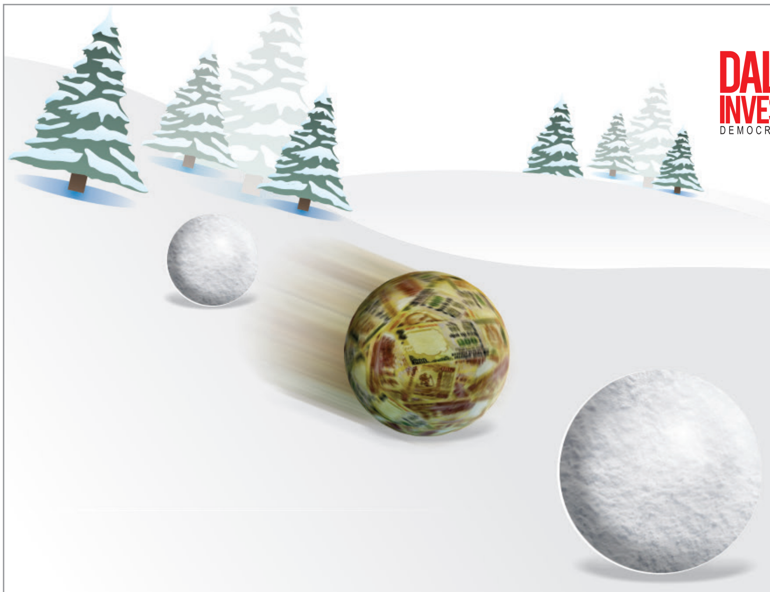
SINCE 1986
DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

MID BRIDGE
THE MIDCAP MARVEL

November 2019



COMPANY NAME	:	**Lux Industries**
BSE Code	:	**539542**
Time Duration	:	**1 year**
CMP	:	**₹1303.00 (as on 21 Nov., 2019)**
Target Price	:	**₹1702**

Our Mid Bridge for the month of November is Lux Industries, one of the leading players in the hosiery business with a market share of around 15 per cent in organised men's innerwear market. With 15 brands in the pocket, the company sells more than 100 products. The company has more than 5,000 SKU's through which it sells its product. Through its 6 manufacturing facilities, the company has a capacity of 2,000 lac garments pieces a year.

Better product mix to improve margins

The company offers a wide range from economy to premium and its focus on premium products has helped the company to improve margins (EBITDA margin 15.68% in FY19 vs 8.96% in FY15). Also, operational efficiency and cost management have added to margin improvement. The company's premium brands have been witnessing strong traction and its revenue share improved to 21 per cent. These premium brands enjoy the highest margin of 15-18 per cent as against 13-15 per cent margin of med premium and 8-10 per cent margin of economy products. Owning to increasing consumer aspirations for better products premium brands are likely to witness strong traction going ahead. Further, recently company has acquired the manufacturing and marketing rights of Virat Kohli's brand One8, which plans to grow its share of the men's premium innerwear segment. Going forward, the management is optimistic about premium product growth of CAGR of 30 per cent in the next 2-3 years which bodes well for the company's top-line and bottom-line as well.

Spending on brand building

The company is transiting its products into premium brands by investing in promotional brand building. The company spends nearly 7-8 per cent of its annual revenue on brand building activities. The company has invested nearly Rs. 380.56 crore in prudent brand building in the five years ending 2018-19. The company has brought in many celebrities like Shah Rukh Khan, Varun Dhawan, Amitabh Bachchan and Parineeti Chopra for endorsing Lux's various brands and products. The company generated Rs. 13.40 from every Rupee of brand spending in FY19 as against Rs. 9.93 from in FY18. This investment in increasing its brand equity is likely to yield in the coming years for the Lux. Looking at its successful brand building we expect that yields on advertisement expenditure to increase in near future.

Strong Supply chain, an edge

The company produces 100 per cent of its products in-house with zero outsourcing. This not only ensures lower production costs but also ensures a seamless supply of products. As mentioned above the company has 6 production facilities that have a production capacity of around 2,000 lac garments pieces a year. Further, in 2016 the company commenced a new Dankuni plant with a capacity of 5 lacs pieces of knitted products a day, the largest in India's innerwear textile sector. The company has more than 35 years of relationship with its distributors and at present, it has 950 distributors, 160 large format stores and 9 exclusive brand outlets. This ensures that the company's wide range of products reaches to right buyers.

Financial performance

The company is looking to reduce its working capital cycle from four months to two months which in turn would lead to better balance sheet positioning. Its sales grew at CAGR of 9 per cent since last three years. The sales growth was one of the strongest in comparison to its peers. For FY19 the company reported sales growth of 26 per cent while for the recently concluded second quarter of FY20, sales growth stood at 27 per cent on YoY basis, highest in comparison to its closest peers (12 per cent and 13 per cent of Page industries & Rupa & Company). The out performance is very positive, especially looking at current slowdown. The operating margins have seen consistent growth since FY14 to FY19. The operating margins expanded from 8 per cent in FY14 to 15 per cent in FY19. The growth was predominantly driven by product mix and optimum utilization of distribution channel.

Valuation and Outlook

The stock is currently trading at TTM EPS of Rs. 49 and PE multiple of 27x. Going ahead we expect that company will continue to outperform peer group on sales front, owing to its strong brand expansion. The margins may also continue to remain in higher ranges driven by demand in premium products. Hence we recommend BUY with expected price target of Rs. 1702.

Continued On PG 2...

Inc/Exp Statement(Consolidated) (Rs in Crore)		
Description	201903	201803
Net Sales	1207.05	1077.51
Total Income	1216.40	1079.41
Total Expenditure	1029.44	923.33
PBIDT	186.96	156.07
PAT	98.79	77.88
Dividend %	175.00	100.00
Adj. EPS(Rs)	39.12	30.84

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	348.13	260.06	33.87	274.56	26.80
Total Expenditure	300.53	227.90	31.87	235.54	27.60
PBIDT (Excl OI)	51.91	34.94	48.57	41.53	24.99
PAT	40.60	18.78	116.21	20.82	94.99
PBIDTM% (Excl OI)	14.73	13.29	10.84	14.99	-1.73
PBIDTM%	15.42	13.40	15.07	15.40	0.13
PATM%	11.52	7.14	61.34	7.51	53.40
Adj. EPS(Rs)	15.32	7.09	116.08	7.86	94.91