had a couple of more questions about the merger, I guess in terms of the increase in turnover and PBT because as per my calculation in financial year 2022 is when the merger, we will actually see the benefit of it PBT is up by 75% and turnover, I had some numbers I just wanted to cross check them to just understand that I am not going off track on those. Sir, who can I speak to?

Udit Todi: CFO will be the right person you can contact, he can take you through all the financials and if there is any sort of a confusion, which is there we will get cleared out.

Shalini Gupta: Sure, and Sir, I wanted to check the number of distributors that you have right now and also the number of outlets and air conditioned outlets basically not the regular outlets, I just forgot what you call them, if you could just and also the EBOs?

Saket Todi: We have 950 distributors with us and we do not have the exact count of the number of retailers, but our rough estimate, which we get from our dealers is approximately around 2 lakhs active retail outlet, which we have, so we do not have the exact count because we deal in a wholesale model rather than retail model, so we have a rough count of our retailers and the number of EBOs right now we are in a development stage of the EBO, so I do not think so this would be right time to talk about it because we are in the development stage and some more work is being done into that aspect and we will be able to guide you better in the next conference call.

Shalini Gupta: Okay, and Sir, last question from my end, you were talking about the fact that there has been a mix change for the better for you, so I just wanted to get a better sense of this because on the one hand we have a situation where the economy segment because of lockdown and stuff like that was growing faster than the rest of the company rather what is the reason for pushing growth in the rest of the company and now, we see a gross margin expansion partly because of a mix change, so if you could just please explain this?

Udit Todi: Yes, right we were comparing our gross margin numbers and mix change in comparison to Q1 of this financial year, so what happen in Q1 of this financial year, in the economy segment we have two segments, one is the mass segments, which Lux Venus and one is the mid segment, which is Lux Cozi, so we saw the mass segment to move at a very high growth than the medium segment of Lux Cozi, so that happened in Q1 and in Q2 the reverse of that happened, we saw the medium segment, which is Lux Cozi started moving faster than our mass segment Lux Venus, so it is both the segment together attribute towards the economy segment, so there has been a mix change and now we are moving towards the normalized mix, which was there at pre-COVID level, so that is why in Q1 there is a gross margin decline and in Q2 gross margins have remained almost same as that of FY2020.

Shalini Gupta: Thank you, Sir.

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. Congratulations on strong set of number across P&L and balance sheet. Sir, I would like to understand, what was the volume growth for the quarter and realization growth?

Udit Todi: So, the split between volume and value was about 50:50, so it was roughly 4% volume growth and 4% value growth.

Prerna Jhunjhunwala: Sir, yarn prices in the quarter was quite low, we did not see any benefit of that coming into the gross margin despite higher share of the premium products, I would like to understand what happened in the raw material cost?

Udit Todi: So, when the yarn prices are declining, the company is already having certain amount of stock in the hand which will get sold out first, , so the reduced yarn price will impact, the benefit will accrue in the coming months and in fact right now the yarn prices have bounced back and we are at the lifetime high in fact the yarn prices have gone up by about 15% to 20% in the last one and one-an-a-half months.

Prerna Jhunjhunwala: But you will be having an inventory which you would have a cumulated one, two months back, so that benefit would be seen in Q3 for the same?

Udit Todi: Definitely.

Prerna Jhunjhunwala: Okay and Sir, also wanted to understand that this whole first half was actually there was supply constrain in the market, which like the market turning into favorable for the manufacturers and brand players, how do you see the market when the normalcy comes in and the impact of the same on your receivables do you see all the players sitting tight on their receivable days as now or will have to be a little relaxed on that terms to gain market share, this maybe second half, or maybe next year or beyond?

Saket Todi: We would not be able to comment the market, but about us we will be able to maintain the same number debtor day coming forward in fact the plan in the coming long-term perspective is to reduce the number of debtor days.

Prerna Jhunjhunwala: Okay, and what would be your long-term target, any target to share there?

Saket Todi: Right now, we do not know till when COVID scenario would extend up to so we would be able to give a better target when I think everyone is vaccinated and the market normalizes.

Prerna Jhunjhunwala: Okay and Sir, you would be running at full capacity, as I am seeing that your subcontracting expenses are increasing, do you plan any capex going forward to cater to the increased demand?

Saket Todi: For the capex we are under consideration if there are any announcements made we will be informing you, but we are expecting some amount of capex in the current financial year.

Prerna Jhunjhunwala: Okay, thank you, Sir. I will back to the question queue for further questions.

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

Sunil Jain: Good evening, Sir. My question relates to the subcontracting cost itself, why this has increased so much in this quarter any specific reason for that and whether this has any impact on the gross margin?

Udit Todi: So, we mentioned during the beginning of the call whenever we are looking at gross margins pertaining to our industry it will be more appropriate measure when you take into account subcontracting expenses as a direct cost, so after you take subcontracting expenses as a direct cost and then you arrive at the gross margins that will be more realistic, holistic picture so because the method of production in which we are operating a bulk of our productions are getting contract manufactured, so different job workers who are there with us is very, very long, in fact that has been a very direct cost for us, so we believe that we should always see subcontracting expenses as a part of direct cost and arrive at gross margins after that.

Sunil Jain: In fact when I see your subcontracting cost, it is one of the highest in last so many quarters, so I was just thinking that some margins may have been lost because of that gross margin might be impacted?

Udit Todi: So, there has been no margin erosion on an account of subcontracting expenses because when we talk about subcontracting expenses the cost per unit is fixed so if I have to manufacture 1 dozen of vest or 1 dozen of brief the cost of manufacture 1 dozen of brief has been preset so whenever the subcontracting expenses are going up that only means that the production is going up. There is no margin addition or margin erosion on an account of subcontracting expenses it is purely, purely directly variable cost of production and it is directly linked to production and when the subcontracting expenses have gone up we can also see that the inventory has also gone up in accordance to that.

Sunil Jain: I was just thinking on that line like you had the more subcontracting in this quarter because of may be?

Udit Todi: When you are arriving at gross margins we need to taking to an account of cost of material consumed, stock in trade, change in inventory as well as subcontracting expenses once you add up all these four then you will get a very realistic picture of the gross margin level.

Sunil Jain: The second is more about advertisement expense, you had been around 4% in this quarter and coming 2 quarter will be around 4% to 5% or it can be higher specifically Q3 when we have IPL and all?

Udit Todi: For the entire year we have earmarked 4% to 5% as advisement expenses and you know the distribution of the advertisement expenses overall we did 4% to 5% if you look at Q1, Q2, Q3, Q4, we believe that all the 4 quarters will roughly see an equitable distribution of 4% to 5% that is how the provisioning has been done. Going forward in Q3 and Q4 also you expect 4% to 5% budget of advertisement expenses.

Sunil Jain: Sir, about this Ebell, there we had not seen much recovery what is the reason and how you see in the coming quarter?

Udit Todi: So, talking about Ebell, Q1 was very down, so the performance of our second quarter has been much better than the first quarter, so in our first quarter we were doing about only bounce backed about 40% to 50% of sales, talking about Q2, we have bounced back to 70% of sales and talking about Q3, Q3 we has in fact come back to pre-COVID levels in fact we are seeing a good amount of growth coming in Q3, so all the pent up demand, which was there in Q1 and Q2 is spilling over to Q3. It all depends on the consumers and customer sentiment it is just the lady customers are coming into shop little later.

Sunil Jain: Sir, the last question relates to your winter season, which generally starts in Q3?

Udit Todi: So, the bulk of sales are equitably distributed in Q2 as well a Q3 because lot of our distributors pre-book and take the winter stock in advance because of predicted sales, no one wants to wait for the last minute to book the stocks so the sales are equitably distributed between Q2 as well as Q3, so talking about Q2, Q2 our winter wear sales this year was about 121 Crores to 125 Crores.

Sunil Jain: Okay and similar sales can come in even Q3 as well?

Udit Todi: Q3 would be slightly lesser, overall we expect to about 200 Crores to 220 Crores of winter wear sales. So out of 200 Crores to 220 Crores we have already achieved about 120 Crores to 125 Crores in Q2 and the balance will accrue in Q3.

Sunil Jain: Whether winter has the higher margin, or it is the comparable margin?

Udit Todi: Definitely, we are talking about winter wear products, winter wear product is one of the best margins across the entire product portfolio, so winter wear is a very, very profitable category and before on an account of COVID there has been a supply constraint on the winter wear segment and on the other hand as you can see all across the newspapers and everywhere in media, the winter this year has been quite good in fact in Northern India, in Delhi and everywhere else it has been one of the coldest November that we have ever seen, so winter going forward and even until now we are seeing a very good traction coming in on the winter wear side, so we are expecting winter wear to be really good both on an account of supply constraint as well demand being very unbeaten. Being an organized player, not everyone is able to manufactures the winter goods, so even during the current situation the organized players will be able to leverage with supply constraint to that benefit.

Sunil Jain: Sir, last question, how much is our market share and whether it has improved in the current period?

Udit Todi: It is very difficult to come up with the market share because the market is very, very fairly unorganized, so it is very difficult to come out with the market share, giving you a very qualitative sense our growth compared to the industry has been on the higher side so we have definitely been witnessing an increase in market share.

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

Sachin Kasera: Congratulations for a good set of numbers. My first question was regarding winter wear, so could you tell us what was the growth in winter wear for this quarter per se and when you indicated that you would be doing Rs.200 crores for this this quarter what was the entire season growth vis a vis last year?

Udit Todi: For the current quarter in the winter wear segment we are seeing about 15% growth and we believe that if we were to look at the entire season, we are again looking at 10% to 15% growth.

Sachin Kasera: Sure, secondly you mentioned that the 4% volume and 4% debtor realization, so that all 4% is because of price hike or again, that is a component of better product mix and price hike could you quantify those two?

Udit Todi: As you can see the product mix has sifted a bit towards the winter side because the winter has seen a fair amount of growth so it has been on an account product mix change that you can see better realization coming in.

Sachin Kasera: Fair to say that last part of this 4% is because of better product mix and is much less to due to the price hike?

Udit Todi: Correct.

Sachin Kasera: Secondly, are we sharing the annual reports in the website because there is some confusion regarding the return and capital dilution that is to put as just wanted to inquire whether we are sharing annual reports?

Udit Todi: All the previous annual reports of the two unlisted entities have been there on our website.

Sachin Kasera: Sure, and since you have mentioned that the gross margins will decrease due to subcontracting expenses, I must suggest that from the presentation, in the presentation if you could share the gross margins after removing that that will be the better idea how the gross margins are going?

Udit Todi: So, the gross margins after considering jobbing expenses is somewhere flattish at 32% to 33%.

Sachin Kasera: Sure. My last question is that post merger also more or less you will be debt free, so going ahead what is going to be the dividend payout policy or is it that you are looking at some growth opportunity where we are planning capex or acquisition or we will look in terms of buyback?

Udit Todi: Until now all the cash, which has generated in the commercial was use to retire debt in fact now that we are in net cash going forward we have already stated our dividend policy to be about 25% payout ratio, so whatever PAT the company is generating about 25% of the PAT will be distributed as dividend that is what the company intents to do and we believe that given our set of numbers we should be comfortably able to achieve that and there was another question, which you have mentioned, so talking about capex and growth opportunity obviously the company is on the lookout if there is any interesting opportunity, which is there underway the company should pick it up and the company is also actively look out of any growth opportunity that comes on the way. As we mentioned that some of our capex might already happen in the current fiscal because when you want to grow we also want to increase our capacity so some amount of money will also be spent there and talking about the two unlisted entity, there was a slight error that the annual reports are not there on the website, but it is available with the ROC in fact the current year FY2020 ended audited balance sheet are also filed with the ROC so you can just file for an application and get the copy for Ebell Fashions Private Limited and J.M. Hosiery Limited.

Sachin Kasera: But since we are looking Lux is now starting to look at very high corporate governance and transparency my suggestion would be if you can put on the website it would be very helpful?

Udit Todi: See, that is a very valuable suggestion from your end, and we will take it up.

Sachin Kasera: And just one last question regarding the mix changes, so what is the current share of revenue between premium mid and economy and how do you see that mix is changing over the next 2 to 3 years?

Udit Todi: Talking about the mix change, in fact it is very difficult to give a quarter-on-quarter comparison for mix change because of the uncertainty, which are there in the market, but I am giving a very broad sense as to what it stood during FY2020 last year, our product mix as mentioned in the presentation if you can see, the premium segment is contributing roughly about 21%, the mid premium is contributing about 46% and the economy segment is contributing about 33%.

Sachin Kasera: Yes, that I have seen, but if you could just tell us broadly over a 2 to 3-year period how this will be?

Udit Todi: This pyramid only possible at the end of year, but talking about comparison we will be standing at the end of FY2021, right now given the COVID situation it is very tough to predict as to where the market will go, but as of now we are more or less standing at a similar pyramid as of now.

Sachin Kasera: I am not talking of this year; I am seeing your medium term and long-term object say from 2 to 3-year perspective?

Saket Todi: From the long-term objective the premium segment is growing at a high rate than the mid and normal segment. The premium segment would be growing anywhere between around 15% to 20% whereas the mid segment would be growing around 10% and the economic segment would be growing at a less than 10%, we would see gradually a mix between the premium segment and the economic segment.

Sachin Kasera: Is there a significant difference in gross margin between premium, mid and economic?

Saket Todi: Yes, the economic segment, the mass segment would be anywhere around 8% to 10% EBITDA level margin whereas the premium segment would be around 18% EBITDA level margin.

Sachin Kasera: Sure. Thank you very much and wish you all the best.

Moderator: Thank you. The next question is from the line of Riddhima Chandak from Roha Asset. Please go ahead.

Riddhima Chandak: Good evening, Sir. Thank you for the opportunity. My question is on this economy, mid and premium wear, so EBITDA margin difference is slightly quite high between the mass and premium, so what is the difference between the gross margins in these categories?

Sake Todi: So, the difference between the gross margin would be same as the EBITDA level margin because our overall overhead is distributed equally between the premium segment and the economy segment.

Riddhima Chandak: Okay, as you said that our premium products would grow at a CAGAR of 15%-20% in the next 2 to 3 years, , so does it mean that share of revenue contribution from 21% will increase to 25% or 28% and parallely our EBITDA margin will grew?

Saket Todi: Yes, it should.

Riddhima Chandak: Okay and in terms of volume, what is volume number, Q2 versus last Q2 and half yearly?

Saket Todi: The volume numbers for FY2021 for Q2 was around 5.32 Crores whereas for Q2 FY2020 it was 5.08 Crores.

Riddhima Chandak: And half yearly?

Saket Todi: I will tell you the volume numbers for Q1 also you can add it up. For Q1 FY2021 it was 4.69 Crores and Q1 FY2020 it was 4.68 Crores.

Riddhima Chandak: Okay and the next question is on the Ebell and J.M. Hosiery Fashions, so FY2020 revenue was approximately 310 Crores in the J.M. Hosiery and the Ebell was pipeline 271 Crores, so what is the lookout in the next 2 to 3 years that what sort of level we want to take it for both these entities?

Saket Todi: Both these entities, we expect that this year it would be merged, so we would not see a separate figure by this financial year end, we would see a merged figure firstly and secondly the business in these companies are growing at the same level on a long-term basis and that is a plus this year being an outlier if you just leave this year FY2021, from next year FY2022 this should grow at the same level together combined.

Riddhima Chandak: You said that our direct reach was approximately 2 lakhs retail outlets so if there any plan to open EBOs and increase our direct retail outlets whether through MBO, whether through LFS what are the 2 to 3 years internal plans?

Udit Todi: So, we have been happy to announce that the company has launched this first EBO store just last Sunday this is about 3 days ago by the name of Cozi World, so the first store was opened in Kolkata and we have a plan that within this financial year itself we will be opening about 20 to 25 stores and going forward by the end of FY2022 we are looking at opening about 100 to 150 stores so we will be a mix of company owned stores and franchisee operated stores so we believe that going forward the company is also exploring the modern trade route and this should augur very well for the company in terms of brand building, in terms of sales, in terms of grabbing new customers, so the store which was opened was opened by the name of Cozi World. It will be housing all the brands, which are owned by Lux group of entity.

Riddhima Chandak: Okay, so what is the capex per store on an average?

Udit Todi: The capex per store would not really be mattering because the first few stores which we will open will be company owned, the balance all stores will be basically under the franchising so the investment will be made by the franchising, it will be mostly funded through franchising route and the only investment which goes in from the company side is basically on the stock side, which is not really a matter of concern for us because it is a company own stock that any point of time we can liquidate it.

Riddhima Chandak: And on the advertisement and promotion side, going forward, which of the category would be the major focus in terms of advertisement as we said that we want to grow in the premium and high premium segment, so what is the strategy on the advertisement spends?

Udit Todi: So, the strategy that will be looked after by the management, it is very difficult to spell out as to what we will be doing going ahead, but just to give you a sense that definitely the company is looking at spending more and more on the mid segment as well as the premium segment because these are areas where the company enjoy higher margin, so the company's ad will be directed more towards the effect.

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

Bhargav Buddhadev: My first question is on the receivable days that where we seen an improvement almost 20 days on Y-o-Y basis, so my question is how sustainable improvement given that there could be tailwinds pertaining to COVID as well where several other companies have seem improvement from the receivable products?

Udit Todi: For the receivables, we feel that this will be consistent as we had taken out a very unique scheme for our distributors to reduce our receivables and which were high successful in the market, so we believe the same would be continuing on comparison to Y-o-Y basis same would be continuing forward in the coming 2 to 3 years, in fact we are planning reduce it further.

Bhargav Buddhadev: Saket said that J.M. Hosiery and Ebell would also have similar working capital cycle as Lux standalone given that on the group level also Lux net cash?

Saket Todi: Yes, if we combine both together it would be at the same position at Lux industry.

Bhargav Buddhadev: Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Pushkar Jain from Sequent Investment. Please go ahead.

Pushkar Jain: Sir, congrats on the good set of numbers. I just have couple of question, what do you think will be our sustainable EBITDA margin going forward post the merger?

Udit Todi: Right now, we have the standalone number with us talking about Lux, if you look at the margins right now, the EBITDA margins have improved mainly on account of advertisement, but we believe that going forward that would not really, we would kind of bring the advertisement accounts to normal level so we believe going forward the same EBITDA levels, it is slightly difficult to maintain, but we should be looking at about 16% to 17% EBITDA levels going forward.

Pushkar Jain: That was still the improvement of a percent right this 17%?

Udit Todi: Yes.

Pushkar Jain: 16% is a normal EBITDA, right?

Udit Todi: Yes, 16% to 17% is what we are looking at.

Pushkar Jain: The second question was towards the outlook, on the CNBC interview you gave a guidance of single digit growth for FY2021, is there any change there?

Udit Todi: We are looking right now our internal target is a double-digit growth, but still we would be guiding for a single digit growth.

Pushkar Jain: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you!

Udit Todi: I take this opportunity to thank everyone for joining on the call. I hope we are been able to address all the queries. For any further information kindly get in touch with our Strategic Growth Advisors our Investor Relation Advisors. Thank you and wishing you all a very, very Happy Deepavali and a very Prosperous New Year.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Lux Industries Limited that concludes today’s call. Thank you all for joining us. You may now disconnect your lines.