



“Lux Industries Limited Q2 & H1 FY2022 Earnings Conference Call”

November 02, 2021

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**MANAGEMENT: MR. SAKET TODI - EXECUTIVE DIRECTOR - LUX
INDUSTRIES LIMITED
MR. Udit TODI - EXECUTIVE DIRECTOR – LUX
INDUSTRIES LIMITED
MR. SAURABH KUMAR BHUDOLIA - CHIEF FINANCIAL
OFFICER - LUX INDUSTRIES LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the Lux Industries Limited Q2 & H1 FY2022 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. 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, Executive Director from Lux Industries Limited. Thank you, and over to you, Sir!

Saket Todi: Good afternoon and thank you everyone for joining for the earnings conference call for the quarter and the half-year ended September 30, 2021. Along with me, I have Mr. Udit Todi - Executive Director, our CFO - Mr. Saurabh Kumar Bhudolia and SGA - our Investor Relations Advisors.

I hope you have received our quarterly results and investor presentation by now, for those who have not, you can view them on our website. I hope you and your families are keeping safe.

We have reported a very strong performance in the first half of the FY2022 with our revenues growing by 28% year-on-year driven by healthy demand traction across all our product categories. This growth was largely driven by the rising adoption of branded innerwear products across our customer base. We have witnessed strong revenue growth in our economy and mid premium categories which registered a growth of 16% and 25% respectively as compared to the same period last year.

Our premium categories are also witnessing strong growth in the demand and have reported a revenue of Rs.144 Crores registering a stellar growth of 83% year-on-year. Furthermore, we are also witnessing a healthy traction in our women’s wear portfolio, which is practically untouched by the branded players. This segment is now opening with time and with greater exposure and acceptance, this augers well for the industry and offers major avenues for growth in our women’s wear portfolio.

For H1 FY2022 our women’s wear brand Lyra contributed to approximately 12.8% of our total revenue which stood at Rs.133 Crores. We are gradually foraying from a pure play innerwear players to a mix of athleisure and outerwear players as we believe that the



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successful brand create a strong consumer pull and also help us to negotiate better business in payment terms with our trade partners.

With a diversified portfolio of the home grown brands, across demographics has helped us outperform that market and generate a pricing premium, which in turn has helped us to achieve a broad based growth and deliver a steady rise in our margins profile, which is one of the highest in the industry. Our EBITDA and PAT margins for H1 FY2022 stood at 22.05% and 15.57% respectively.

Advertisements and marketing has been one of the key aspects in building a brand equity. For the Half-year ended September 2021 every rupee spent on branding and marketing expenses has yielded us Rs. 50.57 while the total branding on marketing expenses for the same period stood at Rs.67.57 Crores which is approximately 6.42% of the H1 FY2022 revenues.

The company plans to undertake a Greenfield capacity expansion of Rs.110 Crores is on track and will be funded through internal accruals. With the capex coming on stream, the company is expecting to generate an incremental sales of Rs.400 Crores from it. We will continue the journey of investing in innovation and capability building which will yield us gains in the market share and operating model efficiencies. Given the recovery of the economy in the Q2 FY2022, our differentiated domain expertise along with the waning pandemic and improvements in the supply chain condition, we believe all three categories in the economy mid premium and premium are well positioned for sustained growth for H2 FY2022 and for the coming years as well.

With this I will now ask Mr. Udit Todi to share his thoughts.

Udit Todi:

Good afternoon and a very warm welcome to everyone. Over the years, the innerwear industry is gradually evolving from a functional category to a fashionable one. Today, consumers across demographics now has personal preferences, in colour, design and size while choosing innerwear products. The innerwear industry, which was historically dominated by the unorganised sector is now shifting towards the organized players. This shift has especially accelerated after the pandemic as many of the unorganized players were affected due to operational liquidity and supply chain related issues.

Lux being one of the leading organized players in the industry understands the magnitude of such shift and is well positioned to address this unprecedented upside the industry has to offer. In this regard, we have proactively enhanced our operating, manufacturing, and supply chain efficiencies, which has helped us grab the market share across product categories. Today Lux has approximately 15% market share in the organized mens



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innerwear segment and a fill rate of approximately 95% as against the industry average of 80%. We have one of the largest distribution network in this industry having a strong presence in regions and states. As of September 30, 2021 we have approximately 12 depots, 1170 dealers, 674 plus district presence and 2 lakhs plus retail touch points across India. This showcases our self penetrated network and strategic relationships built over the years ensuring last mile delivery.

Even though Q1 FY2022 was a marginally subdued quarter on account of second wave COVID induced lockdown Q2 FY2022 saw a significant green shoots in demand as major states started to lift the lockdown restriction leading to resumption in the local supply chain. This in turn aided to our export sales gradually returning near normalcy levels. Our export sales for half-year FY2022 contributed approximately 8% of the revenue which comes to roughly about Rs. 83 Crores. Currently we export to 46+ countries majorly in the continents of Asia and Africa and our endeavour is to grow our exports revenue by 60% to 60+ countries by 2025.

Now coming to our e-commerce sales the company is currently shipping 4000 plus online orders daily and have also entered into marketing alliances with Amazon, Myntra, Flipkart, Ajio among others to ride the growing popularity of marketplaces. Our working capital cycle as of September 30, 2021 stood at 159 days, due to seasonal nature of the business. Going ahead we will stay focused on our capacity enhancement along with several other strategic initiatives to increase operational efficiencies, which will help us deliver differentiated products in the market and ensure complete satisfaction and utmost comfort for every consumer by creating top notch products.

With this, I will now request Mr. Bhudolia to take you through the financial performance.

Saurabh Bhudolia:

Thank you Udit Ji. Our company reported a very strong performance for the quarter and half year ended September 30, 2021. Our revenues for the quarter stood at Rs.631 Crores as against Rs.504 Crores, registering a growth of 25% compared to the same period last year. This growth was led by strong demand across our product portfolio.

Our EBITDA for the quarter stood at Rs.141 Crores registering a growth of 44% as compared to Rs. 98 Crores during same period last year. Our EBITDA margin stood at 22% plus which has seen a significant improvement by 300-basis points year-on-year, which was majorly attributable to improving product mix, prudent cost rationalization that was taken by the company over a period of time.

Our quarterly profits crossed Rs.100 Crores mark for the first time ever, registering a strong growth of 50% over same period last year. PAT for the quarter stood at Rs.100 Crores plus



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as compared to Rs.67 Crores in Q1 FY2021. We have also seen an improvement of 264 basis points in our PAT margins which stood at 15.86% as compared to 13.22% in Q1 FY2021.

Now coming to our half-year performance, our revenues for half-year financial year 2022 stood at Rs.1052 Crores as against Rs.824 Crores in H1 FY2021. Despite demand uncertainty on account of second wave of pandemic in Q1 FY2021 and lockdowns, we were able to register a revenue growth of 28% in half-year FY2022. The region wise revenue contribution for the past half of FY2022 is as follows: Northern India 30%, supported by Eastern India 30%, Western India 22%, Central India 15% and Southern India is very minimal around 3%. The revenue split from segment stood as follows: Mid Premium 56%, Economy segment 30% and Premium segment is supported by 14% of revenue.

Over the years, the company has invested in a basket of more than 15-16 brands which enjoy unaided brand recall for comfort, innovation and a superior value proposition. From FY2017 onwards, the company has invested Rs.709 Crores in branding and marketing, which is approximately 8% of the company's revenue. This brand strength has translated into growing margins and a net cash surplus position. Absolute EBITDA for half-year stood at Rs.232 Crores as compared to Rs.155 Crores last year H1 FY2021, registering a stellar growth of 50% year-on-year. The EBITDA margin also has shown significant improvement of 327 basis points, which stood at 22.05% as compared to 18.78% in H1 FY2021.

PAT for H1 FY2022 stood at Rs.164 Crores as compared to Rs.104 Crores in H1 FY2021 with a growth of 58% year-on-year. The PAT margin stood at 15.5% as compared to 12.5% in H1 FY2021 showing an improvement of 300 basis points.

Our working capital days as on September 30, 2021 stood at 159 days. As on September 30, 2021 the company's gross cash balance and cash equivalence balance stood at Rs.166 Crores while the debt equity ratio stood at 0.14 as against 0.16 in September 30, 2020. This signifies our constant endeavor to deleverage the balance sheet and create strong liquidity buffer.

The Board of Directors at its meeting held has declared payment of interim dividend of 600% that is Rs.12 per equity share. This is in line with our constant endeavor to reward the equity shareholders of the company. Going forward we expect positive momentum in our revenues to continue and will continue to adhere to the highest of ethical standards and transparency in all business dealings and transactions.

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



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- Moderator:** Ladies and gentlemen we will now begin the question and answer session. The first question is for the line of Chirag Lodaya from Valuequest. Please go ahead.
- Chirag Lodaya:** Thank you for the opportunity. Congratulations on great set of numbers. Sir, my first question was on volume growth. H1 we have seen intake of overall volume growth of just 2% so trying to understand what is the expectations of full year impact of volume growth?
- Saket Todi:** The H1 the volume growth was mainly subdued because of the higher ASP growth in the increase in the cost of productions. As you would have seen in the premium, mid premium, and the economy category we have divided all three categories by the volume growth and the value growth in our presentation and there has been a tremendous growth in the premium segment and then a lesser growth in the mid segment and the least in the economy segment. As the prices are continuously increasing so currently the situation in the market where the cost of products is continuously going up, it would be very unfair to judge for the next six months how the volume growth would pan out, but definitely ones the market gets stable, the volume growth across all three categories would be in a healthy position which will be mainly dominated by the premium wear category.
- Chirag Lodaya:** Second question was on overall price increases. What kind of price increase we would have witnessed in the last six months and maybe in the last 12 months?
- Saket Todi:** Last 12 months the average price would have gone up by around 11% to 12%.
- Chirag Lodaya:** And in the first six months of this year?
- Saket Todi:** It is very difficult to say exactly in the first six months how much the prices have increased because it is divided brand wise, where we increase the prices of a particular brand and a particular time period, and all these brands price increase for all the brands does not happen simultaneously.
- Chirag Lodaya:** Lastly, what is the working capital target for by this year end?
- Saket Todi:** Hopefully, we will be able to achieve our last year number and we will be able to maintain our working capital as on March 2021.
- Chirag Lodaya:** Can you also provide numbers for corresponding H1 for premium, semi-premium and economy?
- Saurabh Bhudolia:** Definitely those numbers we will provide separately. My IR will be in touch with you who can arrange the number for you.



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Chirag Lodaya: Thank you and all the best.

Moderator: Thank you very much. The next question is from the line of Prerna Jhunjhunwala from Batlivala and Karani Securities. Please go ahead.

Prerna Jhunjhunwala: Congratulations on a strong set of numbers. Just wanted to understand the elasticity in the economy segment in terms of demand because you mentioned because price hikes has been taken due to cost inflation, the demand volume growth remains muted in the economy segment. So, how do you see this segment going forward not from six months point of view, but maybe do you see people now adjusting to higher rates of prices over a longer period of time that these levels will not achieve and eventually come out for buying products or do you shift to premium categories and hence premium becomes much more important and growth drivers for you?

Udit Todi: See, when we talk about the economy segment, the price points are already much lower compared to the mid segment and the premium segment. You mentioned about the elasticity of demand in this segment, so the kind of products which we are selling at and the kind of target audience we are catering to obviously the cotton prices have gone up, the raw material prices have gone up, so therefore the finished prices have also gone up, but the products, which we are making are a very basic necessity products. It is a daily wear product, so people tend to take some amount of time to adjust to the new prices but ultimately they end up adopting the prices because below the economy level of segment there is no other segment which is there. Then the raw material prices have gone up, they have gone up for the entire industry be it any players. So, ultimately a person will have to adjust to the new prices sooner or later. Even if we look at the MRP level, a person will end up spending approximately say about Rs.10 a piece or Rs.15 a piece more than what they used to. So, at that level, and for a product which is so basic and necessity product, the demand does not tend to be so elastic for a Rs.10, Rs.15 price increase per piece and you had mentioned about people moving up to premium and mid premium categories, so premium categories the people who are purchasing products of the premium category are relatively not so much bothered about the price hike which the company takes, so we always end up taking up price hike at a 6 to 12 month interval and we have always been able to do that and we are quite sure and confident that going ahead we will be able to do that again.

Prerna Jhunjhunwala: How sustainable are the margins that we are seeing today because if we look at four to five years back we were at around 12% to 15% range and now we are crossing 20% so, at a much lower ad spends that we were doing earlier, so as a percentage of sales, not in quantum, so how do you see the sustainability of these margins whether we look at it as this



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margin will improve further or remain here or it contracts, means increase our ad spends in other cost, that increase with time?

Udit Todi:

As we have said it again and again in all our previous concalls, that last year our advertisement expenses were a bit lower and from this year onwards, we are looking at restoring it to normalcy levels. So, if you happen to look at the figures, a bit more closely, you will be able to see that we have increased our ad expenditure to about 6.5% at the half-yearly level and we generally approximately maintain an average of around 7% to 7.5%. This vis-à-vis last year was about 4.5%. So despite increasing our ad expenses by 200 basis points, we have still been able to expand our EBITDA margins because ultimately the gross margins have increased and that is flowing directly to your EBITDA and PAT and as you correctly mentioned about four, five years back we were at levels of 12% to 15% and right now we are north of 20% to 22%, and going forward also we will be able to maintain these margin levels. In fact, we will be looking at expanding the margins levels because mainly if you look at it carefully, you will see it is the change in margin is coming primarily on account of change of product mix. The product mix is changing, the company is moving more and more towards from economy to mid and from mid to premium. So, if you look at the current year's levels, the contribution of this premium wear category to the overall sales now stands at 14%, which last year was about 10%. So, ultimately they are moving up the ladder, the product mix is changing, and that is why you see a healthier gross margins and healthier EBITDA margins. So, despite increasing our ad expenditure and bringing it back to the normalcy levels, we have been able to deliver better EBITDA margins, so we believe that going forward we will definitely be able to maintain this margin.

Prerna Jhunjhunwala:

So, where do we see our premium segment moving to over the next three to five years, as a contribution to revenue?

Udit Todi:

The premium margin is growing at double the rate of what the company is growing at although right now we are standing at about 14% contribution from the premium wear category but it is growing at double the rate of the overall company average. In the next three to four years, obviously something which is contributing at 14% right now should be in the range of about 20%, 25%.

Prerna Jhunjhunwala:

I will come back to the question queue for more questions. Thank you and Happy Diwali.

Moderator:

Thank you. The next question is from line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham:

Thank you so much. Good afternoon to the management. First of all congratulations on this strong performance, Saket and Udit. Three questions from my side. If I look at economy segment sales, they have seen a slight deceleration from last quarter to this quarter whereas



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obviously there has been a significant improvement in the premium and the mid premium segment, so is this primarily attributable to you said, the price hike that we have taken or any other specific reason?

Saket Todi: No. I believe that the reason for this is that for the H2 of last financial year we would have seen an overall last financial year there was a skewed growth in the economy segments, so there was a skewed growth out there, and right now it is being much matured and going forward in the next few quarters it will again move back to its normal growth levels.

Nihal Jham: The other question related to our segments was that when we say that the ASP increase is around 47% in the premium segment, this would have a major component of mix, I would assume, right, given that you said on an average you have taken a 11%, 12% kind of price hike versus last year so the remaining 30%, 35% increase is primarily mix driven, is that a right way to understand this?

Saket Todi: Yes. In our presentation also in page number 35, we have mentioned that the premium has grown by 60% whereas the economy has grown by just 16%. So, there has been definitely a mixed change.

Nihal Jham: Absolutely. In the premium segment itself, I was asking because in the premium itself the ASP growth is 47% so there also I was just trying to understand the bifurcation between the price hikes we have taken and the mixed improvement in the premium segment.

Saket Todi: Yes. Like the few quarters we are seeing that the outerwear segment is growing more than the innerwear segment in the premium wear category itself. So, the ASP in itself is also going up.

Nihal Jham: Understood. Saket in the premium category what would be our ASP sales for the innerwear and the premium wear category just approximately to understand?

Saket Todi: We would not have exact numbers right now between the innerwear and the premium wear, but overall as a whole, the premium wear average ASP would be around Rs.185.

Nihal Jham: Sure, but this also would include some component of athleisure in it?

Saket Todi: Yes, definitely. It includes all the component of athleisure in the premium wear category.

Nihal Jham: Just one last question from my side that you have mentioned obviously in your presentation that the increase in the working capital, is a seasonal phenomenon. I would assume that given that you would be stocking out for winterwear the inventory would ideally end up



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seeing an increase, but just on the increase in the receivables anything specific here and do you expect it to reverse itself by the end of the year?

Saket Todi: We would expect it to get reversed by the end of the year even in fact, as we are speaking, as the festive season coming in we are seeing a good liquidity flow again back in the market where our debtor days are continuously going down and by the March 2022 we would be able to achieve our last year debtor days.

Nihal Jham: But any specific reasons that increase maybe before this quarter ended?

Saket Todi: No. Actually what had happened is in the last six months, people were very scared regarding the third wave of COVID so instead of paying up to the companies, the demand was within the market, but instead of paying to the companies they had held back their liquidity in case of any third wave issue of COVID. So, after the second week of October, we are not seeing any such incidents in the market when people are using back the liquidity in the market and paying up the companies. So, this we had expected in the last three months and that it has panned out. It is continuously on its route back that the liquidity is very improved.

Nihal Jham: Helpful Saket. That makes clearer. Wish you all a very Happy Diwali. Thank you so much.

Moderator: Thank you. The next question is from the line of Mayank Lakdawala from Concept Investment. Please go ahead.

Mayank Lakdawala: Two questions from my side. One is on how much distributor is having the increase and what is the penetration of distributor in South India and second question is how many EBOs till date you have added and can you give a bifurcation on COCO and FOFO model? Thank you.

Udit Todi: So, we had already mentioned we have about 1170 odd dealer network, half-year ended and South India contributes a very small insignificant number percentage of turnover to the overall turnover share, so the number of dealers present in South India are also few, but as we had also mentioned that is one of the focus areas for the company and going ahead we will be aggressively marketing our products in South Indian region and adding more and more dealers in that zone. As far as EBOs are concerned...

Saurabh Bhudolia: We have about 10-15 EBOs as we are speaking. We are working towards our direction like to have around 40-50 EBOs over a period of another six to nine months.



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- Mayank Lakdawala:** Thank you. Lastly, just want to know that in the previous concall, as you said that you would be adding some regional content for going into South India can you please let me know that?
- Saket Todi:** Yes that is work-in-progress and it is backing on the marketing and advertisement team so it would be very unfair to openly discuss about the campaign for the South India.
- Mayank Lakdawala:** Thank you. A very Happy Diwali to you.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhatia from Sixteenth Street Capital. Please go ahead.
- Dhruv Bhatia:** Good afternoon Sir. Just two questions; one is can you talk about during the pandemic the organized players gained a lot of market share due to supply side issues for the unorganized players. Do you think that trends still continue, with that growth rate for organized players and it is getting reflected in your numbers as well as the others, do you think that will continue going forward at the rate at which you are growing. It seems to me the normalized growth rate of 15% or something that the industry should grow at, but all the organized listed players are growing at a far healthy rate. So, do you think these numbers are sustainable for you?
- Saket Todi:** We would certainly need to define the organized and the unorganized segments across all the three different categories. So, mainly the unorganized is dominated in the economy segment category and which I said sometime back that there was this huge growth in the last FY and which had matured in the H1 of this FY2022 but going forward as you would see that the economy segment growth will be back towards normalcy and the shift from the unorganized to the organized segments would be gentle shift going forward.
- Dhruv Bhatia:** You mentioned the price increase you have taken of 11% is that enough to cover for cost inflation, freight inflation, and the other costs which have been there?
- Saket Todi:** Yes, that is according to our costing only and you would have seen that has been very well reflected in our gross margins also that our gross margins have improved continuously. One more thing I would just like to add is that this 11% is just not a onetime phenomenon. It has been continuously happening since the last 10 months and we would expect the same to continue to happen for the next six to seven months as well because there has been a continuous increase in the cost in the same trend.
- Dhruv Bhatia:** The EBO part, which you just mentioned is currently at 15 and you intend to open another 60, you mentioned for the next nine months?



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- Saurabh Bhudolia:** Yes, around 40 to 50.
- Dhruv Bhatia:** And the target of 150 as mentioned in the presentation by FY2023 still holds?
- Saurabh Bhudolia:** Yes this can take some time, because as we know there was a lockdown and there was a lot of reshuffling going on in the market because of this pandemic. So, we are reevaluating the situation and we will come back with a revised number or with the timelines, but very much to the extent of 70% to 80% we are on track.
- Dhruv Bhatia:** These will be a combination of COCO and FOFO, right?
- Saurabh Bhudolia:** Almost the company's direction to go with the FOFO model because unnecessary we do not want to put our money in the form of capex or in the working capital, so prima facie, we are getting a lot of interesting queries to get into a COCO model. So, people are more than happy to sign up the contract with us, so we are evaluating mainly for the COCO model way of opening the store.
- Dhruv Bhatia:** Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.
- Devanshu Bansal:** Good afternoon to everyone. Thanks for taking my question. Sir, my question is on women brand Lyra, so we are already touching up pretty good annual runrate of Rs. 250 Crores plus for this brand, so just wanted to know your thoughts of what are we doing in terms of improvement in the product mix as well as improvement in the network coverage for this brand?
- Udit Todi:** As you see, we were primarily a bottomwear driven brand and we still continue to be and a bulk of our revenue comes from the bottomwear category, but in the last couple of quarters we have made a focused effort to diversify our product basket. So, right now about 80% of our topline could be coming from the bottomwear category whereas 10% each would be coming in from the innerwear category as well as the loungewear category. So, going forward we will be looking at growing the innerwear and the loungewear category at a much faster rate and offering more and more products in that zone and when we talk about the organic growth in the bottomwear category the bottomwear category itself right now has been predominantly dominated by the unorganized sector. People are gradually shifting more and more towards better branded organized, offering products. So, we also expect a good demand to be coming in for the bottom's wear category. So that is the vision that



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going ahead we will be looking at three-way growth, that would be a) bottomwear category, b) would be loungewear and c) would be innerwear.

Devanshu Bansal: In terms of distribution reach for this category, how are we placed versus the overall distribution reach of about 2 lakhs outlets?

Udit Todi: Right now we have about 450 to 500 dealers on board those who are selling these products and on an average each dealer sells to approximately 100 retail outlets. So, we could approximate the retail touch points at about 50,000.

Devanshu Bansal: So that is helpful. Lastly apart from increase in raw material prices there is also likely an impact of increase in GST rates next year, how do you see this impacting our margins or we will be able to completely pass it on to the customers?

Udit Todi: You see the change in the GST rate would be a fundamental change and economy wide change which every player in this industry has to go through and when we talk about moving from 5% to 12% so the incremental 7% is something which is too big for any firm to bear on itself. So, definitely we will be looking at passing on the increase in tax rate to the dealer and then forwarding it to the consumer at the last level, and because it is a fundamental change which will be affecting every player so every player will be looking at forwarding it onwards.

Devanshu Bansal: That is helpful. So, basically my concern was since raw material are also increasing and then in addition to that this is also going to come so, will we be able to pass it on completely or we will have to take some hit?

Udit Todi: So, as a company we are taking the approvals of passing it on only because the kind of margins which we are operating at, are very fair and very optimum level margins and we have never charged a very high level of margins so that we can create some buffer as to bear any stock. So, we have always operated at fair margins, optimum margins, and always believed in a volume play. So, you know the kind of whatever increase in tax rate will be there, will definitely be passed on at the consumer level.

Devanshu Bansal: Thank you Sir. Wish you a Happy Diwali. That is it from my side.

Moderator: Thank you. The next question is from the line of Dhiral from PhillipCapital. Please go ahead.

Dhiral: Good afternoon. Thank you for the opportunity. Sir, my question is pertaining to the gross margin expansion, x of subcontracting cost, so how much that would be low cost of



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inventory plus the synergy benefit of the merged entity? Whatever gross margins expansion, which we have seen, x of subcontracting cost, basically raw material cost, how much benefit we have got from the low cost of inventory as well as the synergy benefit of merged entity.

Saurabh Bhudolia: It will be very difficult to bifurcate the savings in the margins in different buckets, but the way we have done the analysis it seems around 100 to 150 basis points of the improvement has come through the rationalization of the merger, balance is through the low cost of the inventory for which we have taken the price hike, but we have already booked the inventory in advance so that we can leverage the P&L.

Dhiral: On one side, we are seeing that there is a shift in the unorganized to organized side, so I believe this would largely benefit the mass and the economy segment, but the benefit is not accruing to us, because the volume growth is net negative if you see even on H1 basis.

Saurabh Bhudolia: Even in H1 if you see out of three different buckets, there is a very huge volume growth in the premium and mid premium category, but there is no or almost at the breakeven level in the economy segment, so overall there is an increase in the market share, but there is a change in the shift or migrating the customers from economy segment to the premium segment.

Udit Todi: Also for the economy it should be wiser to see the last 18 months growth as there was a huge growth in the last financial year in the volume by economic segment and as the data is only available for the organized level players, we do not have any access to data of the unorganized players, but if you happen to see during this COVID period since the last year to the current year, that the sense that we get from the market is that although our volume growth must have not been so fantastic but if you look at the overall market we have definitely gathered more market share because the unorganized players have shrunk. As we have also mentioned during the presentation that the company being such a large player, we have been able to leverage our supply chain management, liquidities and everything in order to so that the production can be done smoothly and we will be able to supply the products in the market which the unorganized players have not been able to do.

Dhiral: Got your point. Lastly again on the gross margin side, the gross margin of H1 FY2022 is around 38.5% and if we see historically also our band was something like 34% to 35%, so now the low cost inventory would not be there, so we will again fall back to 34%, 35% or you think that these will be sustainable range, 38% to 39%.

Udit Todi: The gross margin expansion as you mentioned, was also on account of change in product mix moving up to the premium end and the mid premium category, the higher margin



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product selling more. So, if you look at our export category the women wear category and the ONN segment all of these three are higher margin products for which the contribution has significantly increased and as you had also mentioned that going forward we will be looking at maintaining similar levels of EBITDA margins also.

Dhiral: Sir, what percentage of growth is seen in the athleisure side and how much has it contributed to H1 growth?

Udit Todi: We always analyze and bifurcate our sales brand wise level rather than category wise, so definitely our IR team to get back to you as to if we can be able to provide you data for athleisure versus innerwear?

Dhiral: Sir, last one question regarding our distributor count also, last quarter we have given the figure of 1170 s and this quarter also the figure has also remained same, so we have not added any new distributor?

Udit Todi: Adding of distributor is a call, which is taken by the marketing team and we only end up adding distributors where we see it is limited for us to do. It is not that you add up a distributor and you will get an incremental sale, so we only add up distributors where we see there is a need in the market, rather we get more sales out of the existing distributors itself. That will help us more.

Dhiral: What was the contribution from the modern retail side and how much online growth we have seen in this quarter?

Udit Todi: E-commerce as a sales has we can just give you a qualitative sense. E-commerce we feel that this year we will be looking at least about 50% to 100% growth compared to last year. So, e-commerce has done fantastically for us this time and going forward also e-commerce will be one of our focus areas and we are quite sure that in the next three to four years we are targeting to reach a three digit figure for sales coming in from the e-commerce side.

Dhiral: Lastly on the ad spends side, so ad spend for FY2022 would it be still at 6.5% or you wanted to inch it up to 7% for FY2022?

Saurabh Bhudolia: Sorry you are asking about the ad expenses? So, till now like we are expecting that our year should end with around 7% to 7.5% kind of total advertisement expenses to the extent of H1 closure, we have incurred around 6.5%.

Dhiral: So, maybe the H2 the ad spend would be higher?



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- Saurabh Bhudolia:** A bit, because anyway the entire idea was to take the ad expenditure in the range of 7% to 7.5% type, but initial last two, three months there was very minimal level of the spend or the ad has been deferred to some extent, so the thing should start to improve during the second half of the year.
- Dhiral:** Thank you so much. That is it from my side.
- Moderator:** Thank you very much. The next question is a followup from the line of Chirag Lodaya from Valuequest. Please go ahead.
- Chirag Lodaya:** My question was on the two brand, ONN and GenX. I just wanted to understand what is the current product portfolio mix on ONN as well as GenX and what is the strategy for both these brands to grow over next two to three years, what one should expect in this brand.
- Saket Todi:** For ONN and GenX we have mix of both innerwear and athleisurewear at 50%:50% level and GenX as the deals in the fashion wear mass wear category it has grown by 15% in the H1 of FY2022 and ONN as it is in the premium wear category it has grown by 80% so we are seeing a pull in the demand of both these brands as they are catering to different categories, but the sales growth in both the brands are different, but the innerwear and the athleisure we are seeing a constant growth in both these segments in which the athleisurewear is heading its way.
- Chirag Lodaya:** In terms of size, what we are expecting in the next two to three years and what would drive? It is more distribution expansion, it is more new product introduction, so what will drive the growth over?
- Saket Todi:** It is not distribution expansion in ONN as well as GenX as we rightly said sometime back that the distributors are necessarily only where we feel that we have a weak distribution point, unnecessary just to increase the primary sales, we do not add up the distributors, firstly. Secondly how to grow in these categories would be to add up the new product categories in the new product portfolios and to increase the retail points and places where we are not present as these categories are driven only by the sales team, so adding new retailers, touch points, with the brand is necessary and also adding new product portfolio.
- Chirag Lodaya:** In terms of the thermal wear what is the opportunity size of the brand and what can be size one can expect in this some of the business, because thermal wear you have been in the business for long, means absolute price increases are still very relatively small compared to the opportunity size. So, what are the efforts to grow this category over?



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- Saket Todi:** Probably thermal or winterwear category is mainly served the innerwear category in this format, we don't serve the outerwear category so the innerwear category is relatively very small to the outerwear category in the winter wear segment. Secondly, the winterwear segment is highly seasonal driven and if the season is good and the market sentiments are good, during those two months or 45 days or 75 days of the market, then this is a tremendous increase in the sales. As we have seen in the Q2 FY2022, that the demand in the winterwear category was not that strong because people were very skeptical about the third wave of COVID but after 15th October we are seeing that the winter is also helping us to improve the sentiment as well as the overall sentiment regarding the COVID has also improved. So there is a good traction coming in, in the winterwear segment currently.
- Chirag Lodaya:** What is the growth there we have seen in this H1 for thermal wear?
- Saket Todi:** The growth would be around 8% for H1.
- Chirag Lodaya:** Thanks.
- Moderator:** Thank you. The next question is from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.
- Aakash Manghani:** Good afternoon. Could you talk about the working capital, you briefly mentioned earlier that you will normalize the number by March 2022. I would like to understand what led to such a big spike in inventory specifically and your inventory days are up by 30-32 days which led to a negative operating cash flow for you this first half? Over the last three financial years FY2019-2021 the operating cash flow was quite healthy and FY2021 almost Rs. 400 Crores, so that was quite encouraging. I mean this financial year so far it does not seem to be that things are progressing and I was thinking that probably from 128 days we should end at last financial year, I mean, we would start trending downwards and go towards 100 eventually, but this is completely the opposite. So, could you provide some comfort on how it will end this year and more so for the next two, three years, what are the steps you are taking to structurally bring down the working capital days in the business? So that is my question. Thanks.
- Udit Todi:** See, when we talk about working capital, the overall industry the working capital has gone up for every player. That is how the industry has performed and as we had mentioned also that by the end of the financial year we will be looking at achieving a similar target. Last year it was around 120 days, so that is what we are targeting and by the end of March 2022 we will again be looking at closing to a figure which is somewhere similar. Yes the inventory levels has definitely gone up, the raw material prices are on the increase, we have seen a very sharp surge in prices, and the company is also stocking up on the raw material,



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so that right now, in fact most of the cotton and yarn are getting exported, in such a situation it becomes very, very important that the supply chain does not disrupted at the same time you would want to take benefit of the lower price rate, which were earlier there, so keeping everything in mind, we had invested more so into our inventory and going forward as and when the company will start selling the product, ultimately it will get liquidated, money is also starting to flow back into the system, debtors have earlier, on account of fear of the third wave of COVID people were a bit reluctant in the winterwear segment as well as people who were stocking up on liquidity, they were not doing away with liquidity, but now things are normalizing so, even winterwear sales are now driving up, people are as we speak the liquidity is also improved. So, what we feel is that by the end of the financial year we should be looking at a similar figure, which we had ended with last year. Structurally, the company has in fact, if you look at the last two three years so as to say, we have started off with a figure of 150 days approximately and we have been able to bring it down to 120 days. So unlocking one month of working capital at this level of at a growth rate that the company is also growing. So, I think that speaks a lot about the efforts which have gone into the reduction of the working capital.

Aakash Manghani: Let us assume you end this financial year at 120-odd days, I mean, two, three years out how much could you lower it by, will it be 10 days, could it be five days, what is the number that you would be comfortable of achieving?

Udit Todi: Going down the line we will be looking at a similar number maybe reducing it by another 10 to 15 days, but that would be a steady state number, below which we will not be able to go now.

Aakash Manghani: So, you will be at around 100 to 105 normalizing over there?

Udit Todi: Yes, about 100 to 110 days that would be a comfortable number for us to stay at because the method of production which we adopt vis-à-vis the other players, which are there in the market a lot of processes are done in-house for us, which takes a longer production cycle and more investment into the working capital.

Aakash Manghani: So this inventory the days increasing, you are saying, it was primarily because of you upstocking raw materials and raw material inflation by itself.

Udit Todi: Exactly

Aakash Manghani: It is not finished goods inventory build up?



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- Udit Todi:** It is throughout. It is the yarn level, at the work-in-progress level as well as at the finished goods level. It is at all the three levels that we have seen an increase in inventory, obviously the increase in inventory has been higher on account of yarn and on the raw material side rather than on the finished goods side.
- Aakash Manghani:** Sir, one more question on Lyra, you mentioned Lyra is Rs. 250 Crores odd what sort of revenue trajectory can Lyra witness over the next couple of years. That category has been growing at a brisk pace so where could you see this brand in the next few years? Would it be a Rs. 500 Crores or Rs. 450 Crores brand and what are the profit margins over here, the EBITDA margins or gross margins that you think will be? Thanks.
- Udit Todi:** If you look at our investor deck, we have already placed it within three buckets. So Lyra definitely enjoys a good level of margin and talking at the PBT level, we approximately have about 22% to 26% margin levels and going forward we are seeing good growth in this category yes we are looking at expanding our product portfolios and category itself is doing quite well. So, in the next say three to four years we are looking at reaching the Rs. 500 Crores mark.
- Aakash Manghani:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen we will take our last question now which is from the line of Rajiv Bharati from DAM Capital. Please go ahead.
- Rajiv Bharati:** Good afternoon, Sir. Thank you for the opportunity. Sir, my question is what is the kind of price hike, we are looking at in Q3, Q4 at the industry level? I understand that once you announce a price hike at a channel level, there will be some frontloading of demand, by the channel, in anticipation of the price hike, which are just coming through.
- Udit Todi:** See, if you talked about Q3 we are looking at a price hike of about in the range of 5% to 10% and yes people will be in anticipating buying a lot of products, but when we look at Q4 we are again looking at the revised, the new GST regime kicking in, which will be applicable from January 1, 2022. So, again in the Q4 there should again be a price hike owing to the increase in the GST rate. So, we will be looking at a price hike in Q3 as well as well as price in Q4. Price hike of Q3 will be driven by raw material prices and price hike of Q2 will be driven by the new GST regime.
- Rajiv Bharati:** Sure. If you look at the number of Q4 FY2021 on the economy side, where you had 18% ASP growth on that segment and then you had 31% kind of volume growth in that quarter, and when we see the minus 2% in which what we saw in Q1 and Q2 I am assuming that this demand in this category should not have been affected even because of second wave, so



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much. So, this is basically that the volume growth what we captured in Q4 is getting normalized in subsequent quarters and some similar kind of pattern will be seen in let us say whenever price hike you are taking in Q3 and it will happen maybe in Q1 of next year?

Saurabh Bhudolia: Not necessarily Rajiv. The way we are seeing that the volume growth, see overall the company is growing at a rate of around say 2% which is a very minimal growth by way of comes in the volume numbers, but if you see at a different category premium category is growing at a rate of 38% well supported by ASP growth of 30%. So, the way I see the data there is a shift of the customers from the economy to the premium or we are adding more customers in the premium category rather than the economy and as rightly said by Saket Ji and Udit Ji just a few minutes back that economy segment has already seen a lot of penetration and growth in the last nine to 12 months so now the time has come that economy segment should get consolidated at this level and we could start focusing on the premium and the mid premium segment.

Rajiv Bharati: I agree. I take your point. That is why I was talking about economy because another peers of yours have 0% growth on the first half and our situation is also similar, if I ignore the premium side, my point is this frontloading is basically playing d right now because of the price hikes which we have taken in Q4 and if there is a substantial price hike coming through then we will see a similar pattern in subsequent quarters?

Saket Todi: We should see a similar pattern in this between Q4 of FY2022 but overall on an annualized basis the economy segment should, volume wise the economy segment should grow around that 7% to 8%.

Rajiv Bharati: Thanks a lot. That is it. All the best.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I now hand the conference over to management for their closing comments. Over to you!

Saket Todi: I take this opportunity to take thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us our Strategy Growth Advisors, our IR Advisors. Thank you. Wishing everyone a Happy Diwali and Prosperous New Year.

Moderator: Thank you very much. On behalf of Lux Industries Limited we conclude this conference. Thank you for joining us and you may now disconnect your lines.