



“Lux Industries Limited  
Q3 & 9 Month FY2020 Earnings Conference Call”

February 14, 2020



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**Moderator:** Ladies and gentlemen, good day and welcome to the Lux Industries Limited Q3 & 9 months FY2020 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 morning everyone and thank you for taking out your time and joining us today and discuss our Q3 and 9 months FY2020 earning performance. Along with me I have Mr. Udit Todi, Mr. Ajay Patodia and SGA, our investor relations advisors. I hope you have received the result and investor presentation by now. For those who have not, can view them on our website. I am happy to share that we have delivered yet another strong quarter despite several issues in the economy. The innerwear industry is evolving at a rapid pace and today innerwear as a product category is no longer perceived as a commodity. Over the years, consumers are becoming more informed which has resulted into an evident shift in the industry where other aspects like color, pattern, style and fashion has been equally important along with the right fit and comfort. To cope up with the evolving trend, we at Lux have always been proactive in adopting newer methods of production developing innovative products and targeting the right audience via branding and promotional activities. Our customer centric approach has helped us to expand our visibility and created strong brand equity for our entire brand pool. We believe that successful brands generate a consumer pull and in turn help us to negotiate better payment terms with our trade partners. With a strong portfolio of 15 brands offering mass, mid premium and premium products across demographics. It has helped us to outperform the market and generate a pricing premium.

I would also like to share an update on our plans to merge J.M. Hosiery & Company Limited and Ebell Fashions Private Limited with Lux Industries Limited, which was approved by the Board of Directors in June 2018. As a part of the merger process the promoters of Lux Industries Limited has strategically disinvested 4.21% of the total equity of the company. I am happy to share that this sale would advance the progress of the proposed scheme of amalgamation and we expect it to complete in the next few months. We strongly believe that the merger of these entities with Lux Industries Limited would help us to expand our presence across market, help us to gain market shares, and will lead to higher



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growth potential with a portfolio of well-established brand under our umbrella. With this I will now ask Mr. Udit Todi who is spearheading the Strategy for the company to share his thoughts.

**Udit Todi:**

Good morning and a very warm welcome to everyone. Before taking you all through the financial and our operational highlights, I would like to provide an update on a dividend and dividend policy. During the quarter the Board of Directors have announced an interim dividend of Rs.10 per equity share that is 500% of face value of Rs.2 each. To reward the shareholders on a regular basis, the board has modified the dividend distribution policy and has inserted a clause that the company shall endeavor to maintain dividend payout ratio of 25% of the annual standalone profit after tax of the company.

Now coming to our financial performance, we have delivered a strong growth for the quarter and nine month ended December 31, 2019, despite continued weakness in demand coupled with several macroeconomic challenges. Our company has delivered a 7% revenue growth, a 290 basis point EBITDA margin expansion and PAT growth of 40% during the quarter, which is way better than the industry. Our consistency in delivering strong numbers is on account of our continuous focus on brand building, strengthening our product portfolio, implementation and adoption of latest technology in our manufacturing processes. On the supply chain aspect we have one of the largest distribution network, which is the core strength of our company. Our strong brand equity and goodwill has helped us maintain long-term relations with our distributors, dealers, and retailers. We are the largest domestic innerwear player by volume with strong presence in North, East, and Western parts of the country. We endeavor to further strengthen and streamline our distribution network to reach the untapped and under tapped markets and invest heavily in brand building and promotional activities.

On the working capital front, we expect to grow revenues with the same amount of working capital, which we expect will translate into a superior return on capital employed. This has resulted in increase operating cash flows. Our working capital cycle has reduced from 149 days as of December 2018, to 131 days currently. Going ahead we expect to moderate our working capital cycle across more than 5000 SKUs. We are undertaking several measures to aggressively promote and position our brand and we will strive to adhere to the highest of corporate governance and transparency in all our business dealings and transactions. We would also like to inform you that the board has approved the appointment of Ernst & Young as their internal auditors of the company for the calendar year 2020.

Now I handover to our CFO, Mr. Ajay Patodia to provide you an insight of our financial performance.



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**Ajay Patodia:**

Thank you Uditji. Our company reported a strong growth for the quarter and nine months ended December 31, 2019. Our revenue flow Q3 FY2020 stood at Rs.306 Crores versus Rs.285 Crores registering a growth of 7%. EBITDA has seen a strong growth of 28%, which stood at Rs.55 Crores as compared to Rs.43 Crores in Q3 FY2019. We had seen a stellar improvement of 290 basis point in our EBITDA margin on account of better product mix. Our EBITDA margin for the quarter stood at 17.9% as compared to 15.0% same period last year. Our PAT for the quarter stood at Rs.33 Crores versus Rs.24 Crores in Q3 FY2019. PAT margin for the quarter stood at 10.9% showing an improvement of 250 basis points compared to 8.4% in the same period last year.

Coming to quarterly performance of J.M. Hosiery and Ebell Fashions, the former clocked revenue of Rs.64 Crores as compared to Rs.54 Crores in Q3 FY2019 a growth of 19% while Ebell revenue stood at Rs.66 Crores as compared to Rs.57 Crores a growth of 17%.

Now coming to our 9 months performance, our revenue stood at Rs.924 Crores vis-à-vis Rs.827 Crores registering a growth of 12%. EBITDA for nine months FY2020 stood at Rs.144 Crores as compared to Rs.123 Crores in nine months FY2019 registering a growth of 18% year-on-year basis.

The EBITDA margin has also seen a healthy improvement of 80 basis point, which stood at 15.6% versus 14.8% in nine months FY2019. PAT for nine months FY2020 stood at Rs.93 Crores as compared to Rs.62 Crores in nine months FY2019 recording a growth of 49% year-on-year basis. The PAT margin stood at 10% a stellar improvement of 250 basis points as compared to 7.5% in nine months FY2019. The revenue of J.M. Hosiery Limited has grown by 13% to Rs.229 Crores while Ebell Fashions has seen a growth of 12%, which stood at Rs.210 Crores. With this we will now open the floor for question and answer.

**Moderator:**

Thank you. We will now begin the question and answer session. We will take the first question is from the line of Sanjay Ladha from Concept Investwell. Please go ahead.

**Sanjay Ladha:**

Good morning and congratulations for the good set of numbers. I have a couple of questions, so will start this, if you can share the revenue contribution of One8 brand and do we have any other strategic tie up pipelined? if you can share something on our premiumization side?

**Saket Todi:**

Strategic tie-up for the premiumization side is still pending currently but for the brand One8 the revenue is still very minuscule. The three-month revenue for One8 is around Rs.1.9 Crores, but we are planning to launch it in the general trade category in Q4FY20.



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**Sanjay Ladha:** Okay so in the coming three to five years can we see our premiumization products in innerwear can go up to 40 to 45% in the revenue terms. I am talking about the long-term not the short-term?

**Saket Todi:** Premiumization 40 to 45% would be a big number because the base of the whole group together would be above Rs.2,000 Crores so we cannot exactly comment what the numbers would be after three to five years, but definitely the premium products growth would be more than the mass segment product growth.

**Sanjay Ladha:** So the growth in premiumization side will be in the range of 30% plus can we expect that?

**Saket Todi:** 20% plus.

**Sanjay Ladha:** My last question would be how you see your EBITDA margin will be in 3 to 5 years. Can it be maintained at current level or can it improve, any guidelines on your side?

**Saket Todi:** The EBITDA margin might remain the same or might improve. Our plan is always to improve but let us see where we stand after 3 to 5 years.

**Sanjay Ladha:** Okay. Thank you so much.

**Moderator:** Thank you. The next question is from Himanshu Nayyar from Systematix Group. Please go ahead.

**Himanshu Nayyar:** Thanks for taking my questions. Firstly on our growth if you can just highlight what would be the volume growth for this quarter and the contribution from winter wear products?

**Saket Todi:** The volume growth for this quarter is around 17% whereas the winter wear range the total 9 months growth is around 23% but for Q3 it is mainly flattish because in Q2 we did majority of the sales of our winter wear products.

**Himanshu Nayyar:** Just to clarify you said volume growth of 17% for the quarter and value growth of 7%. So that means our realization and mix has deteriorated year-on-year because of winter wear you are saying it is flat right?

**Saket Todi:** Yes, that is correct because the winter wear product the ASP is higher than our vest and briefs so our winter wear has not seen growth in Q3 because the majority of our sales had taken place in Q2 but our innerwear products growth we have seen in quantities, where the ASP is lower than the winter wear. So there has been a quantity increase, volume increase of 17% whereas the revenue increase is around 7%.



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- Himanshu Nayyar:** On a portfolio basis how much of price change would we have taken up or down?
- Saket Todi:** See the price remains fluctuating as per the price of the cotton, but more or less in Q3 it was more than less flattish there has not been any change in the pricing.
- Himanshu Nayyar:** Secondly on the margin front, we have seen this very strong improvement mainly led by lower other expenses so could you give some more color on what really were the key items which are down. Have we taken a reduction in ANP spends or any other significant items which you can highlight?
- Saket Todi:** Advertisements expense has gone down by tune of Rs.8 Crores which has let down to an increase in the EBITDA margins and the advertisement expense our target is to maintain that around 8% yearly which we would continue to do.
- Himanshu Nayyar:** Any other key items because the reduction there seems quite sharp?
- Saket Todi:** All items have contributed that is there but all at minuscule levels, main item which has contributed was advertisement.
- Himanshu Nayyar:** Secondly if you can just highlight specifically on the performance of ONN our premium brand, how is it growing and what is sort of competitive scenario out there in the premium segment as of now?
- Saket Todi:** See the value growth of ONN is around 18% for Q3 and the ASP of ONN has increased so the volume growth might be little lower than that of 18%.
- Himanshu Nayyar:** And 9 months number if you can share on this?
- Saket Todi:** 9-month number should be approximately 12% to 13%
- Himanshu Nayyar:** Understood and final question on the working capital side we are seeing a decent improvement there so how much you think we can improve this without impacting our growth growing forward?
- Saket Todi:** I think working capital has been on a continuous improvement if you would see in the last few quarters and our target is that we will maintain the absolute value wise same working capital while increasing the sales.
- Himanshu Nayyar:** Sorry one final question, would you be in a position to give any guidance on growth and margins for the next year?



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- Saket Todi:** Our target is to maintain around 12%-15% value growth yearly.
- Himanshu Nayyar:** Understood. Anything on margins?
- Udit Todi:** Margins would somewhere be in the current level 9-month level the EBITDA margins stands at roughly 15.5% so it should somewhere be within the same zone maybe a 25 to 30 basis point improvement can take place.
- Himanshu Nayyar:** Understood. That's all from my side. Thank you, all the best.
- Moderator:** Thank you. The next question is from the line of Tanvi Shetty from Axis Securities. Please go ahead.
- Tanvi Shetty:** Thanks for taking my question. My question was basically on the price increases which the earlier analyst also clarified. actually I wanted to have more sense on, do we we pass on the price decrease on raw material to our customers, and how do we do it, is it by increased incentives to our distributors or lower MRP?
- Saket Todi:** So generally as a policy what we maintain is that any increase or decrease in raw material prices are passed on to the consumers so it kind of keeps our EBITDA margins intact and the method by which we do is the incentive structure for the dealers and the retailers are twiggged in a fashion in which the impact is given. So MRP is not something which we change on a regular basis. The MRP changes happen in the long run, but in the short term it is only the incentive structures, which are changed to accommodate any increase or decrease in raw material prices.
- Tanvi Shetty:** Okay. What would be the quantum of price increases if you have taken in these nine months of FY2020?
- Saket Todi:** So with fluctuation in raw material prices, the selling prices have also kind of fluctuated so it would be difficult to say, we actually need to understand from what perspective are we trying to understand whether there was an increase or decrease in price.
- Tanvi Shetty:** Okay Sir and your outlook for yarn prices what do you think on the prices?
- Saket Todi:** So the yarn prices I think after the Coronavirus breakout the yarn prices has soften up a bit and it should be better for the industry.
- Tanvi Shetty:** Okay. My next question was on the distribution front we have around 950 distributors at the moment at what rate can we see them increasing and which region in India are we planning



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to penetrate more apart from the Northern and Eastern where we have present extensively at the moment?

**Saket Todi:** Right now our main focus is on changing the product mix as well and that is where we believe the future growth will be coming in from and at the same time we are also looking at increasing our dealer distributor network base, but our primary focus is right now on the product mix so going forward we are looking at increasing our dealer distributor network by adding around 5 to 10 distributors every month for the next three to four months.

**Tanvi Shetty:** Changing our product mix means expanding women's wear, or the premium ONN and One8 which one of it would be focused more?

**Saket Todi:** It is not that anything will be focused more or less everything is given its due focus but the faster growing segments are definitely the outerwear segments and our premium wear category as well as the ladies segments. These are the segments which are growing faster than the core segment. These segments are again the segments which are of a higher ASP and a better margin profile so going forward it leads to better margin realization as well.

**Tanvi Shetty:** Okay so we do not see much of a growth contribution from our brands like Venus and Cozi is it sir?

**Saket Todi:** Venus and Cozi had been kind of growing at a steady rate, but obviously it will be slightly lesser than the premium product portfolios growth rate since their base is also pretty huge and the contribution in the overall sale is pretty big so obviously their growth rate is slightly lesser than our premium products growth rate and that is what the company has also been focusing upon which is premiumizing its product portfolio mix.

**Tanvi Shetty:** What is the contribution Sir, Venus and Cozi on an annual basis on an average?

**Saket Todi:** We will look it out what it was in FY2019 and we will get back to you with the figures.

**Tanvi Shetty:** Sure sir and one last question Sir on the working capital side you mentioned that you improved the days to 131 days from 149 I wanted to know what initiative have led to this improvement?

**Saket Todi:** So we have been more strict with our debtor days and a better efficiency in terms of stock management so on account of both of these factors we have been able to slightly reduce our working capital days although the current economic situation has been sort of challenging but we have been trying to reduce our working capital days and we believe that going





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forward this is what we will be able to maintain. So our long-term target is around 120 days and we have been already able to arrive at 131.

**Tanvi Shetty:** Sir one bookkeeping question what would be our capex plan for FY2020 and FY2021?

**Saket Todi:** So FY2020 and FY2021 should be just marginal incremental capex we are not looking at any huge capex going forward right now.

**Tanvi Shetty:** Okay That's all from my side. Thank you and all the best and congratulations on the good set of numbers.

**Moderator:** Thank you. The next question is from the line of Sabyasachi Mukherjee from Centrum Portfolio. Please go ahead.

**Sabyasachi Mukherjee:** Thanks for the opportunity. Congratulations on a good set of numbers. Just to understand on your volume growth of 17% in Q3 do you see some kind of customers doing down trading because we have seen some of your peers reporting a decline or maybe a much lower volume growth compared to you do you see kind of down trading happening in the market consumers shifting for lower ASP products in the category?

**Saket Todi:** It is not about lower ASP or higher ASP here the thing is about the product mix our thermal range which is of a higher ASP which is around Rs.200 per piece and the innerwear is around Rs.50 per piece. So the thermal category has seen a flattish growth and the innerwear category has seen a big growth for the Q3 that is why there has been a quantity growth in Q3 more than that of the revenue so it has no connect to basic or mass segment it is just the product portfolio.

**Sabyasachi Mukherjee:** Understand so you are saying that thermal have seen almost a flattish growth

**Saket Todi:** That is for Q3 but for nine months there is a growth because we did the majority sales in Q2FY20. Q2 thermal was around 55%.

**Udit Todi:** So just to give you a clarity on the winter wear segment so compared to our peers we are the largest winter wear player in our industry so this year the entire winter season we have clocked sales of about 200 Crores which was up about 23% from last year so our total winter wear contribution in this entire portfolio is around about 200 Crores which again as I mentioned is far more than anyone else in this industry and which has also seen a growth of 23% overall in the entire season but due to marketing strategies and everything a bulk of the winter wear sales were booked at the end of Q2 so that is why the winter wear sales are not



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reflecting in Q3 but overall the winter wear has performed really well this year the winter season entire across India has been phenomenal.

**Sabyasachi Mukherjee:** What has been the traction in Q4 till date in the winter wears January and February?

**Udit Todi:** Q4 is a season were from the company from the manufactures end the selling of winter wear kind of ends so winter wear sales are primarily booked in Q2 and Q3, in Q4 it is only the distributors and retailers who kind of clear their winter wear stocks.

**Sabyasachi Mukherjee:** Right on the margin front you mentioned almost 17.5% if I heard correctly in Q3 the operating margin I am talking about and we have any kind Ind AS impact in it?

**Saket Todi:** No, we are not having any kind of Ind AS impact it is only on account of operating activities of the company. There is no accounting side to it but on a long-term basis we kind of expect 15.5% to 16% EBITDA levels.

**Sabyasachi Mukherjee:** Right one last thing on the operating cash flow and your debt level where do you kind of see your debt level in the next two to three years, do you expect it to come down?...

**Saket Todi:** So if you talk about debt levels, our debt levels are quite low as of now we are at this point of time last year we were at about Rs. 242 Crores whereas on December 31, 2019, ended we were at about Rs. 93 Crores so all our operating cash flows had been used to repay the debt and in fact whatever amount of debt also which we are seeing right now is on account of export packing credit and working capital so that is what the debt structure looks as of now.

**Sabyasachi Mukherjee:** Fine. Okay. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Kedar Rai from Composite PMS. Please go ahead.

**Kedar Rai:** Can you help us with the export revenue numbers for Q3 and nine months?

**Saket Todi:** The export for Q3 has remained flattish and the export for nine month grown approximately around 9% to 10%. I will come back to you with the exact figures of our export for the nine months.

**Kedar Rai:** My second question is specific to the One8 brand we see that it has already been launched across the e-commerce as a channel but what other channels do you see yourself focusing on for this particular product and how is the channel strategy going to be different compared to let us say some of the other premium products that you have?



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**Saket Todi:** I believe that the premium products channel is through retailing only which is general trade the e-commerce right now in our country is very miniscule in comparison to the total general trade platform so e-commerce was launched first which was in Q2, now in Q4 this year when the season actually starts so we have launched it in the general trade category and we can see a good number in Q4 for One8 brand.

**Kedar Rai:** Okay when you say general trade are you referring to the normal distribution channel or we are focusing specifically on to the modern retail store format?

**Saket Todi:** General trade, our MBO that is through distributor but to MBO not wholesaling.

**Ajay Patodia:** With the export number for the nine months last year we were around Rs. 95 Crores and this year we are at around Rs.103 Crores.

**Kedar Rai:** Okay, so final question from my side. So coming to J.M. Hosiery and Ebell so what is the PAT trend for the first nine months look like compared to the previous year?

**Udit Todi:** Talking for Ebell Fashions, we have seen a revenue growth of 17% in Q3 and the PAT levels are roughly similar to what they were last year it should slightly be higher on account of the tax impact which is coming in but since earlier we used to be taxed at about 30%, effective tax rate was about 30% which has now come down to 25% so due to the effect of tax rates there should be a better realization of PAT margins and that is the same with JM as well. At EBITDA levels it should somewhere be in a similar range.

**Kedar Rai:** Okay and the advertising spends was I right in getting the numbers that it is 8 Crores for Q3?

**Saket Todi:** No it was 8 Crores down.

**Kedar Rai:** Okay 8 Crores down compared to Q3 of last year.

**Saket Todi:** Correct.

**Kedar Rai:** Okay. Thank you that's it from my side.

**Moderator:** Thank you. The next question is from the line of Shitaj Jain from Twenty Twenty Capital. Please go ahead.

**Shitaj Jain:** Thanks for taking my question. So wanted to check what is the total ad spent for the nine months?



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- Saket Todi:** The total ad spent for the nine months is around Rs. 76 Crores.
- Shitaj Jain:** Perfect, do we also track our secondary sales in MBO channels by any chance?
- Saket Todi:** For Lux it is mainly to our distributors and then they sell it to their wholesalers then it goes to the MBOs. So it is really difficult to track the MBO channel, but yes definitely our distributor and wholesalers keep tracking them about the sales.
- Udit Todi:** Just to give you a different perspective of your question there is an indirect way of kind of seeing sales conversion at a secondary level which is when the distributors start paying up and kind of reduce the debtor days it is a kind of signal that at the secondary level at the retailer level the stock is moving fast so that is the kind of an indicator of stock movement at the retailers consumer level.
- Shitaj Jain:** So we are seeing inventory reduction at our distributor levels?
- Udit Todi:** We are seeing a faster payment cycles from a distributor level.
- Shitaj Jain:** Understood and overall what is our inventory days and receivable days because I see a substantial improvement in working capital but just wanted to know the split between the receivables and inventory?
- Saket Todi:** We have the inventory numbers for December 2019 is around Rs.292 Crores in comparison to December 2018 which is around Rs. 333 Crores which has gone down and our debtors was around Rs.257 Crores which has gone up to the Rs.302 Crores which is mainly due to the increase in sales and December 2018 the number was Rs. 124 Crores gone up to Rs.151 Crores.
- Shitaj Jain:** Understood and that is very helpful. In terms of our schemes and incentives have we seen any increase over the last few months or going up because this 17% growth is it coming because of higher incentive or is it more traction and share gain that we are seeing?
- Saket Todi:** What I believe debtor incentives keep on changing due to the cost of the product or the cost of the cotton but here our major sales increase is due to the traction of the product and better scheme.
- Shitaj Jain:** So our schemes and distributor realization has more or less been the same?
- Saket Todi:** Yes.



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- Shitaj Jain:** Perfect. So one last question any specific reason for bringing Ernst & Young on board at this point do we see a stat auditor change as well on the cards?
- Udit Todi:** It is very soon to comment anything going forward but yes that is something, which we should be considering.
- Shitaj Jain:** Okay perfect. Thank you.
- Moderator:** Thank you. The next question is from Himanshu Nayyar from Systematix Group. Please go ahead.
- Himanshu Nayyar:** Thanks for the followup. Can you give us some color on the synergies expected given that the merger is now close especially on the distribution front whether our current distributor network of 950 sells Ebell and JM products as well or do we have a new or a different distribution network which gets added on once we merge the entire entity. Just wanted to understand the synergies in terms of the distribution.
- Udit Todi:** Talking about the merger I would like to talk a few points, I would address your questions as well. As we have mentioned in our introductory note that the promoter has already divested the required percentage which was one of the major road block for the merger so that has already been done and going forward that would really speed up the merger process and we are looking just regulatory approvals and should be completed in a couple of months. Talking about the synergies arising from the merger so it is more so of a financial merger it is a more of a restructuring exercise where everything is being brought under the same umbrella there is no cash out flow and the share swap ratio is such that it is really EPS accretive for Lux Industries Limited. The merger ratio number is already out there in our investor presentation you all can have a look the graph really depicts the EPS accretion which comes in to place and talking about the sales network of both JM and Ebell Fashion, they have their own exclusive distributors as well and obviously there are some distributors which are overlapping. So if you look at a combined effect our dealers and distribution network should increase marginally. At an operational level we will not be looking at major synergy at the operational level it should be more of a financial restructuring.
- Himanshu Nayyar:** Understood just final one book keeping question can you share the nine month operating cash flow number?
- Saket Todi:** Rs.109 Crores operating cash level for the nine months.
- Himanshu Nayyar:** Rs. 109 Crores. Understood. Thanks a lot.



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- Moderator:** Thank you. The next question is from the line of Sanjay Ladha from Concept Investments. Please go ahead.
- Sanjay Ladha:** So my question would be can you share your volume growth in innerwear side in the premium side, in the mid premium side and lower side?
- Udit Todi:** We have taken down your question Mr. Sanjay if you could just get in touch with our investor relations advisor, share the numbers with them so that they can forward it on to you?
- Sanjay Ladha:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shitaj Jain from Twenty Twenty Capital. Please go ahead.
- Shitaj Jain:** Thanks for the followup. Just wanted to understand the merger status by when do we expect the merger to be effected?
- Saket Todi:** I think we just spoken about it just a while back so the major road block for the merger going ahead was the promoter's stake exceeding the threshold limits the promoters have already brought down the stake and now we have already applied at the stock exchanges so we are just waiting for them to revert back and we are expecting it to finish it in the next say around five to six months.
- Shitaj Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.
- Pankaj Tibrewal:** Good afternoon Udit, Saket. My question is on Lyra we have seen Go Colors scaling up very nicely and recently what we are hearing is that W is also launching their brand on leggings by the brand Elleven. Do you see this base getting more hyper competitive and what would be our strategy to scale up in the next couple of years on Lyra, it will be helpful, thanks.
- Udit Todi:** As you correctly mentioned Lyra earlier has started off as a leggings brand but going down the line our strategy is more of making it a wholesome brand rather than restricting it to just leggings so although many other players are coming up with their leggings offering where by we have started diversifying more so into lingerie space as well as t-shirts as well as more so into the garment's space. So I think that is the strategy, which we are trying to



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follow and getting more of wholesome brand rather than just taking it to one particular product.

**Pankaj Tibrewal:** So in terms of growth rates what can we expect from Lyra now because the space seems to be very exciting but growth rates numbers which you gave in the first nine months was about 12% to 13% so how can we escalate the growth rate there? Any thoughts would be helpful.

**Saket Todi:** With Lyra our sense is that we are one of the biggest players in this industry having sort of one of the highest market shares in this category which is leading to kind of a slower growth rate and at the same time this year overall the economic scenario was not very good for the entire India so as to say. Even in the such circumstances we have been able to deliver a 10% to 12% growth rate and going forward we believe that as and when we are entering newer categories and with the market situation changing the growth rates should also better up.

**Pankaj Tibrewal:** Great. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Mehul Gala from SPA Securities. Please go ahead.

**Mehul Gala:** My question is on gross margins we have seen 180 bps improvement y-o-y so what explains that?

**Saket Todi:** That has been mainly due to the change in the product mix category as we have explained before itself that the thermal wear category which commands higher ASP and higher EBITDA level as well as ONN our premium wear as well as export they have grown together faster than that of the company.

**Mehul Gala:** But if I look at Q3 you are saying winter wear has remained flat right?

**Saket Todi:** For Q3 the winter has been flattish, but for nine months winter wear has grown up by 23%, which mainly was in Q2, which has grown up by 55%.

**Mehul Gala:** That does not explain Q3 improvement if there is anything otherwise it is good only but only thing I wanted to have a reason like what it is, is it a raw material costing or our incentives and all that we have come off why is it like because winter wear has remained flat during Q3 right?

**Saket Todi:** But Q3 has not seen improvement?



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**Mehul Gala:** Let me come back on this, my other question is Ebell and JM Q2 FY2020 as compared to that in Q3 FY2020 we have degrown, y-o-y we have seen growth but is that sequentially both of these businesses have degrown?

**Saket Todi:** Both of these companies have been delivering good growth rates,

**Mehul Gala:** Ebell in Q2 I think Rs.82 Crores of revenue.

**Saket Todi:** There is seasonality in the business, so in the garment business if you are looking at this absolute numbers that is not a fair way of looking at the business because the kind of products that we have to offer both Ebell and JM are much lesser on the winter portfolio side they are more heavy on the summer portfolio so when it comes to the Q3 which is October, November, December if you just look at, you compare it to Q2 over Q3 you will look at a decline but that is due to the seasonality of products so a fair way of comparing garments business would rather be when you compare it to the corresponding period in the previous year.

**Mehul Gala:** Q2 has more of summer product is it?

**Saket Todi:** Summer products sell in Q1, Q2, and Q4. Q3 is a quarter where summer products do not do well, it is a time for winter wear products and Q2 is more of a festive sale as well so if you have to actually compare it more fair comparison would be if you compare quarter with a corresponding period in the previous year rather than sequentially so you have take into account the seasonality of sales as well

**Mehul Gala:** Thank you.

**Saket Todi:** So if you look at a 9 monthly figure if you look 9 month over 9 month both Ebell and JM had been growing at 10 to 12%.

**Mehul Gala:** Okay.

**Moderator:** Thank you. Ladies and gentleman that was the last question, I now 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 have been able to address all your queries. For any further information, kindly get in touch with Strategy Growth Advisors, our investor relation advisor. Thanking everyone once again.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Lux Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.