



“Lux Industries Limited Q3 FY-21 Earnings
Conference Call”

February 15, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Lux Industries Limited Q3 FY21 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 & President (Marketing) from Lux Industries Limited. Thank you and over to you Sir!

Saket Todi: Good afternoon and a very warm welcome to everyone. I have with me Mr. Udit Todi, President Strategy, our CFO Mr. Saurabh Kumar Bhudolia and SGA our Investor Relations Advisors. Firstly, I welcome Mr. Bhudolia who has recently joined us as the CFO. By qualification he's a Chartered Accountant with a career spanning over 15 years with extensive experience in corporate finance, business partnering, investor relations, financial planning and analysis, strategic planning, audit, and risk management. His previous experience includes critical role with Future Lifestyle Fashion Limited as the Chief Financial Officer. Prior to Future Lifestyle Fashions, he was at the core of the finance function with Mondelez International, Sula Vineyards Private limited and Tata Steel. Mr. Bhudolia will be taking over this role from Mr. Ajay Kumar Patodia, who has been the CFO of the company for the last 15 years. We welcome Mr. Saurabh to Lux Industries and wish him the very best.

Moving on with the call I hope you and your near ones are safe and healthy. We have uploaded the results and investor presentation and I hope you'll have gone through the same for those who have not you can view them on our website. The innerwear industry is constantly evolving, and we have always been at its forefront by offering wide range of differentiated and innovative products across multiple segments. Also, with the rise in the work from home model, a new segment of athleisure has come into prominence, which offers much tremendous scope for growth, especially with the current positioning of the company.

Over the years, we have witnessed an evident shift in the industry, right from changing consumer needs and preference expansion of markets to more recently reduction in the spending power and the supply chain bottlenecks. However, our decades of experience in the industry, team of experienced professionals, strong business model, extensive network of dealers and other supply chain elements coupled with the state of art manufacturing facilities has helped us to adapt to these changes and respond suitably to fulfil the needs of our customers on an ongoing basis. Furthermore, the rural modern market, which were practically untapped in the women's innerwear segment are now opening over time with greater exposure and acceptance. Another exciting and new endeavour is the opening of our EBOs network, which is called Cozy World, a unique and pioneering concept of standalone stores showcasing the entire range of brands from the house of Lux Industries. We are operating three stores currently with plans to add on another



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six by the end of March in Tier I, II and III markets and aim to increase the number of stores substantially in the next 2 to 3 years.

To conclude my remarks, I believe that customers are now preferring to choose recognized and branded product over than unbranded one, coupled with major events like demonetization, GST adoption and more recent COVID-19, which has had a massive impact on all the business and led to a shake down in the unorganized sector. This has helped us to increase our market share. Now I will ask Mr. Udit Todi, who's spearheading the strategy for the company to share his thoughts.

Udit Todi:

Hello, good afternoon and a very warm welcome to everyone. I hope everyone is keeping safe. Coming to our performance for the quarter and nine months ended 31st December 2020; we have delivered our best ever quarter with record revenue and a strong EBITDA growth. All this, despite considering several operational challenges amidst the phased reopening of the economy, increase in raw material prices and container shortages. This outcome has been characterized by a simultaneous combined effect of price and volume growth across our category segments.

On the supply chain aspect, we have one of the largest distribution networks in this industry having strong presence in North, East and West parts of the country with plans under consideration for expansions in the South wherein the growth potential seems extremely promising. We have been in constant contact with our distributors, dealers and retailers who have managed to provide us with valuable data points to sense the market pulse and the up move in consumer sentiments with the economic customers moving to the mid premium segment and the mid premium customers steadily opting for the premium segments.

We are witnessing a continually rising demand trajectory in the rural and semi-urban areas with the urban areas being laggard due to the phased reopening but showing green shoots as we step into the final quarter of this financial year. Lux has always been at the forefront in the undertaking innovative ways of marketing and promoting and advertising its products. For the nine months gone by our advertising expenses to that Rs. 41 crores, this is in line with our FY21 guidance of 4% of our revenue. We expect our ad spend to reinstate back to seven to 7% to 8% of our revenue from next year. Along with marketing efforts going digital, the company has embarked on the path of adding value through e-business initiatives.

Tie-ups with various online partners like Amazon, Myntra, Paytm, Flipkart and others have resulted in around 4,000 orders per day. The response has been very encouraging. Our endeavor is to enhance product offerings and continue the growth momentum over the next few years. Our proposed scheme to merge JM Hosiery & Company Limited and Ebell Fashions Private Limited with Lux Industries Limited is also coming to a closure with the merger to be completed soon post which both the companies will be subsumed. This merger will strengthen our position and will help us fulfil financial objectives, not only in terms of growth, but also in terms of strength and efficiency of our balance sheet. This merger will help unlock substantial



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value for our stakeholders and streamline the business. With this I would now request Mr. Budholia to take you to differential performance.

Saurabh Kumar Bhudolia: Thank you Udit ji. Our company reported a strong quarter, our revenue for Quarter 3 FY2021, stood at Rs. 393 crores versus Rs. 306 crores last year giving a growth of around 29%. Our EBITDA stood at Rs. 80 crores as compared to Rs. 55 crores of last year same quarter. We have been able to maintain our EBITDA margin at 20%+ as compared to 18% in Quarter 3 FY2020. Our PAT for the quarter, stood at Rs. 55 crores versus Rs. 35 crores in Quarter 3 FY2020. PAT margin for the quarter ended stood at 14% showing an improvement of around 300+ basis points compared to 10.9% in the same period last year.

Coming to quarterly performance of JM Hosiery; the company achieved the revenue of around Rs. 93 crores in Quarter 3 current year as compared to Rs. 64 crores in same quarter last year, giving a growth of around 45% while Ebell revenue registered a revenue growth of 18%, to Rs. 78 crores in current quarter versus Rs. 66 crores same quarter last year.

Now coming to our nine months performance; our revenue stood at Rs. 1,028 crores vis-à-vis Rs. 924 crores, registering a year-to-year growth of 11%. Our sales and marketing expenses stood at Rs. 41 crores, which is approximately 4% of our revenue. Just a few minutes back, as Uditji said that we intend to keep our marketing and the advertisement expenditure at around 4%. EBITDA for nine months FY21 stood at Rs. 201 crores as compared to Rs. 144 crores of nine months in FY2020, giving a growth of 40% year-on-year basis. PAT for nine months FY2021 stood at Rs. 137 crores as compared to Rs. 93 crores for nine months in FY2020, giving a growth of 47% year-on-year basis. PAT margin stood at 13.3%, a stellar improvement for 330 basis points as compared to 10% for nine months in FY2020.

Coming to nine-month performance for the group companies JM Hosiery and Ebel.

JM has clocked the revenue of Rs. 252 crores while Ebell Fashion revenues stood at Rs. 147 crores. Thus, making the group turnover of around Rs. 1400+ crores. On the working capital front constant efforts to reduce the working capital cycle and in turn to improve operating cash flows are now yielding results. For the quarter ended 31st December 2020, our working capital cycle has reduced to Rs. 404 crores as compared to Rs. 494 crores in March 2020. Going forward our aim is to reduce our working capital even further.

I would also like to give an update on our debt position as on 31st December 2020 the company is practically debt-free and continues to be a net cash company. Even on a group level, considering the two merging companies Ebell and JM, our company will continue to maintain its status quo of being a net cash company. With this we will now open the floor for question answers.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nihal Jham from Edelweiss.



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Nihal Jham: My first question was that, if I look at the growth that the company has delivered in Q3 even for nine months, it is obviously very strong underlying and much better than what I would compare with peers. What sense I wanted to get on is that is it that in the markets that you are operating in, the end customer demand is also similar or is there a clear-cut case of market share gain? And if that is the case, just if you could highlight the reasons for the same.

Udit Todi: For us this year, it has been a clear-cut case of market share gain and so has been the previous quarter results also. So on an average, if you compared us to the listed peers, which are there in the market, as well as to the unorganized sector, you'll see that our growth rate has exceeded, even against the listed peers as well as the unorganized sector. It's a clear-cut case of market share gain and the primary reasons for these being, that our winter wear category has shown a very good growth results and so has our basic categories such as Lux Venus and Lux Cozi. We are very happy that in fact, if you would look at the results of the 29% growth, which you have seen in Quarter 3, our volume growth is also almost same, which is at 29%. So almost entire growth is coming from the volume growth itself.

Nihal Jham: But just to get a little more specific that, is it you are saying primarily the winter wear category, which is shown growth, which is much higher than the overall company growth of 27%?

Udit Todi: No so Quarter 3 is a very heavy on winter wear sales. Otherwise, even if you look at the nine monthly results, even at the nine monthly results, the volume growth is almost at par with value growth. It's almost the entire growth is coming in from the volume growth only. We have grown across all categories in fact, except for maybe exports, which have been slightly sluggish this year due to the pandemic situation. But otherwise, we have witnessed growth across all categories.

Nihal Jham: Would it be possible to give a sense of what was the growth only in the winter wear category and the contribution in Q3?

Udit Todi: For which category I'm sorry?

Nihal Jham: For winter wear specifically, what has been the growth and contribution in Q3?

Udit Todi: So, in winter wear category, in Q3, we have clocked about Rs. 100 crores in the current quarter. vis-à-vis about Rs. 80-85 crores in the corresponding period. And winter wear as the category is also a category which commands higher margins.

Nihal Jham: But if I just compare the fact that if I look at the winter wear growth that is around the 20% or between 15%-20% and the company growth is at 27%. So, is it that the core categories have done much better or there are certain specific other smaller categories, which has seen an exponential growth in Q3?

Saurabh Kumar Bhudolia: So see again, it's a very valid question, the thing is that like in Lux there are three different brands on the categories which have grown to the next level that is Lux Cozi, Venus and then Inferno.



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As explained by Udit Inferno we have grown in the range of around 20%+. Whereas in Cozi and Venus we got a growth upwards to 35%+, same Cozi like to be very specific, the growth is around 35% to 40% whereas in Venus, we have a growth of around 45%+.

Nihal Jham: Getting to the specific, but what are the steps that were taken and what are the initiatives that are seeing us gain market share across all three, Cozi, Venus and winter wear?

Udit Todi: Could you please repeat your question once again?

Nihal Jham: I was asking that, what I wanted to just get a sense of is that what are the initiatives we have been taking or specifically taken over the last 3-6 months, which has helped us gain market share compared to the other peers also and the unorganized segment?

Saket Todi: See, it is like in the last few months there has been an increase in demand across the whole industry. Now it depends on which brand has more pull factor in its product. We see that as we have invested last 10-15 years much in the brand and the investment in the brand as well as the service which we have provided to our customers. We are reaping the benefits out of that in the last few quarters and whenever the competition would be intense like this, we would assume that we would, come out on top of it.

Nihal Jham: Just one last question from my side, if you could give the absolute volume number for this and last quarter that will be helpful.

Saket Todi: The absolute or volume number for Quarter 3 FY20 was a 4.56 crores pieces and for FY21, it is 5.87 crores pieces.

Moderator: We'll move on to the next question. That is in the line of Bhargav Buddhadev from Kotak Mutual Fund.

Bhargav Buddhadev: My first question is on gross margins; so essentially given that yarn prices have been going upwards, what kind of pricing actions have we taken, if you can quantify please and essentially, have we passed on the entire increase in yarn prices by increasing the finished good prices?

Saket Todi: How our selling is working that whenever there is an increase yarn price, we pass on the price to our consumer then whenever there's a decrease we pass on the same benefit to our consumers, keeping the gross margin level at each brand or each product almost the same. The yarn prices have started increasing from the month of November-December. So, which would impact the Quarter 4 sales practically. The increment in our product prices have already started towards the end of December and the majority increase has been happening in the Quarter 4 of this fiscal year.

Bhargav Buddhadev: So, essentially starting April, we should see the entire flow through of raw material price into our finished goods price, is that a fair assumption?



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- Saket Todi:** Yes. Quarter 4 would see the reflection of it and Quarter 1 of next financial year we can see the whole increment in price across all product categories.
- Bhargav Buddhadev:** In Lyra what would be the share of leggings now and what is the plan for Lyra, maybe over the next 3 to 5 years to scale it up?
- Udit Todi:** Right now, the contribution of leggings in the entire sale would roughly be about 85% to 90%. And the way we are growing is that the other categories in which we have already entered, for example, women's innerwear, women's athleisure, t-shirts, pajamas, track pants and such categories. So these are the categories where we are investing more and more and we believe that these will be the growth drivers also and going forward in the next 3 to 5 years, we believe that the overall contribution from these newer categories which is athleisure and innerwear, basically women's lingerie and women's athleisure, these are the two categories which we are focusing up on and going forward we believe that right now which is contributing about 10%-15% to sales, we'll take it up to about 30%-35% of sales.
- Bhargav Buddhadev:** Right now, Lyra would be close to about Rs. 350 crores to Rs. 400 crores brand, right?
- Udit Todi:** No. So FY20, we had completed about Rs. 250 crores – Rs. 270 crores of topline. That was FY20, FY21 obviously because of the pandemic situation women's wear has taken a bigger hit than men's wear. So, this year right now, if you look at nine months level, we would be slightly on the decline side.
- Bhargav Buddhadev:** No, I'm trying to annualize the current run rate. So, if we forget the nine months.
- Udit Todi:** If you are talking about current monthly run rate? So, if you look at current monthly run rate, we are already clocking the growth of on an average 10% to 15% every month vis-à-vis corresponding period.
- Bhargav Buddhadev:** By when we see this growth accelerating, you mentioned about the new underwear categories which you are seeding. You think FY22 can be a year where we can see 20%-25%?
- Udit Todi:** We believe that in the coming 3 years at FY22, '23 and '24, these 3 years, if you look at FY22, we will already witness an increase of percentage contribution coming in from the newer categories. With every passing year we believe that, for example, we are setting ourselves a target of 5 percentage increase in a revenue share. If you have to move from say about a 10% to a 25%, we are targeting 5% every year.
- Bhargav Buddhadev:** In your presentation, you've also mentioned about EBOs. As of now you have three and you plan to add another six and you plan to reach to more 50 by next year. What gives you confidence to start investing in EBOs because that sort of requires the partnering with franchisees and are you being able to get that confidence from your franchisee partners to scale this up to maybe 50?



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Udit Todi: We've launched our EBOs under the name of Cozy World. The concept is that, within the Cozy World, we'll be presenting all the bouquet of brands which the Lux Group currently holds and give the customer a one-stop shop for their necessity. If we talk about current EBO strength we are already have about 5 to 6 EBOs and going forward, we are only opening EBOs mostly through the franchisee route. And we've already having a lot of franchisee enquiries already. In fact, the COCO stores are only limited to 2 to 3 stores, all the other stores which are even now currently in the current quarter being opened up are all being opened up under franchisee FOFO models. This gives us a lot of confidence that going forward franchisee interests will definitely be there. Talking about investments, so most of the investment is done by the franchisee, whether it is in the investment in stock, investment in furniture, most of these investments are undertaken by the franchisee itself. So when it comes to the company, company's investment is very limited. We believe that even if we are growing through this modern trade/ EBO route, it will not be affecting our balance sheet in any way.

Bhargav Buddhadev: Would it be fair to say that all new launches or maybe the premium portfolio would be the ones which will be primarily posting EBOs and hence competition with MBOs may not be on a like to like basis?

Saurabh Kumar Bhudolia: The idea over here is like a with the EBO we want to start our journey towards the retail and with a minimum exposure in the CAPEX or in the working capital, as Udit explained we are planning to open all the EBOs through FOFO model. The idea over here is to create the brand perspective, to put all the premium brands in the EBO and to make the customer a bit educated that these are all the brands and the things can be available under the roof of Lux Industries. And from here we can explore the opportunity that if required, we can move forward, and we can take a next step forward towards the MBO. But for now, for another 2 years we want to restrict ourselves to the EBO and we want to see the journey and from there we will take a call.

Bhargav Buddhadev: Lastly on capital allocation, we now have a net cash of about Rs. 140 crores odd and this will only increase given, working capital is now under tight control. How do we plan to spend this money on maybe over the next 2 to 3 years?

Saurabh Kumar Bhudolia: The COVID has taught us that cash is everything. We want to be very conservative while utilizing the cash, but definitely we will use the cash for the purpose of dividends subject to getting the approval from the board. Second again, we want to put the cash for the business, for the purpose of business growth. The strategy is still getting firmed. As soon as we will be ready with the strategy and the business plan, we will come back, and we'll share the information with the market.

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

Shalini Gupta: I had 2-3 questions, so one is that you have generally been very bullish on the premium segment. If you could give a sense of how much the segment contributes now and what kind of growth,



we've seen in the nine months because for the rest of the industry, basically urban has been slow to come back. Premium growth has been lagging for if you could just speak about that.

Saket Todi: In the premium segment, we have two brands currently where we are operating brand, one is Brand ONN and the other one is Brand One8. Brand ONN for the first quarter has seen a very limited sales due to the COVID situation. In Quarter 2, we will be able to achieve our last year sales figure of Quarter 2. In Quarter 3, we have seen a growth of around 15%. In the coming quarter, we can see a good growth of around 25%. So, giving a growth idea for nine months, we have been at a negative growth, but seeing the growth trend happening over month-on-month basis, we are very positive to have a good growth over the next financial year. The same is happening in the brand One8 but One8 being a very new brand as last year the base was very low. So, currently, we are having a growth of around 80% to 90% in Quarter 3.

Shalini Gupta: The other segment you've been very bullish on and you referred to it in the presentation today also is athleisure. And what surprises me is that a lot of people, although a lot of people will be at home somehow athleisure sales have not really picked up for a lot of people. If you could just speak about how much your athleisure sales are and contribute to the turnover and what kind of growth have you clocked?

Saket Todi: So, athleisure, mainly the sales happened strong and the brand GenX, which happens in the company JM Hosiery which is the unlisted entity getting merged into Lux and as we have shown the number that in quarter 3 was GenX clocked a growth of around 45%. Last year corresponding quarter it was Rs. 64 crores and this year Quarter 3 it is at Rs. 93 crores. Majority of the athleisure sale is happening out there as well as ONN and Lyra also has a particular segment of athleisure. Overall, at a group level last year we were at around Rs. 120 crores to Rs. 140 crores of turnover in the athleisure segment. This year as the year is progressing, we are seeing a very good growth in that segment happening.

Shalini Gupta: If you could just say, what is the contribution of the premium segment, just the premium innerwear to your sales? There will be some segments of thermal, women and all that which are part of premium, but just premium men's inner wear.

Saket Todi: The premium men's inner wear would the average nine-month sale at a consolidated level of around Rs. 50 crores of turnover. It is just premium men's inner wear category.

Shalini Gupta: What is your EBITDA margin guidance for financial year '22 because this year has been very strong, for various reasons? One main reason being that you've cut back on your advertising spends and you yourself said that advertising spends will be going back to 7% levels as they used to be. So, what kind of EBITDA margins should we pencil in?

Saket Todi: So, we would try to maintain EBITDA level margin of around 18% because in this year you had seen the gross margins going down because of the basic and the economy range and the mid-level range of products growing exponentially, then the premium product range, which gives us



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a better margin. Next year, I think so, the premium segment, as well as the export segment would also contribute equally to the growth of the company or better than the basic range. We expect the gross margins to improve next year, which would reflect again in the EBITDA level margins.

Shalini Gupta: Your third quarter volume growth has been around 27%, you said that basically the top line growth is mostly volume driven. You also said that lot of this is driven by the economy segment and the mid premium. If you could just say how much do each of these segments, economy and mid premium contribute to your top line growth.

Saket Todi: So, if I would, give you the volume wise in Quarter 3, Lux Venus had a volume growth of around 43%, whereas Lux Cozi had a volume growth of around 36% and together, their sales is approximately or the volume is approximately 75% of the total turnover in terms of volume.

Shalini Gupta: Yes, 75%. And your average selling price obviously has not gone up because a lot of the turnover growth has been driven by volumes.

Saket Todi: Yes.

Shalini Gupta: Would you be able to quantify this average selling price?

Saket Todi: The quantity is a 5.87 crores pieces and the turnover is Rs. 393 crores, I think so we can get a mathematics out from there.

Moderator: The next question is from the line Perna Jhunjunwala from B&K Securities.

Perna Jhunjunwala: Just wanted to understand your distribution network expansion in the quarter on Q-on-Q or a YOY basis, mainly on MBO network or distributors, agents, etc.

Saket Todi: So, in the current scenario of the COVID-19 situation, there has been a very negligible growth in the distribution expansion because right now the distributors are very precarious in choosing the brands. So many distributors are in fact reducing the brands which are less demanded in the market and they are keeping only strong brands with them. These nine months have been very difficult for any brand to enter a new distribution or in a new distribution category or evolving its distribution network.

Perna Jhunjunwala: And if I want to understand your EBO network expansion, what kind of area are you looking at existing, basis where you are distributing currently which are strong in nature or more in the Southern where we want to establish our presence? Could you just help us understand our EBO network expansion strategy?

Udit Todi: We are trying to expand EBOs in that there has been no particular decision, so as to expanding in areas where we have been weak, we have been expanding everywhere. We have been just keeping in mind that we are choosing places where the rentals are low. We are not using a premium market. We are keeping, the mass crowd in mind whenever we are choosing a location.



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We've been opening EBOs keeping that economics in mind that, at the end of the day we need to make money out of it.

Prerna Jhunjhunwala: It is not likely to cannibalize your existing network is just what I wanted to understand.

Udit Todi: Basically, the customers which land up in an EBO or in a modern trade is very different from a customer who would walk into another MBO or a general mom and pop store. So, the two universes are quite different and very rarely they overlap. So, we are very sure that, the EBOs and modern trade presence which we're trying to make, will definitely attract and draw new customers on board with us.

Prerna Jhunjhunwala: What is the contribution of e-commerce revenues to our total revenue?

Udit Todi: Right now, e-commerce has been quite new nascent thing for us. At the group level, we have clocked about Rs. 15 crores to Rs. 20 crores of sale, which is roughly about 1% of our top line. And we believe that there is a lot of headroom for growth going forward. That in fact has been one of our core focus areas. We believe that in the next 2 to 3 years, we will be exponentially growing in the e-commerce category and we have taken concentrated efforts for that. We have set up an entirely new team to help the e-commerce strategy. We believe that in the next 3-4 years, we'll at least be at 4 to 5 times where we're standing right now. So, our share of e-commerce in the overall pie will definitely increase.

Saurabh Kumar Bhudolia: See the idea of to get is that still like we are in the learning phase, we are still in a field where we are creating the groundwork to make an e-commerce a separate vertical. We want to get into a single piece speaking and the marketplace organization. For that purpose, we are hiring the skilled people who can create this complete different vertical for us. From there, we are clearly looking that it can become a Rs. 100 crores to Rs. 150 crores kind of business gradually in another 3 to 4 years.

Prerna Jhunjhunwala: I just wanted to understand your product mix, an earlier participant also asked the same, but putting it differently, I just wanted you to understand your revenue share with respect to innerwear versus outer wear or innerwear versus athleisure versus winter wear and how is it shaping up or going forward? Do you see athleisure gaining a lot of share or it will come back to normalcy with people resuming offices etc.? So, some color on that would help.

Udit Todi: The company is operating across multiple brands and every brand has their own share of innerwear and outer wear. So, at the group level, we don't have an exact figure as to what the overall inner wear versus outer wear versus winter wear versus athleisure looks like. But just to give you a color, just to give you a flavor as to how it looks right now, we've seen that the growth, definitely on the outerwear side/ athleisure side is much higher compared to the innerwear category, obviously because the ASPs also much higher compared to in inner wear category. If we talk about a t-shirt or a pajama or a track pant, the average selling point is much higher compared to a vest or a brief. So, and thanks to the pandemic situation also people have started



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using more and more such products. The growth on this side is far more superior and going forward also these are the categories where we want to grow and make our presence felt because for us, these are newer categories, smaller contributions to the top line. So, for us to grow these categories at a much faster rate will be much easier.

Prerna Jhunjhunwala: So, just an extension to this question of athleisure, how is the competition in this segment? Because I believe that there's a lot of regional players in the market, in this category so a scope for branded players is very high, but how is the competition there and how difficult it is to scale up in this business, over the next 4 to 5 years?

Saurabh Kumar Bhudolia: See the way we are seeing the market currently, there are several competitors, but as the company has placed itself in all the three verticals i.e. economy, mid-premium and premium. So, from economy point of view, we are always trying to create, we are always trying to increase our market share which will give me a boost in my top line. Whereas in premium, we are trying to boost our profitability. With the kind of nature of business, we are, we will be having a larger reach as compared to the regional player. With that perspective we think that we are one step ahead as compared to any other regional or the national in the athleisure category in India.

Prerna Jhunjhunwala: The last question One8, any update on revenue or profitability there, how is the brand shaping up and what are the key factors that is driving it and any key challenges that you would like to highlight?

Saket Todi: The revenue from One8 for the first nine months would be approximately Rs. 6 crores to Rs. 7 crores of the turnover.

Prerna Jhunjhunwala: What about the traction in this brand?

Saket Todi: The traction in this brand is very strong. As last year just the One8 innerwear the whole year we clocked a turnover of around roughly around Rs. 3 crores and from 3 crores from the first nine-months we have reached on Rs. 7 crores and we intend to close at Rs. 10 crores this financial year. Roughly 3-3.5 times but the base is very small, so it is not wise to count the percentage gain right now.

Saurabh Kumar Bhudolia: But these Rs. 10 crores are coming after considering the lockdown of 3-4 months there there was zero sale. It would have been a full year then I believe the turnover would be in the range of Rs. 12 crores to Rs. 15 crores types.

Moderator: We will move onto the next question that is from the line of V. P. Rajesh from Banyan Capital.

V. P. Rajesh: My question was that given what you said about the distributors, is it fair to conclude that the market share is shifting from the unorganized guys to organized guys like you?

Saket Todi: Yes, it is shifting.



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- V. P. Rajesh:** Do you think this will continue and therefore the organized players will become what percentage of the overall market, let's say in the next 2-3 years?
- Saket Todi:** It is very difficult to say that at what rate will the unorganized segment diminish but we would say for the next few quarters coming in, the unorganized share would definitely go down and the organized would gain the market share.
- V. P. Rajesh:** Do you see the unorganized players then coming back maybe let's say 6-9 months or a year down the line given what happened around demon, I am just curious about that?
- Saket Todi:** Actually once when the shelf space captured in a retail outlet it is very difficult to capture back that shelf space with the unorganized segment as well as, as I said earlier that the distributors have become very choosy right now with the brand and which they are working in so they are betting on a powerful brand rather than an unorganized brand. The distributors are itself moving towards that the brand which has a better pull, they would continue to work in that brand. The same concept is going on with the retailers, this is on the demand side whereas on the supply side in the unorganized segments after COVID has taken place and as well as the increase in yarn prices. Only the organized players are there which are working in full-fledged condition whereas the unorganized manufacturers which are generally on which generally work on a cash rotation basis, it has been very difficult for them to survive through this pandemic.
- Moderator:** The next question is from the line of Kedar B from Composite PMS.
- Kedar B:** My first question is about the EBOs that you already opened. Would it be possible for you to give some sort of an early sense of the unit economics inward? For example, what sort of monthly run-rate are we doing? What kind of inventory levels are we actually stocking up at each store, something on those lines?
- Saket Todi:** Right now, it would be not wise to see which products are moving and at what rate it is moving because it had been just around 2 to 3 months, full months working for the view. So, we should go through a complete season which involves summer as well as winter. Right now, we are seeing the winter wear products moving faster than the summer wear product but we know that in future summer wear would also gain more share in the pipe. So, it would be unwise to calculate as, at what run rate right now are the EBOs clocking sale till we complete a full season.
- Kedar B:** Because historically if I just look at the numbers at a company level, we will be in sitting on almost 75 to 90 days of inventory. That's around 2.5 to 3 months. Would it be a reasonable assumption to make that, that will be the inventory holding or would it be materially different though I know it's kind of lead us?
- Saurabh Kumar Bhudolia:** Still, if you see the company as a whole, we are still achieving the whole stock turn and definitely at the start of the call we discussed that company is still working towards further decreasing the working capital. We will unblock the bottlenecks if you found anything and efficiency will be



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put on the table. For now, yes this is the inventory level and there are all the efforts to again reduce the working capital, blockage in inventory by another 3% to 4%.

Kedar B: At what point of time will we start considering, let's say a foray into the large format stores as well, now that we are also looking at EBO?

Saurabh Kumar Bhudolia: We have just started our journey towards the EBO and still we need to cover our learning curve. Once we are ready, we will explore the opportunity for MBO as well but yes it will take its own time.

Kedar B: My second question is on the newer categories that you see women's innerwear plus the athleisure segment. Even over there the inventory levels how are they compared to our standard legacy products? Is it on the higher side or are we able to maintain the same level as we would traditionally done?

Udit Todi: You are talking about the Ebell Fashions, correct?

Kedar B: I am talking of the newer categories that you explained on one of the previous participant's questions so that's the athleisure segment plus Ebell plus also the women's innerwear segment?

Udit Todi: If you look at women's innerwear because it's a newer category for us so right now, we are building, we are sitting on a higher stock level because we are also seeing high growth rate going forward. Initially whenever a brand is getting built up your initial stock levels are higher and sales are lower and as the sales picks up, the inventory remains the same and talking about overall if you look at Ebell Fashion, then the stock levels are pretty much on the lower side at an overall balance sheet level.

Kedar B: The way you described that you have a specific team that is in place to look at your foray into e-commerce as a channel. Any plans of doing something on similar lines once we have a critical mass on the EBO or the LFS side or do you think the current team is probably good enough to handle the expansion on that front?

Udit Todi: We already have a separate team which is taking care of e-commerce and the similar team will also be handling operations for the EBO channel as well. It will more or less be a common team where will be adding on a couple of members those who are talented in the e-commerce sector specifically but overall more or less the team would be the same and we have already taken on people those who have a very strong e-commerce background. We are very sure that in the coming few years, it will give us good results.

Moderator: The next question is from the line of Deepak Madhavdas from LSC Securities.

Deepak Madhavdas: Just two questions, one is the scheme of amalgamation, how long do you think will this be complete?



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- Saket Todi:** As we mentioned, we are hopeful that in the next 2 to 3 months we should be able to complete the process. We are already halfway through the required regulatory approval and we believe we are just a couple of steps away and what we are trying for is that we should close it as soon as possible and fingers crossed; if everything goes as per the schedule then we believe that the current fiscal year ended balance sheet should come out as a merged balance sheet.
- Deepak Madhavdas:** One small query on the balance sheet front, if you see note #29 of your other expenses that is page #182 so there is a small out go of Rs. 5 lakh paid towards royalty charges. Can you please explain what is this for?
- Saket Todi:** Royalty charges is, from Lux to Biswanath Hosiery as Biswanath Hosiery owns the brand Lux. There has been a perpetual agreement between Biswanath Hosiery and Lux Industries Limited on a very minimalistic basis of royalty. So, this is that royalty given.
- Udit Todi:** If you see in this entire scheme of events where Lux has clocked a turnover of about Rs. 1200 crores a royalty of Rs. 5 lakh is something which is quite negligible.
- Deepak Madhavdas:** I just wanted to just understand like all the brands and other things we are not paying any royalty for that. That is the only thing I just wanted to understand.
- Udit Todi:** No.
- Moderator:** The next question is from the line of Rishan Gavish from Revo Commercial.
- Rishan Gavish:** Just a bookkeeping question. What is our debt and cash as on December 2020?
- Saurabh Kumar Bhudolia:** As on December 2020, the Lux Industries Limited net cash position is positive. At a gross level like we have a debt of around Rs. 40 crores, out of Rs. 40 crores, Rs. 25 crores is in term loan and Rs. 15 crores is towards the EPC borrowing. Other than that, we are at a gross level we have Rs. 140 crores of the positive cash balance which is lying in the system and mainly this cash has been generated from Basket one that is a generation of the positive EBIDTA, Basket two after releasing from the working capital.
- Moderator:** The next question is from the line of Anjali, an Individual Investor.
- Anjali:** My question was around the working capital. I know we have reduced in this quarter could you just elaborate on the components individually what has reduced with inventory change receivables and what do we foresee to further reduce?
- Saurabh Kumar Bhudolia:** In working capital if you see my debtor days have come down from 91 days to 68 days, inventory days has come down from 97 days to 79 days and creditor days have come down from 43 days to 41 days. So almost creditor level is same whereas in debtor and inventory, the debt has come down drastically despite COVID.



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Anjali: And what's the reason for that?

Saurabh Kumar Bhudolia: In debtor there are better now, we have put up a system like to monitor the complete credit control system. We are renegotiating the credit days with the debtors and we are offering the better pricing vis-à-vis with a better turnover where as in inventory we have created a complete integrated model so that inventory should not lie beyond a particular days at warehouse. It should reach out to the distributor. This is that we have completely integrated our production plan versus my supply chain process.

Anjali: You mentioned that there are efforts to reduce it by 3%-4% more. Where would that be further coming from?

Saurabh Kumar Bhudolia: The idea over here is the inventory still there are a few brands where still we feel that the inventory level is quite high which is in the ratio of around 3% to 4%, which we want to cut further. That efficiency should come on the table whereas in debtors still there are few debtors where we are renegotiating our terms and once it is done, it will also add value to the balance sheet.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Udit Todi for his closing comments.

Udit Todi: Thank you everyone for participation in our earnings call. We have uploaded the presentation on our company's website for your reference. In case of any further queries, you may get in touch with our Investor Relation Advisor which is Strategic Growth Advisors and feel free to get in touch with us in case you have any further queries. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Lux Industries Limited we conclude this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.