“Lux Industries Limited
Q1 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Lux Industries Limited Q1 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saket Todi, Promoter and President, Marketing of Lux Industries Limited. Thank you and over to you Sir!

Saket Todi: Good evening and a very warm welcome to everyone. Along with me, I have Mr. Udit Todi Promoter and President, Strategy, our CFO, Mr. Ajay Patodia and SGA our Investor Relations Advisor. I hope you have received the result press release and investor presentation by now. For those who have not you can view them on our website. I hope everyone is safe and my prayers of speedy recovery for the ones who are fighting this out.

The outbreak of COVID-19 pandemic and subsequent lockdowns has impacted major economics and sectors across the globe. The quarter gone by was quite challenging as the impact of pandemic and the lockdown on the innerwear industry was no different. Consumer across geographies were in no mood to spend much on cloth and other fashionable items while our production and distribution activity also got impacted due to the nationwide lockdown. Despite these challenging environments, our overall performance and profitability for the first quarter has been quite strong. This proves strong resilience of our business model, which has helped us to continue our growth trajectory even in these challenging times. I am happy to share that we have been able to deliver profitability matrices, which are well above the industry averages. Our revenue has seen a slight degrowth of 6% even though our plant were shut for almost a month and a half due to the lockdown. Despite these our EBITDA and PAT registered an absolute growth of 34% and 64% respectively due to improvement in operating efficiencies and cost reduction measures. We continue to endeavor healthy profitability ratio by focusing on better product mix and rational cost optimization.

Now coming to our working capital, as committed we have undertaken several measures to reduce our working capital requirements. Even after the impact of COVID-19, we have been able to reduce our working capital by almost Rs.80 Crores from March 2020 to Rs. 413 Crores as on June 30, 2020. Our operating cash flow for the quarter stood at Rs. 132 Crores as compared to Rs.59 Crores as of June 2019. With gradual lifting up of the lockdown restriction and economic activity progressing towards normalcy, we are seeing green shoots in the demand and expecting coming quarters to be much better and robust. Our strong distribution network with over 900+ distributor and nationwide presence mainly in the Northern-Eastern-Western parts of the country have helped us continuously engaged with our dealers and customers which in turn has helped us to gauge the on-ground market sentiments. I am happy to share that we are receiving positive response in enquiries with each passing day.

Now I hand over to Udit to provide you an insight of our future strategies.

Udit Todi: Good evening everyone, I hope everyone is safe. It has been more than five months now we all have been facing hiccups of the pandemic and the lockdown. The quarter gone by has been challenging for us both in our personnel and our professional aspect. While during the first two months of the quarter exports were restricted globally due to COVID-19, we are seeing good pickup of volume in domestic market and expect overall demand to return to pre-COVID levels in the coming quarter. Also, exports have begun since June 2020 and we expect the sales to normalize in a few months.

On the brand investment side, over the past few years, we have invested approximately Rs. 566 Crores across our brands as it has been a constant effort to maintain our branding and marketing expenses in the range of 7% to 8% of our annual turnover. However, considering this year to be one off and full of challenges, we have decided to keep investment in brands at about 4% to 6% of our turnover. This step will help us rationalize cost and also focus on operational efficiencies which in turn will help us generate better profitability as well as return matrices. Our technology and automation led manufacturing helped us to maintain high quality standards and deliver consistently superior quality products to our customers. With our decades of experience in the sector, extensive knowhow, well established brand and our ability to gauge the market sentiment, we are confident in fulfilling the needs of our customers and offer them favorable price value proposition. Our merger of J.M. Hosiery and Ebell fashions with Lux is on track and is on the last leg of its regulatory requirements. However, we saw some delay in timelines due to remote functionality of regulatory departments, which now seems to be regular. This merger will lead single market strategy and single company brand image leading to a stronger market presence and higher confident level with all its stake holders. We are committed to a long-term vision and goal to provide highest level of customer satisfaction and long-term value creation for our stake holders.

Now, I handover to Mr. Ajay Patodia to provide you an insight of our financials.

Ajay Patodia: Thank you Udit Ji. Our revenue for the quarter stood at Rs.247 Crores as against Rs.263 Crores in Q1 FY2020. Revenue for the quarter has shown a slight degrowth of 6%

considering our plant operations where it was halt for a month and half due to nationwide lockdown. Our EBITDA has seen an absolute growth of 34% which stood at Rs.47 Crores as against Rs.35 Crores in Q1 FY2020. We have seen a significant improvement of 560 basis points in our EBITDA margin on account of prudent cost rationalization and improved operating efficiencies. Our EBITDA margin for the quarter stood at 19% as compared to 13.4% in Q1 FY2020. Profit after tax grew by stellar 64% which stood at Rs.31 Crores as against Rs.19 Crores in Q1 FY2020. Our PAT margins have also improved significantly by 540 basis points which stood at 12.5% as against 7.1% in Q1 FY2020.

We now open the floor for question and answers.

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

Nihal Jham: Thank you so much. Good evening Saket and Udit, congratulations on the good performance. Three questions from my side, first could you give the contribution of exports in this quarter and the same in the last corresponding quarter?

Saket Todi: Export this quarter stood at Rs.15 Crores as against Rs. 27 Crores for the corresponding quarter last year.

Nihal Jham: The second one was on other expenses which have obviously significantly reduced so if you could just give a break up of which has been a main cost, assume it is advertisement and marketing, just if you could break up where have we managed to reduce cost and how sustainable is this going forward?

UditTodi: So, as you have correctly mentioned, the main reduction in the other expenditure account is mainly due to advertisement expenses so as we have mentioned in a speech, we generally earmark about 7% to 8% of our topline for ad spends which for the current year we are keeping at about 4% to 5%, so that is one of the main reasons why you see the margins to be improving. Current situation being a COVID situation is a one off kind of a thing, going forward, we believe that we in the next coming few quarters, we will continue to see improved EBITDA margins on account of reduced ad spend and going forward for the next financial year and the next to next financial year, we will again start to invest in our brand and we will ultimately see effect in the topline.

Nihal Jham: Last question, Lux obviously has the highest reach in the country, so if you could just give a sense of current consumer trends in the innerwear space both in terms of recovery, rural as well as the cities and even are you seeing a trend of your economy range seeing more traction than the premium range, what are the insights are you seeing within the last couple of months as the recovery happens?

Saket Todi: Like in the last couple of months, the economy range is definitely seeing more traction and the main demand is coming from the rural market which is still continuing, urban market is still weaker, but the rural market demand we expect the strong demand to continue and move towards the winter wear segment.

Nihal Jham: Any initial trends on how winter wear demands on the distributors?

Saket Todi: It is very strong.

Nihal Jham: That is helpful, I will come back in the queue if I have further questions.

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

Sunil Jain: One or two questions, if I see your financial, there is some dip in the gross margin, if you take year-on-year and both quarter-on-quarter, can you give me some reason, we were expecting like yarn prices are soft then we should have gained on the gross margins?

Saket Todi: This is mainly due to as I just said some time back due to the mix change, the mass segment the basic segment is moving much faster than the premium wear segment, so we had a drastic mix change in the last quarter where the basic segment had huge up movement than that of the premium segment, so going forward in the coming quarters, this should normalize back.

Sunil Jain: We are seeing pickups in premium segment now or composition is reversing back to its normal level?

Saket Todi: Yes, for the current quarter, to some extent it will improve and in the next quarter, it should improve further.

Sunil Jain: Okay and second question is related to one of our associate company which we are merging Ebell, because there the decline is very sharp, so how is the trend now, is there a pickup we are seeing or that will lack compared to the overall company?

Udit Todi: So talking about Ebell Fashions mainly it is dealing with women's wear and overall if you at the industry and the economy, women's wear as a segment overall has taken a big hit because women are not stepping out and purchasing products, the situation as if stands as of now is that it is mostly men's product which are selling in that too more on the rural side than the urban side, so that has been the trend overall for the first quarter but going forward like in the current quarter, we have seen much improvement compared to Q1, but we believe that it should still take some more time for it to come back to pre-COVID levels.

Sunil Jain: Last question is about the current month, are we seeing year-on-year growth in first 45 days or how is the trend?

Saket Todi: I believe right now we were mostly discussing about Q1 results, so we cannot give you a very exact quantitative outlook when it comes to Q2, but yes just to give you an idea that overall we believe that when it comes to men segment and Lux overall as an entity the demand side has been pretty much well I mean you can see the results in Q1 as well, we have been able to achieve about 90% to 95% of our Q1 sales year-on-year and we believe that Q2 should be something similar if not better.

Sunil Jain: Last question is can you spell out how much is the debt at the end of June quarter?

Ajay Patodia: It is Rs. 52 Crores.

Saket Todi: The same we have term deposit of around Rs. 55 Crores against it. So, net debt is negative.

Sunil Jain: Thank you.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: What is the volume in the absolute number in Q1 versus last year?

Saket Todi: So, talking about volume, the volume has been pretty much flattish and last quarter I mean last Q1 FY2020, we had done volumes of about 47 million and even in the current quarter, the volume is about 47 million.

Giriraj Daga: 47 million, okay, Next question is related to export so last con call you have mentioned that export should be lower than last year, so how is the trend you are looking now, you said though we are looking some good pickup, would you able to match last year number, would you able to grow from last year number, any thoughts there?

Saket Todi: Last year number is too difficult to predict as on now seeing this COVID situation in different countries, but Q2 numbers we are expecting to have a growth as compared to Q2 to Q2 basis.

Giriraj Daga: Q2 to Q2 expect growth in export market?

Saket Todi: Yes.

Giriraj Daga: Okay similarly like on the working capital would you be able to give me the inventory debtors and payables separately. Or would you give the combined number for that?

Saket Todi: Inventory as on June 2019 was at **Rs.**306 Crores and June 2020 inventory is at Rs.277 Crores. Receivables as in June 2019 was Rs.271 Crores and June 2020 it was Rs.258 Crores. The payables on the other hand as of June 2019 was Rs.156 Crores and on June 2020 it is Rs.129 Crores.

Giriraj Daga: Thank you, my next question is related to the cost reduction you mentioned A&P was large number there, would you able to give absolute number how much was the A&P Q1 and how much we did in this Q1?

Saket Todi: We have saved approximately around Rs.10 Crores to Rs.12 Crores from advertisement.

Giriraj Daga: Okay but when we look at the numbers from Rs.48 Crores to Rs.20 Crores we are looking at almost Rs.28 Crores reduction in other expense, so would you be able to give any other head which we were able to have such a sharp cost reduction?

Saket Todi: We also had reduction in the administrative expenses, at the senior level management everyone has taken a salary cut for the month of April as well as May. There was a major reduction there as well.

Giriraj Daga: But that must be reflected in the employee expenses, right?

Saket Todi: Right, that is correct.

Giriraj Daga: I am talking about other expenses in terms of Rs.48 Crores to Rs.20 Crores, so your employee is down Rs.11.5 Crores to Rs.8.8 Crores which I understood, but your Rs.48.5 Crores other expense is bound to Rs.20 Crores?

Saket Todi: The absolute number of advertisements in Q1 was at Rs.33 Crores June 2019 and June 2020 was at Rs.10 Crores, so there is a saving of Rs.23 Crores out here.

Giriraj Daga: Okay, so large part was that A&P savings?

Saket Todi: Yes, and as well as there was Rs.2 Crores saving from miscellaneous expenditure which mainly includes rented places as well as administration costs.

Giriraj Daga: Understood okay, thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Tanvi Shetty from Axis Securities. Please go ahead.

Tanvi Shetty: Hello! Thanks for taking my question. Sir, I understand that most of your revenue comes from the Central and Eastern states, but I wanted to know what is the demand situation like in other parts of the country like in western states of Maharashtra, Gujarat and also South?

Udit Todi: So, the demand position overall has been good all across India I think it will not be correct to say that it was biased sort of demand coming in. The demand has been scattered all across and we were seeing good demand coming in from in fact North, West, Central, East all the areas the demand was pretty much well distributed and compared to the rural and the urban, the rural was performing better than the urban.

Tanvi Shetty: Okay, so now in Q2 like I understand you cannot reveal much of the Q2 numbers, but on a qualitative basis I wanted to understand that the sporadic lock downs in UP and floods in Bihar do you expect Q2 to be better than Q1?

Udit Todi: So, we believe that with the easing of the lock down Q2 should definitely be better than Q1 and even if we look at seasonality of the sales, Q2 as a quarter is always bigger than Q1 quarter. Even if you look at last year figures, Q2 is always bigger than Q1 and plus with the easing of the lock downs going ahead, we believe that Q2 numbers should definitely be better than Q1.

Tanvi Shetty: Okay, that is all from my side. Thank you and all the best Sir.

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

Sachin Kasera: Hi! Good afternoon gentleman. My question is regarding the cash flow where we have shown significant improvement, my sense is that large part of that is driven by the reduction in working capital. So, from whatever you can understand that because our production facilities are closed for almost one and half to two months, part of it is that we produce less, and we obviously liquidate the inventory. So, is this reduction in working capital because of lower inventories is it now sustainable thing or it is a one off and it will normalize by the end of Q2?

Udit Todi: So, the reduction in working capital obviously has been handsome for Q1 mainly because of change in terms of trade because given the COVID pandemic situation, the credit period which was let out was much lesser than in normal circumstances and it was the same even going ahead in to the channel the wholesalers were almost selling on a cash basis and so were the retailers. So, the credit period across the channel had gone down considerably obviously because owing to the COVID pandemic situation. So, that was one of the main reasons why you see better cash flows coming in for the first quarter but we believe that going forward it should normalize to some extent as the lock downs will be relaxed and credit period should to some extent normalize to pre-COVID levels.

Sachin Kasera: So, pre-COVID what was the type of credit we were giving, how much we slowed down?

Udit Todi: So even credit again will start flowing in once the COVID situation is normalized but as we have been stressing over the last few conference calls you can see that over the past few quarters, the company has always made it a considerable effort to reduce their working capital and we have been able to do that despite of the COVID situation, we have been able to achieve reduction is working capital and if you look at over the past few quarters when the COVID situation was not there, the company was able to reduce its working capital requirements.

Sachin Kasera: That is I think very visible and very well appreciated. My question is that how much of this reduction in number of days that we have seen in the last three four months, is it sustainable or how much will it normalize. If you could just tell us what the credit days was it used to be pre-COVID and what do you think will be our new sustainable number once the things normalize in another month or two months.

Udit Todi: So, we believe that going forward in the long-term the company is looking at achieving about 125 days-130 days of working capital level.

Sachin Kasera: And what was it pre-COVID?

Udit Todi: So, pre-COVID we were at about 140 days-145 days.

Sachin Kasera: Okay, so around 10 days-15 days of savings you think is sustainable yes, secondly you mentioned that the volumes are more or less been flat and while obviously our demand has seen some impact. So, how much of this is basically that filling of the channel inventory or is it that both the wholesalers and retailers also have been able to liquidate, and the overall channel inventory is more or less given the same?

Udit Todi: So, in fact you have put up a very good question and the fact what it remains is in fact very opposite, so what happened was during this situation all the partners in the channel were more and more concerned about liquidating what stock they have. So, everywhere across the channel the level of inventory has gone down and even despite that the volume has remained flattish, so we believe that in the coming quarters even if we are looking at replenishing the channel inventory, the volume should increase on that front. So, right now if I am talking about in the first quarter in the first three months it was not that the channel inventory was going up, in fact it was the contrary, the channel inventory was going down, no one was willing to take any kind of risk of stock on their shoulders everyone was liquidating whatever stocks they were having.

Sachin Kasera: When is the channel it including the end retailer the final point of sales?

Udit Todi: Channel I mean company, wholesaler, retailer.

Sachin Kasera: Okay, so does it then mean that because my sense is the market would definitely gone down at the retail level at the point of sale the market share has gone up significantly because while your volumes are flat my sense is that the market would have definitely seen some correction right in terms of overall demand?

Udit Todi: So, the basic fundamentals of this entire analysis are that although we were not quite categorized as an essential commodity, but in practical uses it was an essential commodity. During this lock down all the consumers those who are target audience have been consuming our products. So, as soon as the lock down opened up and people started to go out when they were stepping out to buy food and grocery and everything people were also ending up buying their basic essentials and that is one of the main reasons why consumption was never in our particular products consumption was never stopped even during the lock down people were consuming our products. So, even if you are looking at the retail level, we do not believe that there will be much of an inventory pressure at that point.

Sachin Kasera: No, my question was that at the retail level you think you gained market share or is it that market is more or less remained same and that is why we are more or less the same?

Udit Todi: No, we definitely believe the overall market has been good for the entire industry there is no doubt about that and when we talk about our particular market share, we believe that because being a big organized player within our own industry, the overall organized share during this lock down period has increased vis-à-vis the unorganized sector. So, on that account we definitely have gained market share.

Sachin Kasera: Sure, my last question is regarding the merger of the two group entity so you mentioned in the presentation that because of the COVID some of the hearings have got delayed, can you give any sense on when do you see this final hearing happening and by when we can see the consolidated numbers?

Udit Todi: So, our application is pending before the NCLT and right now as the situation stands that the court is not functioning as regular as it used to during the pre-COVID levels. So, that is why the waiting line or the waiting queue so as to say has quietly the waiting time for a case to get heard is increased quite a lot. So, from the company and the management side we have taken all steps and we have already filed the application, now it entirely depends as to when the NCLT takes up the case for hearing and gives us the green signal.

Sachin Kasera: That is the only approval which is pending?

Udit Todi: We are pending at that Sir. We have filed the application.

Sachin Kasera: Thank you.

Moderator: Thank you. The next question is from the line of Manish Sonthalia from Motilal Oswal Financial Services. Please go ahead.

Manish Sonthalia: Thanks for the opportunity. Sir, would it be possible for you to share us the gross margins from each of these segments men's wear, women's wear, athleisure and I also wanted some color that during this pandemic what is the level of disruption in the unorganized space obviously in the organized space like yourselves and others would have gained market share but if you could shed some color on how this disruption has impacted unorganized guys?

Udit Todi: With this pandemic coming in it has become much more difficult for the unorganized guys definitely because we being an organized player we pulled across all our resources and we tried to make sure that we could produce as much as possible and then also sell as much as possible. When you are talking about the production process it is quite a lengthy long process, so for any unorganized players even if he gets stuck at one point the entire product does not get manufactured and even right now after the lockdown getting eased up we can still feel a lot of hiccups and a lot of hurdles at different points of production processes but being a big player we somehow manage one way or the other. So, but for an unorganized player we believe that it would be quite difficult under the current circumstances to function as we would in the pre-COVID situation. So, yes there has been significant disruption when it comes to the unorganized sector and talking about your margin levels we do not have it handy right now so, you can obviously reach out to our IR people and they get back to us and we will get back to you as soon as we have the figures with us.

Manish Sonthalia: Just a gross margin numbers on the Men's wear, Women's wear and athleisure segment?

Udit Todi: Women's wear for us is basically Ebell Fashions Private Limited so the figures are already, the balance sheet you can obviously look at the figures, which we have, in the last few years. So, gross margins always will be quite visible over there and when it comes to Men's wear, Men's wear is primarily Lux to which hold somewhere around 30%-35%.

Manish Sonthalia: And Athleisure segment like Lyra and all this stuff?

Udit Todi: Lyra is basically Women's wear. We do not have the Athleisure gross margin levels currently right now with us we will shortly get back to you.

Manish Sonthalia: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ankit. A. Pande, CFA from Quant Mutual Fund. Please go ahead.

Ankit. A. Pande: Thanks for taking my question. My question is regarding your channel mix could you just break it down into general trade, modern trade or indeed online and we are exclusive channel. Also, and then follow on from there if you could talk about behavior of inventory stocking deep stocking or may be pricing action amongst the big dealers versus not so big dealers versus your own channel if you could if at all this is appropriate in this time? Thanks.

Udit Todi: So, the channel mix is basically general trade and online sales definitely apply to the premium category ONN where there is a percentage of online sales and modern trade is higher compared to Lux. Lux being a very mass brand is quite available in the market. So, bulk of our sales is generally comes from the general trade itself and talking about channel levels of stocking and destocking we had just spoken about it a few moments back for the first quarter everyone was working on so as to say hand to mouth basis where whatever products were getting manufactured were getting sold the same day and even the wholesalers were selling it the same day on a cash basis and so were the retailers. So, the entire channel was working on a very hand to mouth basis. There was no question of stocking up of goods arising. It was everyone in fact were having quite lower levels of stocks than they usually would have. So, the channel has dried up quite a lot in the first quarter, which we believe in the coming quarters even if we look at replenishing the channel stock some sort of a volume growth will come on that account.

Ankit. A. Pande: Thanks for that and secondly, if you could talk about any import, any materials that you have synthetic material from South East Asia if you do that and if you could break that down as percentage of cost?

Udit Todi: Generally, most of our materials are sourced locally we are not dependent on imports. We only import machinery we do not import any raw materials.

Ankit. A. Pande: Okay, and for the remain of the year what is the capex outlook and how has it changed towards at the start of the financial year?

Udit Todi: Going forward for the current year we are looking at incremental marginal capex which is regular maintenance of machinery we are not looking at any major big-ticket capex going forward as of now.

Ankit. A. Pane: Okay, what would the numbers be?

Udit Todi: The number would be somewhere between Rs. 10 Crores to Rs. 15 Crores.

Ankit. A. Pande: Okay, fine. Thank you so much and all the best.

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

Riddhima Chandak: Good evening Sir. Basically what is our contribution from the rural and urban?

Saket Todi : The contribution of rural market is approximately 65% whereas the urban is approximately 35%.

Riddhima Chandak: Going forward is this percentage would be same or we are increasing in urban markets?

Saket Todi: That is very hard to decide as seeing the COVID situation we do not know where the urban markets would head to, but rural market is definitely strong and if there a solution comes of COVID 19 then the urban markets would also boom in.

Riddhima Chandak: What is the contribution from the economy versus premium as economy contributed more in Q1 FY2021? So, in general what is the contribution in economy range versus premium range that is ONN?

Saket Todi: Economy range contributed to around 90% whereas the premium range contributed to around 10%.

Riddhima Chandak: Okay, and are we tracking the sales, secondary sales or tertiary sales as primary is almost covered to 90% to 95% as you stated earlier, so is there any clarification on that side?

Saket Todi: There is no exact tracking of it but with the experience and getting the feedback from the markets the tertiary sales is much more than the primary sale as we rightly said sometime back that the channel inventory is getting lessened by each passing day.

Riddhima Chandak: As a subsidiary that is Ebell and JM Hosiery out of total revenue how much these two subsidiaries contributing and from the longer-term perspective say two years, how this number would be?

Saket Todi: On an average both the entities combined contribute to around 50% of the sales of that of Lux.

Riddhima Chandak: Okay, going forward.

Saket Todi: Forward like on a long-term basis.

Riddhima Chandak: Okay, this 50% you are looking from the longer-term perspective say two year to three years?

Saket Todi: Yes.

Riddhima Chandak: And currently how much it is?

Saket Todi: Last financial year it closed at around Rs.600 Crores so currently it is seen just one quarter only wise because it will give a very skewed numbers because one of the companies contain naming the segment which took a big hit in Q1 but in the coming quarters this will again revise back as soon as the lock down opens up. But on a general level 50% of the sale of Lux is contributed to JM and Ebell put together.

Riddhima Chandak: For this year FY2021 for the full year how much revenue growth we are expecting and we said that Q2 would be better than Q1, so overall how much growth we are expecting in terms of revenue and what sort of EBITDA margins would be there as in the current year as you said A&P spends will lesser as compared to FY2020 levels?

Udit Todi: Can you please repeat yourself?

Riddhima Chandak: How much revenue growth we are expecting for the current year and what EBITDA margin guidance you would tell and you said that it will improve in the next few quarters because as you said A&P spends will reduce will be lesser as compared to FY2020 levels?

Udit Todi: Correct. So, going ahead we believe for the entire financial year as of now as the COVID situation stands as of now we believe that we should be able to achieve our last year sales in fact to some extent we believe that we are estimating we should be able achieve single digit growth figures. It looks a little tough but we believe that we should be able to do at least the last figure we should be to match what we have done and talking about EBITDA margins as we mentioned that we have reduced A&P spend so we believe that about 400 basis points-450 basis point increase in EBITDA margins should be seen for the current financial year.

Riddhima Chandak: Okay. Thank you for answering my question.

Moderator: Thank you. The next question is from the line Sandeep Abhange from Samco Securities. Please go ahead.

Sandeep Abhange: Thank you for taking my call. Actually I wanted to know what was the reason for increase in the other income part like it was almost for more than 400% increase so can you like give me some breakup like I understand there must be rental income would be there, rental waivers and what else could be there in that I wanted to understand that?

Udit Todi: Just give us a few moments we will just come back and answer your query, if you have any other question you can please ask.

Sandeep Abhange: One more question I had regarding the pent up demand so during last quarter many of your competitors have also mentioned that there was a lot of pent up demand during the quarter so what are your comments on that and what do you feel like whether it is going to sustain or how is going to pan out in coming quarters?

Udit Todi: So, obviously there has been some effect of pent up demand is there because if you are in a complete lockdown situation for one month to one and half months, so some sort of pent up demand has to be there, as you can see Q1 some amount of pent up demand has obviously played in but going forward we believe that now supply should remain a challenge to Q1, Q2 or Q3 are the quarters where we witnessed, winterwear sales are lot so winterwear sales for us has been quite a big percentage of sales just to give you a flavor last year we did about Rs. 200 Crores of winterwear sales and bulk of the sales are accounted for Q2 and Q3. So, going forward right now as the situation stands it is becoming tremendously increasingly difficult to produce winterwear product. So, right now we believe that with the onset of winter, the demand for winterwear should be quite strong because not many people are able to manufacture the winterwear products. We are having our own companies, has its own setup for manufacturing winterwear products therefore we should be able to achieve the kind of production levels which we are looking at but overall at the industry level the production of the winterwear segment should take a big hit. So, we believe that right now Q2 and Q3 should see good demand for the winterwear products coming in.

Saket Patodia: To answer your first question for the other income Rs.1.3 Crores gain was from the foreign currency fluctuations which was there in the prices of the US Dollar and the remaining was from the interest received to the company on the Rs. 55 Crore deposit which has been made during the quarter.

Sandeep Abhange: Okay. Thank you for the detail answer.

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

Hiten Boricha: Good evening Sir. Just wanted a small clarification you mentioned EBITDA margin guidance I missed on that side; can you please repeat it?

Udit Patodia: We are looking at increase of 400 basis points to 450 basis points increase in EBITDA margins for the year FY2021, which is primarily on account of reduced A&P spend.

Hiten Boricha: 400 BPS, right?

Udit Patodia: 400 BPS – 450 BPS.

Hiten Boricha: That was helpful. Thank you.

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

Sachin Kasera: Two questions. One was on this EBITDA margin, you also mentioned that the A&P spends will be normalized from next year, so over a two-year period how should we see, while this year there will be about 400 basis points to 450 basis point is it that while A&P will go up because of the better premiumization and some of the other initiatives if you would sustain this next year or you think there could be a drop of 150 basis point to 200 basis point in FY2022?

Udit Todi: See, right now talking about FY2021 we spoke about 400 basis point, 450 basis point increase in EBITDA margins primary account of A&P but again talking about FY 2022-2023 A&P spends should tend to go back to normal but again the product mix will change, the company will be launching newer products and whatever investments are being made in branding exercises in the year FY2022 will result in higher sales coming in the next two years to three years so generally when you start advertising a product and when you start investing in branding the results generally come with a lag defect so that is the main reason we believe that going forward our investments in brand should again tend to go back to somewhere close to normal but again the entire 400 basis points increase in EBITDA will not get erased because obviously the product mix is changing and the company is being able to realize the better margins.

Sachin Kasera: Is it fair to assume that the management and the company will put all the effort to try and sustain as much as this 400 BPS?

Udit Todi: Definitely. The company will put in all the effort to maximize its EBITDA margins going forward.

Sachin Kasera: My second question was a follow up regarding this distribution and the market share gain for organized, so as you mentioned that one of the key reasons why the organized investor gain market share was that the organized especially the larger players like you were able to manage to supply chain production far better than the unorganized players.

Udit Todi: Correct.

Sachin Kasera: Over the next two months- three months – four months once the unlocking has started, things normalize and the supply from the unorganized guys comes back, so you think the market share against that have come by will again go back to pre-COVID levels or you think part of the market share gain that their organized industry has got in this COVID era will sustain?

Udit Todi: We just spoke about it a few minutes back, Q2 and Q3 bulk of the sales are coming in from the winterwear products and winterwear production has been a very big challenge for the current financial year because of the COVID situation so we believe that in the current two quarters it will become even more difficult for the unorganized players to manufacture the winterwear products.

Sachin Kasera: Sorry, my question was more on the things normalize on the supply from the organized may it is two quarters or three quarters once they come back in the market some part of time they will, that point of time do you think this year will regain or you will have to give back share gain that you have got?

Udit Todi: That is something which you believe that obviously whatever market share we are gaining some of it will obviously remain with the company because whenever a customer starts wearing a more branded products not all of them go back to wearing an unbranded or non-branded products so some sort of customer stickiness is also there. Even in the entire channel of distribution so the level of confidence is the distributors wholesalers have over an organized player is much more and once they start working with an organized player they generally do not go back to everyone in the life also upgrade when it comes through using of consuming of product or selling a product so some sort of stickiness will obviously be there so we do not believe that whatever market share gains are getting made will not get lost.

Sachin Kasera: Just one lastly, is there any debt also on the balance sheet of those two companies that are merged, or they are also debt free like Lux?

Udit Patodia: So, if you look at both the entities combined, they are debt free.

Sachin Kasera: In that scenario now that we are more or less debt free and now focus is on generating free cash flows, is there any internal strategy as to in the next two years to three years what is going to be the capital location policy, are you going to look in terms of doing some acquisitions to use this cash or will it be more in terms of paying out to shareholders in terms of buyback or any thoughts on that?

Udit Todi: We already have our dividend policy in place whereby we try and give a 25% payout ratio so that is what were looking at maintaining that even for the current year that whatever free cash flows or whatever profits are getting generated about 25% of it will be used to paying back as dividend to our shareholders and right now until now we will be using all our cash to reduce our debt which right now has almost come to net debt free kind of situation. Going ahead obviously we are scouting for opportunities where to invest the money and what else the company can be doing in order to increase their margins. The capitals will obviously get deployed in the manner in which your return on capital stands at a fair value.

Sachin Kasera: Thank you.

Moderator: Thank you. Due to time constraint that was the last question. I would now like to hand the conference over to the management for closing comments.

Saket Todi: I take this opportunity to thank everyone for joining on the call. I hope we are been able to address all the queries. For any further information kindly get in touch with us or SGA-our Investor Relation Advisors. Thank you once again.

Moderator: Thank you. On behalf of Lux Industries Limited that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.