

Q3FY23 Update | Textile | 10 February 2023

Lux Industries Ltd.

Weak overall performance

Lux Industries Ltd. (LUX), reported results for Q3FY23 were below our expectations. Revenues in Q3FY23 declined by ~30.9% YoY, led by a volume decline of ~41% YoY (volumes in 9mFY23 declined by ~14% YoY). Volumes in Q3FY23 were impacted due to inventory destocking at the primary distribution channel on account of significant fall in the raw material prices. There was also an impact of high base of last year (pentup demand and channel filling). In December 2021 there was a surge in demand from the distribution channel due to expectation of hike in GST rate from 5% to 12% effective January 2022 resulting in preponement of demand from Q4FY22. Gross Margins were impacted in Q3FY23 due to consumption of high cost raw material inventory. Management believes that prices of raw materials now seems to have stabilised which should help to improve sentiments of the distribution channel. We expect performance of the company to improve QoQ from Q4FY23 due to increased primary sales led by stability in raw material prices and gross margins to also improve as impact of higher cost inventory seems to be over now. **We remain positive on Lux's mid to 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.**

9mFY23-Key Earnings Highlights

- In 9mFY23, the company reported sales decline of ~2.7% YoY, led by volume decline of ~14.2% YoY. Company sold 194.3 mn pieces of garments of which ~64% pieces were sold between brands Lux Cozi and Lux Venus.
- Gross margin for 9mFY23 declined by ~637 bps YoY to ~31.4% on account of volatility in raw material prices and impact of inventory loss due to high cost inventory.
- In 9mFY23 company reported EBITDA margins of ~10.3% vs ~21.4% YoY. EBITDA margins were impacted due to lower gross margins, lower absorption of overheads & increase in advertisement expenditure which increased by ~27% YoY at ~Rs 1370 mn.
- PAT for 9mFY23 declined by ~58.3% YoY to ~Rs 1108 mn. PAT Margin was at ~6.7% vs ~15.6% YoY.

Continued focus on power brands

Company aims to strengthen its market share in its legacy and **power brands like Lux Cozi, Lux Venus, Lux Inferno, Lux Cottswool, Lyra and ONN among many others.** To achieve the same, company has repositioned some of these brands and has rolled out targeted ad campaigns along with elevated business operations across India. **In 9mFY23 company spent ~Rs 1370 mn on advertisement which is ~8.3% vs ~6.4% YoY of sales.** Company has roped in Mr Sourav Ganguly as the brand ambassador for Lux Cozi. Lux Venus has been re-branded and re-launched with Mr Salman Khan being onboarded as the brand ambassador. **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 stability in raw material prices, increasing share of premium products (mainly Lyra and ONN), new product launches and growing retail & online presence.
- **We have valued the stock at 15x FY25e EPS of Rs 100.6 (rolled over from Sep'24), to arrive at a target price of Rs 1509 and maintain our "Accumulate" rating on the stock.**

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q2FY23e	Var. (%)
Net sales	4,591	6,643	-30.9%	6,357	-27.8%	5,995	-23%
Operating costs	4,265	5,228	-18.4%	5,710	-25.3%		
EBITDA	325	1416	-77.0%	647	-49.7%	668	-51%
EBITDA Margin (%)	7.1%	21.3%	(1,423)Bps	10.2%	(309)Bps	11.1%	
Depreciation	48	48	0.2%	49	-1.4%		
Interest	72	37	95.4%	62	16.1%		
Other income	35	37	-6.2%	26	32.1%		
PBT	240	1368	-82.5%	562	-57.4%		
Provision for tax	74	356	-79.2%	151	-51.1%		
Tax rate (%)	30.9%	26.0%	488 Bps	26.9%	399 Bps		
Reported PAT	181	1013	-82.2%	420	-57.0%	427	-58%
PAT Margin (%)	3.9%	15.2%	(1,131)Bps	6.6%	(267)Bps	7.1%	

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	23,000	0.2%	2,541	11.1%	1,674	-51.2%	52.9	12.1%	11.2%	25.4	16.8
FY24E	25,887	12.6%	3,702	14.3%	2,588	55.1%	82.1	16.8%	15.9%	16.4	11.3
FY25E	29,417	13.6%	4,442	15.1%	3,170	22.6%	100.6	18.0%	17.3%	13.4	9.3

Source: Company, SMIFS Institutional Research Estimates



Rating: Accumulate **Upside: 12%**
Current Price: 1,346 **Target Price: 1,509**

Earlier recommendation

Previous Rating: Accumulate
 Previous Target Price: 1,802

Market data

Bloomberg:	LUX IN
52-week H/L (Rs):	2,894/1,325
Mcap (Rs bn/USD bn):	42.13/0.52
Shares outstanding (mn):	31.30
Free float:	25.8%
Avg. daily vol. 3mth (3M Avg – in '000):	55.99
Face Value (Rs):	2

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	74.2	74.2	74.3	73.9
FII's	1.9	2.1	2.1	2.8
DII's	10.2	11.1	11.0	11.3
Public/others	13.7	12.6	12.6	11.9

Promoters Pledging (%)

Pledge	0	0	0	0
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Source: BSE

Price performance (%)*

	1M	3M	12M	36M
Nifty 50	-0.3	-0.9	1.4	48.4
Nifty 500	-2.0	-2.7	-0.6	51.0
LUX	-15.4	-22.6	-53.3	-9.7

*as on 10th Feb 2023; Source: AceEquity, SMIFS research

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Q3FY23– Key points from the presentation

- ✓ **In Q3FY23 company reported a volume decline of ~41% YoY with sales volume of ~52.8 mn pieces**, while in 9mFY23 company reported volume decline of ~14.2% YoY with sales volume at 194.3 mn pieces.
- ✓ Volume decline was higher in the economy segment (~28% of revenue) where volumes declined by ~21% YoY, whereas volume decline in mid-premium (~57% of revenue) & premium segment (~15% of revenue) was ~9% & ~2% respectively.
- ✓ **Overall ASP increased by ~13.4% YoY in 9mFY23.**
- ✓ **In 9mFY23 two key brands- Lux Cozi and Lux Venus contributed ~64% of the overall volumes of the company.**
- ✓ In 9mFY23 sales of thermal wear products (contribution of ~12% of sales) under the brand **Lux Inferno & Cottswool** was at ~Rs 1980 mn increase of ~5% YoY.
- ✓ In 9mFY23 geographical mix of sales was North: ~34%, East: ~23%, West: ~23%, Central: ~16%, South India: ~4%.
- ✓ **In 9mFY23 womenwear brand “Lyra” reported sales of ~Rs 2640 mn up ~20% YoY. Lyra contributed ~16% of total revenue.** Company has diversified its portfolio into both outerwear as well as innewear category. Going forward management expect double digit growth to continue as Lyra has strong brand recall and diversified product offerings at competitive pricing.
- ✓ **In 9mFY23 company’s premium brand “ONN” reported revenue of Rs 1100 mn up by ~25% YoY (contribution ~7% of sales).**
- ✓ In 9mFY23 advertisement spend was ~Rs 1370 mn i.e ~8.3% vs ~6.4% YoY.
- ✓ At the end of 9mFY23 net working capital days increased by ~24 days YoY.
- ✓ **At the end of 9mFY23 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.
- ✓ We expect performance of the company to improve from Q4FY23 due to increased primary sales led by stability in raw material prices and gross margins to also improve as impact of higher cost inventory seems to be over now.
- ✓ **We have valued the stock at 15x FY25e EPS of Rs 100.6 (rollover from Sep'24), to arrive at a target price of Rs 1509 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)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	5,961	4,175	6,272	6,643	5,869	5,687	6,357	4,591
COGS	3,748	2,596	3,868	4,167	3,749	3,878	4,339	3,190
Employee Costs	198	182	236	246	225	292	307	295
Other Expenditure	778	523	796	815	825	770	1,065	780
EBITDA	1,238	873	1,373	1,416	1,070	748	647	325
Depreciation	50	43	43	48	49	48	49	48
Interest	24	26	27	37	70	52	62	72
Other Income	52	36	37	37	61	30	26	35
PBT	1216	840	1339	1368	1012	678	562	240
Tax	310	203	339	356	281	178	151	74
Tax rate (%)	25.5%	24.2%	25.3%	26.0%	27.8%	26.3%	26.9%	30.9%
Reported PAT	906	637	1000	1012	731	500	411	166
Extraordinary Items	-	-	-	-	-	-	-	-
Share of profit/ (loss) in JV	7	5	4	1	7	8	9	15
Adjusted PAT	913	642	1004	1013	738	507	420	181
YoY Growth (%)								
Revenue	48.1%	31.7%	25.0%	23.6%	-1.5%	36.2%	1.4%	-30.9%
EBITDA	90.3%	59.4%	44.6%	32.5%	-13.5%	-14.3%	-52.9%	-77.0%
Adj. PAT	118.2%	72.4%	49.4%	34.1%	-19.2%	-20.9%	-58.2%	-82.2%
QoQ Growth (%)								
Revenue	10.9%	-30.0%	50.2%	5.9%	-11.7%	-3.1%	11.8%	-27.8%
EBITDA	15.9%	-29.5%	57.3%	3.1%	-24.4%	-30.1%	-13.6%	-49.7%
Adj. PAT	20.9%	-29.7%	56.5%	0.9%	-27.2%	-31.2%	-17.2%	-57.0%
Margin (%)								
Gross margin (%)	37.1%	37.8%	38.3%	37.3%	36.1%	31.8%	31.7%	30.5%
Employee cost/ revenue (%)	3.3%	4.4%	3.8%	3.7%	3.8%	5.1%	4.8%	6.4%
Other expenses/ revenue (%)	13.1%	12.5%	12.7%	12.3%	14.1%	13.5%	16.8%	17.0%
EBITDA margin (%)	20.8%	20.9%	21.9%	21.3%	18.2%	13.2%	10.2%	7.1%
Adj. PAT margin (%)	15.3%	15.4%	16.0%	15.2%	12.6%	8.9%	6.6%	3.9%

Source: Company, SMIFS Institutional Research Estimates

Fig 3: Change in estimates

Rs mn	New Estimates			Old Estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	23,000	25,887	29,417	25,190	29,038	33,399	-9%	-11%	-12%
Gross profit	7,233	8,801	10,149	8,061	10,018	11,690	-10%	-12%	-13%
Gross margin (%)	31.5%	34.0%	34.5%	32.0%	34.5%	35.0%	-55 Bps	-50 Bps	-50 Bps
EBITDA	2,541	3,702	4,442	3,035	4,704	5,745	-16%	-21%	-23%
EBITDA margin (%)	11.1%	14.3%	15.1%	12.0%	16.2%	17.2%	-100 Bps	-190 Bps	-210 Bps
PAT	1,674	2,588	3,170	2,085	3,555	4,181	-20%	-27%	-24%
EPS (Rs)	53	82	101	66	107	133			

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	19,525	22,959	23,000	25,887	29,417
COGS	12,811	14,379	15,766	17,085	19,268
% of sales	65.6%	62.6%	68.6%	66.0%	65.5%
Employee Expenditure	699	889	1196	1268	1353
% of sales	3.6%	3.9%	5.2%	4.9%	4.6%
Other Exp.	2212	2958	3496	3831	4354
% of sales	11.3%	12.9%	15.2%	14.8%	14.8%
EBITDA	3,804	4,732	2,541	3,702	4,442
Other Income	123	170	126	142	162
Depreciation & Amortisation	179	183	206	226	254
EBIT	3,748	4,719	2,462	3,618	4,350
Interest Expenses	127	160	260	192	147
Core PBT	3,498	4,389	2,076	3,284	4,041
PBT	3,621	4,559	2,202	3,426	4,203
Tax	927.3	1179	564	877	1076
Tax Rate (%)	25.6%	25.9%	25.6%	25.6%	25.6%
Extraord. items	0	0	0	0	0
Reported PAT	2,694	3,381	1,656	2,568	3,148
Non-controlling interest	20	16	18	19	21
Adjusted PAT	2714	3397	1674	2588	3170

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	17.1%	17.6%	0.2%	12.6%	13.6%
EBITDA	41.5%	24.4%	-46.3%	45.7%	20.0%
Adjusted PAT	52.8%	25.2%	-51.2%	55.1%	22.6%
Margin Ratio (%)					
Gross Profit	34.4%	37.4%	31.5%	34.0%	34.5%
EBITDA	19.5%	20.6%	11.1%	14.3%	15.1%
EBIT	19.2%	20.6%	10.7%	14.0%	14.8%
Core PBT	17.9%	19.1%	9.0%	12.7%	13.7%
Adj PAT	13.9%	14.8%	7.2%	9.9%	10.7%
Return Ratio (%)					
ROE	31.2%	29.5%	12.1%	16.8%	18.0%
ROCE	26.4%	25.2%	11.2%	15.9%	17.3%
Turnover Ratio days (days)					
Gross Block Turnover (x)	9.2	8.6	7.1	6.7	6.7
Adj OCF/PAT (%)	138	-72	139	77	62
Inventory	90	134	125	120	118
Debtors	86	103	105	100	98
Creditors	53	46	45	45	45
Cash Conversion Cycle	123	191	185	175	171
Solvency Ratio (%)					
Debt-equity (x)	0.1	0.3	0.1	0.1	0.1
Net Debt-equity (x)	-0.1	0.2	0.0	0.0	-0.1
Gross Debt/EBITDA	0.3	0.7	0.7	0.3	0.2
Current Ratio	2.8	2.6	3.3	3.6	3.8
Interest coverage ratio (%)	28.5	28.4	9.0	18.1	28.6
Per share (Rs)					
EPS (Reported)	90.3	113.0	52.9	82.1	100.6
Adjusted EPS	90.3	113.0	52.9	82.1	100.6
CEPS	92.4	114.4	59.5	89.3	108.7
Book value	319.7	416.4	457.4	519.5	595.7
Dividend					
DPS (Rs)	0.0	12.0	5.3	16.4	20.1
Dividend Payout (%)	0%	11%	10%	20%	20%
Dividend Yield (%)	0.0%	0.4%	0.4%	1.2%	1.5%
Valuation					
P/E	15.2	29.1	25.4	16.4	13.4
P/BV	4.3	7.9	2.9	2.6	2.3
EV/EBITDA	8.7	21.1	16.8	11.3	9.3
EV/Sales	1.7	4.4	1.9	1.6	1.4
Adj M.Cap / Core PBT	9.1	22.1	19.7	12.4	9.9
Adj M.Cap / Adj OCF	8.5	25.8	17.6	20.5	20.5

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	62.6	62.6	62.6	62.6	62.6
Reserves & Surplus	9,993	13,034	14,318	16,261	18,645
Shareholders' Funds	10,056	13,097	14,381	16,324	18,707
Minority Interest	-48	-64	-64	-64	-64
Total Debt	1189	3302	1752	1202	1052
Deferred Tax Liabilities	42	36	36	36	39
Other Non-Current Liabilities	175	243	243	243	238
Total Liabilities	11,413	16,614	16,348	17,741	19,973
Application of funds					
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	7,877	8,511	9,510
Sundry Debtors	4580	6469	6616	7092	7898
Other Current Assets	789	1085	977	1092	1233
Cash & Bank Balances	1861	690	1281	1209	1074
Total Current Assets	12,754	17,215	16,751	18,204	20,716
Sundry Creditors	2,797	2,901	2,875	3,236	3,677
Other Current Liabilities	697	595	563	634	721
Provisions	11	12	10	9	10
Total Current Liabilities	3,505	3,508	3,448	3,879	4,408
Net Current Assets	9,249	13,707	13,302	14,325	16,308
Total assets	11,413	16,614	16,348	17,741	19,973

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes	3887	4809	2668	3844	4604
Net change in working capital	791	-5749	476	-791	-1423
Income tax paid (net)	-792	-1345	-564	-877	-1076
Cash flow from operating activities (a)	3885	-2285	2581	2176	2105
Adjusted OCF	3758	-2445	2321	1984	1958
Capital expenditure	-661	-743	-600	-600	-500
Adjusted Free Cash Flow	3097	-3188	1721	1384	1458
Cash flow from investing activities (b)	-1765	438	16	-900	-1200
Debt issuance (repayment)	-1120	2066	-1550	-550	-150
Interest & Lease expenses	-150	-181	-260	-192	-147
Dividend Paid	-63	-361	-195	-606	-743
Cash flow from financing activities (c)	-1334	1524	-2005	-1348	-1040
Net change in cash (a+b+c)	786	-322	591	-72	-135

Source: Company, SMIFS Institutional Research Estimates

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Analyst holding in stock: **NO**

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