

# Lux Industries Ltd.

Brands like Lux Cozi, Lyra & ONN are doing well

Lux Industries Ltd. (LUX), reported weak performance in Q2FY23 in a challenging business environment of volatile raw material prices. Revenues in Q2FY23 increased by ~1.4% YoY, however volumes declined by ~8% YoY (volumes in H1FY23 grew by ~3% YoY). Growth in volumes in H1FY23 was driven by brands like Lux Cozi, Lyra & ONN. Gross margins were impacted due to consumption of high cost raw materials as the company was not able to pass on the increase to its customers. Company witnessed healthy traction for its men's premium brand "ONN" (contributed ~6% of sales in H1FY23) up ~48% YoY & women's brand "Lyra" (contributed ~16% of sales in H1FY23) grew by ~46% YoY. Management believes that prices of both cotton and yarn seems to have stabilised which should help to improve sentiments of the distribution channel going forward. We expect performance of the company to improve on a QoQ basis due to some stability in cotton yarn prices. The board of directors have approved appointment of Mr Udai Kumar Agarwal as Chief Operating Officer of the company w.e.f Nov 14<sup>th</sup>, 2022. **We remain positive on Lux's long-term growth prospects for its strong brand equity and long-standing operations in the innerwear industry. We maintain our "Accumulate" rating on the stock with a price target of Rs 1,802 per share.**

## H1FY23-Key Earnings Highlights

- In H1FY23, the company reported a ~15.3% YoY increase in sales led by a volume growth of ~3% YoY. Company sold 141.5 mn pieces of garments of which ~67% pieces were sold between brands Lux Cozi and Venus.
- Gross margin for H1FY23 declined by ~635 bps YoY to ~31.8% on account of volatile & increase in raw material cost which is mainly cotton yarn.
- In H1FY23 EBITDA declined by ~37.9% YoY to ~Rs 1,395 mn. EBITDA margin for H1FY23 declined by ~992 bps YoY to ~11.6%, mainly led by decline in gross margins and increase in advertisement expenditure which increased by ~43% YoY at ~Rs 970 mn.
- PAT for H1FY23 declined by ~43.7% YoY to ~Rs 927 mn. PAT Margin was at ~7.7% vs ~15.8% YoY.

## Continued focus on advertisement & marketing

In H1FY23 company spent ~Rs 970 mn on advertisement which is ~8.1% vs ~6.6% YoY of sales. As a part of marketing initiatives, company has roped in Sourav Ganguly as the brand ambassador for **Lux Cozi**. **Lux Venus** has been re-branded and re-launched with Salman Khan being onboarded as the brand ambassador. After gaining strong response from the dedicated television advertisement of lingerie product range under brand **Lyra**, the company launched targeted ads for its women wear and winter wear products category. **Management believes that these marketing initiatives should help the company in gaining further traction in the market.**

## Outlook and Valuation:

- We believe, company is well-poised for growth on the back of increasing share of premium products (mainly Lyra and ONN), new product launches and growing retail & online presence.
- We have valued the stock at 15xSep'24e EPS of Rs 120.1 (rolled over from March'24), to arrive at a target price of Rs 1802 and maintain our "Accumulate" rating on the stock.**

Y/E Mar (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Q2FY23E	Var. (%)
Net sales	6,357	6,272	1.4%	5,687	11.8%	6,310	1%
Operating costs	5,710	4,899	16.6%	4,939	15.6%		
EBITDA	647	1373	-52.9%	748	-13.6%	1,039	-38%
EBITDA Margin (%)	10.2%	21.9%	(1,172)Bps	13.2%	(298)Bps	16.5%	
Depreciation	49	43	11.8%	48	1.3%		
Interest	62	27	128.2%	52	19.3%		
Other income	26	37	-28.4%	30	-11.8%		
PBT	562	1339	-58.0%	678	-17.1%		
Provision for tax	151	339	-55.4%	178	-15.1%		
Tax rate (%)	26.9%	25.3%	159 Bps	26.3%	64 Bps		
Reported PAT	420	1004	-58.2%	507	-17.2%	723	-42%
PAT Margin (%)	6.6%	16.0%	(941)Bps	8.9%	(231)Bps	11.5%	

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj.PAT	YoY (%)	Adj.EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	19,525	17.1%	3,804	19.5%	2,714	53%	90.3	31.2%	26.4%	15.2	8.7
FY22	22,959	17.6%	4,732	20.6%	3,397	25.2%	113.0	29.5%	25.2%	29.1	21.1
FY23E	25,190	9.7%	3,035	12.1%	2,085	-39.1%	66.1	14.9%	13.4%	25.7	17.9
FY24E	29,038	15.3%	4,704	16.2%	3,555	62.5%	107.3	21.1%	19.6%	15.8	11.4
FY25E	33,399	15.0%	5,745	17.2%	4,181	23.8%	132.9	22.1%	21.0%	12.8	9.2

Source: Company, SMIFS Institutional Research Estimates



Rating: Accumulate Upside: 6%  
Current Price: 1696 Target Price: 1802

### Earlier recommendation

Previous Rating: Accumulate  
Previous Target Price: 1,983

### Market data

Bloomberg:	LUX IN
52-week H/L (Rs):	4,642/1,654
Mcap (Rs bn/USD bn):	50.89/0.63
Shares outstanding (mn):	31.30
Free float:	25.8%
Avg. daily vol. 3mth (3M Avg – in '000):	46.06
Face Value (Rs):	2
Group:	BSE 500

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	74.2	74.3	73.9	73.6
FIIs	2.1	2.1	2.8	3.9
DIIIs	6.2	6.2	6.7	6.6
Public/others	17.5	17.4	16.6	15.9

### Promoters Pledging

% of o/s shares	0	0	0	0
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Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE 500	5.9	3.6	0.97	63.1
LUX	-2.3	-5.9	-59.7	28.8

\*as on 15th Nov 2022; Source: AceEquity, SMIFS research

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## Q2FY23– Key points from the presentation

- ✓ In H1FY23 company reported a volume growth of ~3% YoY and sold ~141.5 mn pieces, while rest of the growth was on account of impact of price increase and product mix.
- ✓ In H1FY23 two key brands- Lux Cozi and Venus contributed ~67% of the overall volumes of the company.
- ✓ For H1FY23 economy segment's (~29% of H1FY23 sales) revenue grew by ~11% YoY to ~Rs 3,510 mn while revenue from mid- premium segment (~57% of H1FY23 sales) grew by ~19% YoY to ~Rs 6,850 mn. Additionally, revenue from the premium segment (~13% of H1FY23 sales) increased by ~12% YoY to ~Rs 1,610 mn.
- ✓ In H1FY23 volumes in the mid-premium segment increased by ~13% YoY, while there was a volume decline of ~9% and ~1% in premium and economy segment respectively. **Overall ASP increased by ~12% YoY in H1FY23.**
- ✓ In H1FY23 sales of thermal wear products (contribution of ~11% of sales) under the brand **Lux Inferno** was at ~Rs 1320 mn down by ~1% YoY.
- ✓ In H1FY23 geographical mix of sales was North: ~36%, East: ~22%, West: ~23%, Central: ~15%, South India: ~4%.
- ✓ In H1FY23 womenwear brand “Lyra” reported sales of ~Rs 1940 mn up ~46% YoY. **Lyra contributed ~16% of total revenue.** Company has expanded its product portfolio from earlier leggings & bottomwear to women lingerie & athleisurewear products.
- ✓ In H1FY23 company’s premium brand “ONN” reported revenue of Rs 740 mn up by ~48% YoY (contribution ~6% of sales).
- ✓ In H1FY23 advertisement spend was ~Rs 970 mn i.e ~8.1% vs ~6.6% YoY.
- ✓ At the end of H1FY23 net working capital days increased by ~43 days YoY to ~202 days. Increase in raw material cost and higher cost inventory led to increase in working capital as they accounted for ~63% of the working capital. **However, company expects working capital cycle to moderate in the coming quarters** with an increase in sales and prudent procurement and inventory management.
- ✓ **At the end of H1FY23 company has distribution network of 1,170+ dealers and company’s products are available in 2 lakhs plus multi brand stores.** Company also has ~9 EBO’s & presence across ~160+ Large store formats to showcase the entire product range.

## Outlook and Valuation

- ✓ We believe company is well placed to benefit from structural shift happening in the innerwear sector from un-organised to organised sector.
- ✓ However, given the weak performance in H1FY23 especially on the margins, we have reduced our profit estimates for both FY23e and FY24e.
- ✓ **We have valued the stock at 15xSep24e EPS of Rs 120.1, to arrive at a target price of Rs 1802 per share, we thus maintain an “Accumulate” rating on the stock.**

**Key risks** are (1) Volatile raw material prices (2) Competition from both organised & un-organised players (3) Any increase in GST rates.

### 1-year forward P/E



Source: AceEquity, SMIFS Institutional research

## Quarterly financials, operating metrics and key performance indicators

**Fig 2: Quarterly Financials (Consolidated)**

Y/E March (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Sales</b>	<b>5,376</b>	<b>5,961</b>	<b>4,175</b>	<b>6,272</b>	<b>6,643</b>	<b>5,869</b>	<b>5,687</b>	<b>6,357</b>
COGS	3,480	3,748	2,596	3,868	4,167	3,749	3,878	4,339
Employee Costs	201	198	182	236	246	225	292	307
Other Expenditure	628	778	523	796	815	825	770	1,065
<b>EBITDA</b>	<b>1,068</b>	<b>1,238</b>	<b>873</b>	<b>1,373</b>	<b>1,416</b>	<b>1,070</b>	<b>748</b>	<b>647</b>
Depreciation	44	50	43	43	48	49	48	49
Interest	28	24	26	27	37	70	52	62
Other Income	22	52	36	37	37	61	30	26
<b>PBT</b>	<b>1018</b>	<b>1216</b>	<b>840</b>	<b>1339</b>	<b>1368</b>	<b>1012</b>	<b>678</b>	<b>562</b>
Tax	266	310	203	339	356	281	178	151
Tax rate (%)	26.2%	25.5%	24.2%	25.3%	26.0%	27.8%	26.3%	26.9%
<b>Reported PAT</b>	<b>752</b>	<b>906</b>	<b>637</b>	<b>1000</b>	<b>1012</b>	<b>731</b>	<b>500</b>	<b>411</b>
Extraordinary Items	-	-	-	-	-	-	-	-
Share of profit/ (loss) in JV	3	7	5	4	1	7	8	9
<b>Adjusted PAT</b>	<b>755</b>	<b>913</b>	<b>642</b>	<b>1004</b>	<b>1013</b>	<b>738</b>	<b>507</b>	<b>420</b>
<b>YoY Growth (%)</b>								
Revenue	NA	48.1%	31.7%	25.0%	23.6%	-1.5%	36.2%	1.4%
EBITDA	NA	90.3%	59.4%	44.6%	32.5%	-13.5%	-14.3%	-52.9%
Adj. PAT	NA	118.2%	72.4%	49.4%	34.1%	-19.2%	-20.9%	-58.2%
<b>QoQ Growth (%)</b>								
Revenue	7.1%	10.9%	-30.0%	50.2%	5.9%	-11.7%	-3.1%	11.8%
EBITDA	12.5%	15.9%	-29.5%	57.3%	3.1%	-24.4%	-30.1%	-13.6%
Adj. PAT	12.4%	20.9%	-29.7%	56.5%	0.9%	-27.2%	-31.2%	-17.2%
<b>Margin (%)</b>								
Gross margin (%)	35.3%	37.1%	37.8%	38.3%	37.3%	36.1%	31.8%	31.7%
Employee cost/ revenue (%)	3.7%	3.3%	4.4%	3.8%	3.7%	3.8%	5.1%	4.8%
Other expenses/ revenue (%)	11.7%	13.1%	12.5%	12.7%	12.3%	14.1%	13.5%	16.8%
EBITDA margin (%)	19.9%	20.8%	20.9%	21.9%	21.3%	18.2%	13.2%	10.2%
Adj. PAT margin (%)	14.1%	15.3%	15.4%	16.0%	15.2%	12.6%	8.9%	6.6%

Source: Company, SMIFS Institutional Research Estimates

## Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>19,525</b>	<b>22,959</b>	<b>25,190</b>	<b>29,038</b>	<b>33,399</b>
COGS	12,811	14,379	17,129	19,020	21,710
% of sales	65.6%	62.6%	68.0%	65.5%	65.0%
Employee Expenditure	699	889	1197	1307	1436
% of sales	3.6%	3.9%	4.8%	4.5%	4.3%
Other Exp.	2212	2958	3829	4007	4509
% of sales	11.3%	12.9%	15.2%	13.8%	13.5%
<b>EBITDA</b>	<b>3,804</b>	<b>4,732</b>	<b>3,035</b>	<b>4,704</b>	<b>5,745</b>
Depreciation & Amortisation	178.6	183	206	226	254
<b>EBIT</b>	<b>3,625</b>	<b>4,549</b>	<b>2,829</b>	<b>4,478</b>	<b>5,490</b>
Interest Expenses	127	160	213	148	113
<b>Core PBT</b>	<b>3,498</b>	<b>4,389</b>	<b>2,616</b>	<b>4,330</b>	<b>5,378</b>
Other Income	123	170	139	160	184
<b>PBT</b>	<b>3,621</b>	<b>4,559</b>	<b>2,755</b>	<b>4,490</b>	<b>5,561</b>
Tax	927.3	1179	705	1149	1424
Tax Rate (%)	25.6%	25.9%	25.6%	25.6%	25.6%
Extraord. items	0	0	0	0	0
<b>Reported PAT</b>	<b>2,694</b>	<b>3,381</b>	<b>2,067</b>	<b>3,360</b>	<b>4,159</b>
Non-controlling interest	20	16	18	19	21
<b>Adjusted PAT</b>	<b>2714</b>	<b>3397</b>	<b>2085</b>	<b>3555</b>	<b>4181</b>

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth ratios (%)</b>					
Net sales	17.1%	17.6%	9.7%	15.3%	15.0%
EBITDA	41.5%	24.4%	-35.9%	55.0%	22.1%
Adjusted PAT	52.8%	25.2%	-39.1%	62.5%	23.8%
<b>Margin Ratio (%)</b>					
Gross Profit	34.4%	37.4%	32.0%	34.5%	35.0%
EBITDA	19.5%	20.6%	12.1%	16.2%	17.2%
EBIT	18.6%	19.8%	11.2%	15.4%	16.4%
Core PBT	17.9%	19.1%	10.4%	14.9%	16.1%
Adj PAT	13.9%	14.8%	8.2%	11.6%	12.5%
<b>Return Ratio (%)</b>					
ROE	31.2%	29.5%	14.9%	21.1%	22.1%
ROCE	26.4%	25.2%	13.4%	19.6%	21.0%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	9.2	8.6	7.7	7.5	7.6
Adj OCF/PAT (%)	138	-72	76	57	59
Inventory	90	134	130	125	123
Debtors	86	103	100	99	98
Creditors	53	46	45	45	45
Cash Conversion Cycle	123	191	185	179	176
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.1	0.3	0.1	0.1	0.1
Net Debt-equity (x)	-0.1	0.2	0.1	0.0	0.0
Gross Debt/EBITDA	0.3	0.7	0.6	0.3	0.2
Current Ratio	2.8	2.6	3.2	3.6	3.8
Interest coverage ratio (%)	28.5	28.4	13.3	30.3	48.7
<b>Per share (Rs)</b>					
EPS (Reported)	90.3	113.0	66.1	107.3	132.9
Adjusted EPS	90.3	113.0	66.1	107.3	132.9
CEPS	92.4	114.4	72.6	114.6	141.0
Book value	319.7	416.4	469.0	550.4	651.2
<b>Dividend</b>					
DPS (Rs)	0.0	12.0	6.6	21.5	26.6
Dividend Payout (%)	0%	11%	10%	20%	20%
Dividend Yield (%)	0.0%	0.4%	0.4%	1.3%	1.6%
<b>Valuation</b>					
P/E	15.2	29.1	25.7	15.8	12.8
P/BV	4.3	7.9	3.6	3.1	2.6
EV/EBITDA	8.7	21.1	17.9	11.4	9.2
EV/Sales	1.7	4.4	2.2	1.8	1.6
EV/Core PBT	9.5	22.8	20.8	12.4	9.8

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Sources of funds</b>					
Capital	62.6	62.6	62.6	62.6	62.6
Reserves & Surplus	9,993	13,034	14,681	17,229	20,385
<b>Shareholders' Funds</b>	<b>10,056</b>	<b>13,097</b>	<b>14,744</b>	<b>17,291</b>	<b>20,447</b>
Minority Interest	-48	-64	-64	-64	-64
<b>Total Debt</b>	<b>1189</b>	<b>3302</b>	<b>1752</b>	<b>1202</b>	<b>1052</b>
Deferred Tax Liabilities	42	36	36	36	39
Other Non-Current Liabilities	175	243	243	243	238
<b>Total Liabilities</b>	<b>11,413</b>	<b>16,614</b>	<b>16,711</b>	<b>18,709</b>	<b>21,713</b>
<b>Application of funds</b>					
Net Block	1869	2183	2585	2966	3222
Capital WIP	92	338	172	164	154
Non-current Asset	202	386	290	286	289
Investments	753	616	0	300	1,000
Inventories	4,771	8,355	8,972	9,944	11,255
Sundry Debtors	4580	6469	6901	7876	8967
Other Current Assets	789	1085	1064	1218	1393
Cash & Bank Balances	1861	690	504	304	436
<b>Total Current Assets</b>	<b>12,754</b>	<b>17,215</b>	<b>17,441</b>	<b>19,643</b>	<b>23,051</b>
Sundry Creditors	2,797	2,901	3,149	3,630	4,175
Other Current Liabilities	697	595	617	711	818
Provisions	11	12	10	9	10
<b>Total Current Liabilities</b>	<b>3,505</b>	<b>3,508</b>	<b>3,776</b>	<b>4,350</b>	<b>5,003</b>
<b>Net Current Assets</b>	<b>9,249</b>	<b>13,707</b>	<b>13,665</b>	<b>15,293</b>	<b>18,048</b>
<b>Total assets</b>	<b>11,413</b>	<b>16,614</b>	<b>16,711</b>	<b>18,709</b>	<b>21,713</b>

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating profit before WC changes</b>	<b>3887</b>	<b>4809</b>	<b>3174</b>	<b>4864</b>	<b>5928</b>
Net change in working capital	791	-5749	-664	-1523	-1929
Income tax paid (net)	-792	-1345	-705	-1149	-1424
<b>Cash flow from operating activities (a)</b>	<b>3885</b>	<b>-2285</b>	<b>1805</b>	<b>2192</b>	<b>2576</b>
<b>Adjusted OCF</b>	<b>3758</b>	<b>-2445</b>	<b>1592</b>	<b>2044</b>	<b>2463</b>
Capital expenditure	-661	-743	-600	-600	-500
Free Cash Flow	3224	-3028	1205	1592	2076
<b>Cash flow from investing activities (b)</b>	<b>-1765</b>	<b>438</b>	<b>16</b>	<b>-900</b>	<b>-1200</b>
Debt issuance (repayment)	-1120	2066	-1550	-550	-150
Interest & Lease expenses	-150	-181	-213	-148	-113
Dividend Paid	-63	-361	-244	-793	-982
<b>Cash flow from financing activities (c)</b>	<b>-1334</b>	<b>1524</b>	<b>-2007</b>	<b>-1491</b>	<b>-1244</b>
Net change in cash (a+b+c)	786	-322	-187	-199	132

Source: Company, SMIFS Institutional Research Estimates

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