SMIFS LIMITED
LEGACY | TRUST | GROWTH

Sector report on
INNERWEAR INDUSTRY

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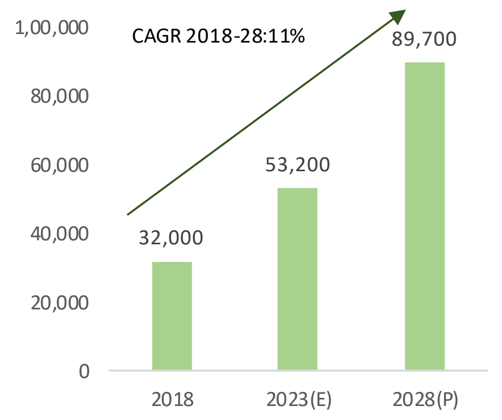
Industry Overview

⇒ The Indian innerwear market was valued at ~Rs 320 billion in 2018 and is expected to grow at a CAGR of ~11% over the next decade to reach ~Rs 897 billion by 2028E. ***In the past, innerwear was depicted as a mere essential 'commodity' but in the last few years transformed itself into a fashion statement.*** Players now focused on the width of the product range; men's and women's innerwear began to be marketed through retail formats. Domestic demand of innerwear has changed with rising incomes, higher discretionary spending, rise in number of working women and growing fashion consciousness coupled with increased fashion consciousness among millennials. The innerwear segment is now expected to gain a new round of traction. Most major brands across the men's and women's segments are expanding their portfolio.

Exhibit 1: Indian Innerwear Market (Rs Cr)



Source: Images Business of Fashion, SMIFS Research

⇒ ***The innerwear market is dominated by a large number of small-scale players, making ~60-65% of the market unorganised. However, the market is evolving gradually and moving towards organised retail.*** Lately, the premium innerwear market in India has been experiencing the increasing entry of global brands, mostly through partnerships and tie-ups with home-grown brands.

⇒ Organised players have invested significantly in building capability around: 1) design & fit; 2) sourcing; and 3) channel presence, to ensure that their distinct positioning translates in to retail connect with consumers. This has fuelled demand shift towards organised from the unorganised segment.

⇒ The distribution structure of the innerwear category is much more diversified and balanced, allowing the terms of trade in favour of the branded players. ***Home grown brands achieved the respectable size of Rs.~10 bn, which many branded apparel brands are still struggling to achieve.*** Brands are continuously focusing on product consistency and design over a period of time to avoid losing a satisfied consumer. Moreover, a steady stream of new products keeps distributors and retailers active and interested.

⇒ Industry players constantly looking for a new revenue stream or product segmentation where they can generate higher realization than the regular innerwear. ***Fortunately, a new trend emerges in the industry where players are focusing on outerwear like track pants, shorts, T-shirts and most importantly athleisure wear, which will give them a higher margin on select products.***

⇒ ***The listed players in this sector are Page, Lux, Dollar, Rupa, and VIP Clothing. While traditional players like Lux, Dollar and Rupa have a wide range of brands, they earn majority of their revenue from economy segment brands. Only Page via Jockey has cracked the segment with a premium brand and today it has become the single largest branded apparel brand across categories.*** After Page, various other players have also launched premium innerwear with limited success. Only Van Heusen has gained some traction over the past 3-4 years. Furthermore, super premium category is currently serviced by foreign brands like St.Michael, Marks & Spencer etc. These foreign brands are easily available in India, especially in the Metros. In innerwear, because of the lower -ticket size, upgrading is much easier and affordable for a lower per capita economy such as India. By paying as little as Rs 60-70/piece more, a person could upgrade from an economy brand to a mid-premium brand.

⇒ ***Over the years, the industry has created a huge entry barrier by creating brands backed by big celebrity endorsement.*** Moreover, modules and fixtures for product display, attractive packaging and point-of-sale imagery ensured respective brands was brought into limelight using first-of-its-kind brand communication.

Industry Overview-

Exhibit 2: Snapshot of the Indian Domestic Innerwear Sector

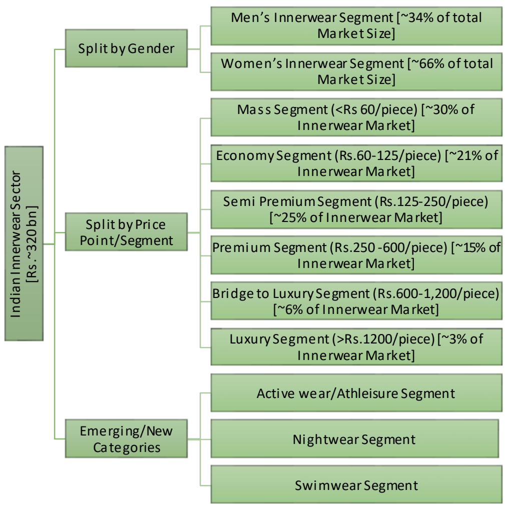


Exhibit 3: Brand positioning by player

	Page	Dollar	Lux	Rupa	Arvind	ABFRL	Others
Luxury					Calvin Klein		
Super Premium		Pepe	One8	FCUK			
Premium	Jockey	Force NXT,Missy	ONN	FOL,Macroman M/W	US Polo, Hanes	Van Heusen	Levis, Jack & Jones
Sub-premium (Medium)		Dollar Big Boss	Lux Cozi	Euro,Frontline			
Economy (Value)		Dollar Lehar	Lux Venus	Jon			

Source: Company Data SMIFS Research

In this report, we have discussed four large players, i.e. PAGE Industries (Hold), Lux Industries Ltd (Strong Buy), Dollar Industries Ltd—(Strong Buy), Rupa & Company Ltd- (Buy).

- **PAGE Industries Ltd (PAGE)– Established market position in the premium innerwear market and strong distribution network-** Strong brand recall for its flagship brand 'Jockey' owing to its early mover advantage provides it a competitive edge. Company has capitalised on the 'Jockey' brand equity in the rapidly transforming innerwear market. It is currently among the leading players in the domestic market. Page's strong network of 72,000+ Multi Brand Outlets spread across 2,890+ cities and towns. The products are sold through Exclusive Brand Outlets (EBO), Large Format Stores (LFS), Multi Brand Outlets (MBO), Traditional hosiery stores and Multi-purpose stores. Management commentary post Q3FY21 results indicated a continued recovery in sales. **Channel confidence levels have increased with company adding channel partners and launching new products in a difficult environment. Furthermore, company retains its ambition of reaching USD 1 bn top line in 4-5 years.** We are building in a revenue CAGR of 13% over FY20–23E with athleisure to see highest growth followed by women's innerwear.

- **Lux Industries Ltd (LUX)- Strong brand equity and wide distribution network-** LUX has a strong market position in the branded innerwear industry in India with a market share of ~14-15% in the organised sector. **The company sells around 100 products under the umbrella brand of 'LUX' catering to various segments such as Mass (LUX Venus); Mid (LUX Cozi) and Premium (LUX Onn) along with presence across various price points ranging from Rs. 38 to Rs. 1,790. Over the years, LUX has created a wide-ranging portfolio of brands across various sub-segments.** With a wide array of offerings, the company caters to customers from all segments. We expect, revenues are likely to grow on the back of rising demand in the innerwear segment, wide-ranging product basket will traction the 15% CAGR revenue growth over FY20-23E. Furthermore, LUX is in the process of merging group companies—J.M. Hosiery (GenX brand) and Ebell Fashions (Lyra). The integration would add newer categories to LUX's product range, further raising its growth potential. The merger is expected to be EPS accretive.

- **Dollar Industries Ltd (DIL)- Presence across all segments with a widening product basket-** DIL has evolved from being another regional player to an all-out pan India player with strong brand recall. It captures the whole economic pyramid at a stretch. The company has evolved as an umbrella brand, launching an array of sub-brands such as Dollar Big Boss Innerwear, Missy, Champion, Lehar, Force Go Wear, Ultra Thermals, Force NXT. **Furthermore, DIL has been gradually inching its presence in mid and premium market segment with focus on high growth categories like women's leggings, thermal wear, premium inner-wear and leisure wear.** A strong brand bouquet and continuous expense on increasing brand awareness would enable DIL to leverage the industry demand and register 9% revenue CAGR over FY20-FY23E to Rs 12,389 mn. We expect company to report a 22.4% CAGR in net profit over FY20-23E to Rs 1,091 mn leading to an improvement in ROCE from 13.7% in FY20 to 20.6% in FY23E.

- **Rupa & Company Ltd (RUPA)- Diversified Product Portfolio with strong distribution reach–** RUPA caters to all segment including men, women and kid segment with its wide bouquet of brands. Over the years, the company has created over 18 sub-brands catering to various socio-economic classes. RUPA targets higher sales from its premium brands and super premium brands (M-series, FCUK,FOTL). Premium and super premium category have higher potential to grow and the market keeps shifting from the economy segment driven by rising disposable incomes. Furthermore, RUPA has a strong distribution network of 125,000 retail touch points, 1200 dealers, 11 EBO's (exclusive business outlets), 4 central warehouses, and products are available on various other e-commerce platforms. With efficient business model, the company manages 7000+ SKUs portfolio of different range for kids, men and women. We expect revenues and PAT to increase at a CAGR of 12%, 30% during FY20-23E.

Industry Overview-

Indian Men's innerwear segment to grow at a CAGR of 7% to Rs 218 billion by 2028E

⇒ Men's innerwear market was valued at Rs 110 billion in 2018 and is expected to grow at a CAGR of 7% over the next decade to reach Rs 218 billion by 2028. ***Innerwear market is classified into five product categories: low, economy, mid-market, premium, and super-premium. The Rs 6.5 billion super premium category grew by ~26% and the Rs 18 billion premium segment by ~22% in FY20 whereas the Rs 47 billion medium category, retailing at an average Rs 250 a piece, grew at a much slower rate of ~17%. Most Indian brands are largely in the mid-to-economy segment, catering to the masses.*** There are more than 1 lakh MBOs (multi-brand outlets) across India, which account for over ~60% of the total sales of undergarments, while the rest take place through modern trade formats like malls or online portals.

⇒ Product categories in men's innerwear include briefs, trunks, vests, boxer shorts among others. ***The market has historically been highly fragmented and unorganised. Even today it is dominated by numerous small-scale players that cater to ~60-65% of the total demand.*** However, the market segment is evolving and is gradually moving towards organised retail.

⇒ Indian innerwear market has witnessed a changing trend in the past with more and more people opting for better quality branded products. Men's innerwear segment has a very high branded proportion accounting for ~61% of total market size. ***Though Page continues to dominate the market, brands like Lux, Rupa, Dollar, Amul and Dixcy have gained significant scale in the men's innerwear segment.***

⇒ Looking ahead, ***growth in the innerwear market is expected to be driven by broad based consumer trends in the form of rising discretionary spends, growing number of mid-high-income household and increasing urbanization.*** Innerwear has progressed from being just a functional category to making a bold fashion statement. **It is a welcome shift from a price sensitive category to a brand sensitive category.**

⇒ Men's innerwear segment has product offerings ranging from ~Rs 60 a piece to ~Rs 300 a piece. ASPs (average selling prices) in the premium segment have increased from ~Rs 166 per piece in 2009 to ~Rs 600 in 2020. Similarly, ASPs in the super-premium segment have increased to ~Rs 1200 a piece.

Exhibit 4: Men's Innerwear Market (Rs Bn)

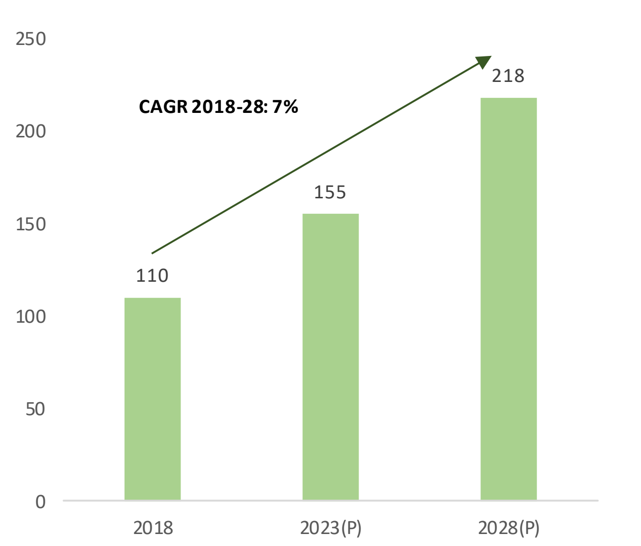
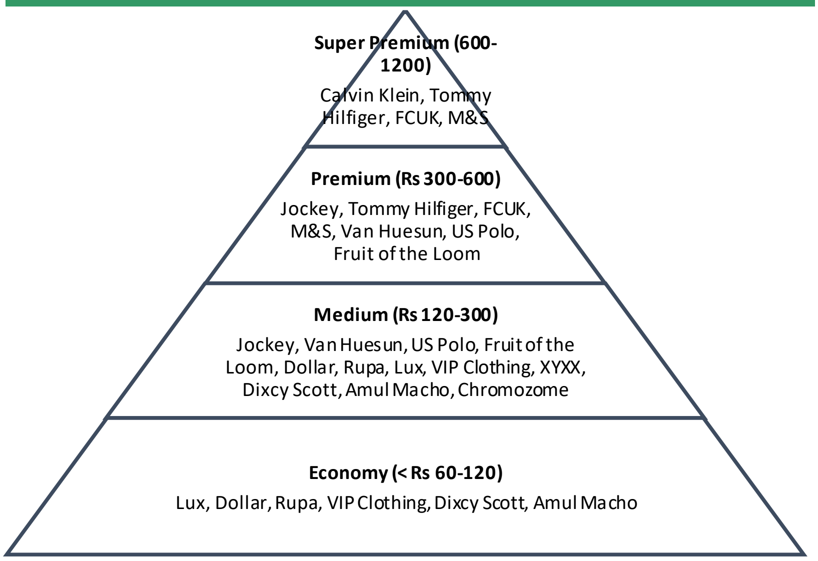


Exhibit 5: Price Segmentation of Men's Innerwear



Source: Images Business of Fashion, SMIFS Research

Industry Overview-

⇒ Indian consumer spends on innerwear products is significantly lower than other Asian peers. This trend is visible across both men's and women's segments with gaps of over 90% against countries like Thailand and China. This suggests that there is significant room for growth, driven by rising per capita spend on such products.

<u>Women's innerwear segment to grow at a CAGR of 13% to Rs 680 billion by 2028E</u>

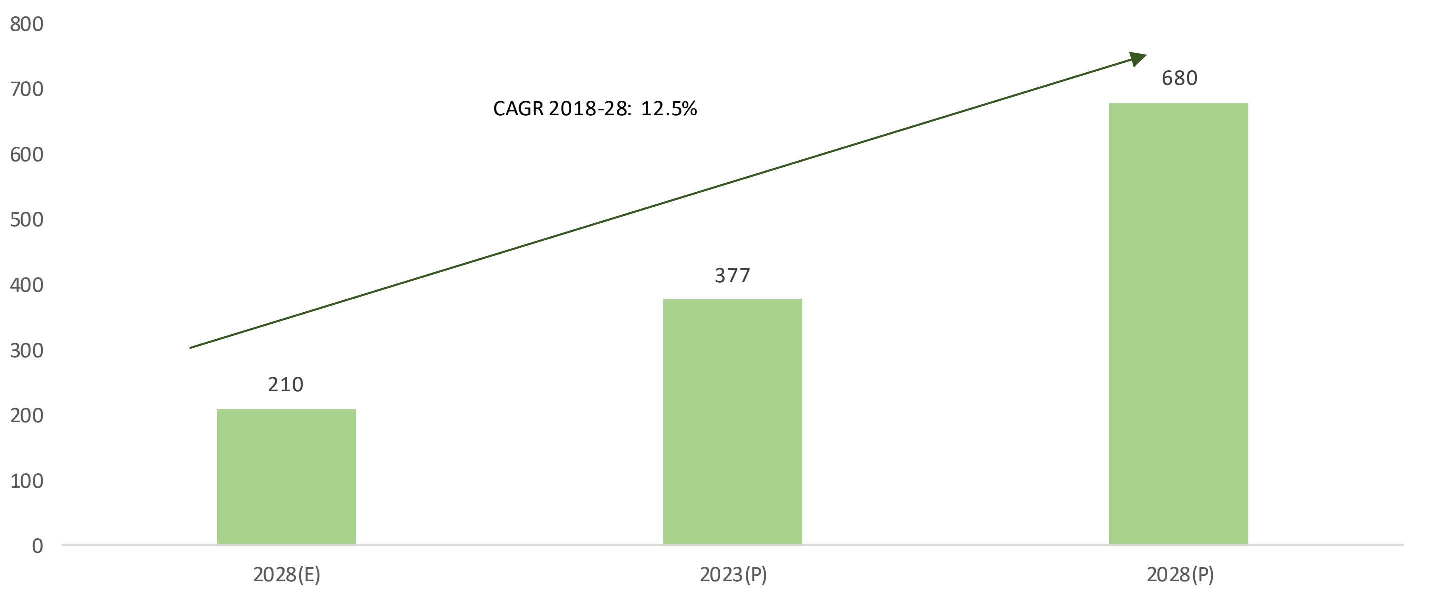
⇒ ***Indian innerwear market is primarily dominated by women's innerwear, which accounts for ~66% of the total innerwear market and accounts for ~15% of the women's apparel market. Branded innerwear contributes ~38-42% of the women's innerwear market and this share is expected to grow to ~45-48% by 2023.*** Product categories in women's innerwear include brassieres, camisoles, panties, tees, nighties, shorts, etc. Brassieres and panties contribute 85% of the total women's innerwear segment.

⇒ ***Women's innerwear segment is poised to grow at an impressive growth rate of ~12.5% over the next decade to reach ~Rs 680 billion by 2028 from the market size of ~Rs 210 billion in 2018.*** Branded innerwear in women's segment contributes ~38-42% of the total women's innerwear market and is expected to increase to ~45-48% of the total market by 2023.

⇒ During FY15-20, the women's innerwear segment grew at 14%, outperforming the overall innerwear segment and the men's innerwear segment growth. While all segments contributed to this growth, leaders were medium, premium and super premium categories. While this can be broadly attributed to the advent of multinational brands in the market place and the growth of organised retail, a host of other variables like growing number of working women, changing fashion trends, increased awareness about better fits, quality, brands, colours, styling, increasing per capita disposable income, rising level of information and media exposure have also given the industry a new dimension. The trend is not restricted to just metros but can be witnessed spreading in Tier-I, II and III cities.

⇒ Price points vary based on the range and category of products. The basic mass range of innerwear priced ~Rs 60 to ~Rs 150, the premium mass range of innerwear is ~Rs 100 to ~Rs 250, the premium range extends from ~Rs 150 to ~Rs 400 while the luxury range extends from ~Rs 400 to ~Rs 3,000.

Exhibit 6: Women's Innerwear Market (Rs Bn)



Source: Images Business of Fashion, SMIFS Research

Industry Overview-

Athleisure segment – A new emerging segment-

⇒ Casualisation as a trend has been gaining traction in terms of Athleisure, Comfort Wear, T-shirts, Shorts and Sportswear. Customers are getting comfortable with the idea of wearing premium dressed up and easy-to-wear, casual wear which is well represented by Athleisure category.

⇒ ***India's athleisure market is growing at 18-20% currently and current market size is estimated at Rs 540 billion. Of this, the men's wear segment accounted for 8-10% growth and the women's and children's segments 11-15%.*** This trend of athleisure, majorly driven by millennials, is expected to expand reach beyond urban India to Tier II and Tier III regions. While the scenario appears muted following the pandemic, the fundamental strength of the athleisure segment is expected to become pronounced when consumer sentiment revives.

⇒ In the athleisure segment, style quotient is not critical but comfort is, similar to innerwear purchase and industry players suggest that hosiery is a big channel for sale of utility T-Shirts.

Kids wear segment to grow at a CAGR of 9% to Rs 1,337 billion by 2025E-

⇒ ***The kids wear market in India is estimated at Rs 819 billion and expected to grow at a CAGR of ~8.5% in the next 5 years.*** With a booming kids population in India and owing to distinct factors like the growing trend of nuclear family system, increased spending on children, greater brand awareness among kids, and better focus on this segment by organized players, the kids wear industry is poised to grow in the coming years. Albeit largely unorganised today, this segment is closely following suit the men's and women's segment to become the next organised sector play for innerwear industry.

Distribution structure of the innerwear industry -

⇒ Given the high share of unorganised retail in innerwear industry (~60-65%) and also a major share of demand from rural cities , India's multi-brand outlets (MBOs) have cornered a major share of the market. Also, absence of a meaningful alternate/online platform along with limited EBO profitability options in tier III/IV has fuelled growth of the MBO channel.

⇒ However, for branded players, organised channels (i.e., LFS +EBO) make up a much higher share. The online channel has proliferated since FY15 (entry of Flipkart and Amazon into fashion retail) and remains the fastest-growing. Optimising channel mix among EBO, LFS, MBO and e-commerce websites/own website requires an assessment of various parameters.

⇒ Over the years, MBOs proved to be the most reliable channel for brands given the relatively higher margin (versus LFS) and no fixed investments (versus owned EBOs) and no need to hold inventory (versus owned EBOs and LFS). However, for any brand, visibility and presence is the most critical aspect, which are provided only via EBOs. Currently, organised players trying to steer clear of wholesale distributors and appointed only exclusive distributors.

Exhibit 7: Distribution break down by company

	Share (%)				Count					
Company	EBO	LFS	MBO	Online	EBO	LFS	MBO	SKUs	Dealers	Cities
Page Industries	25	5	65	5	870+	2,299	72000+			2,890
Lux Industries	1		98	1	4	160	2,00,000+	5,000+	950+	NA
Dollar Industries	NA	NA	>90	NA	NA	NA	1,10,000+		900+	NA
Rupa	NA	NA	>90	NA	11	NA	1,25,000+	7000+	1,200+	NA

Source: Industry Data , SMIFS Research

Industry Overview-

Growth drivers-

⇒ **Indian middle-class consumer: Moving up the ladder-**

India accounts for ~3% of the global middle class with ~65 million households. The consumer population belonging to middle and upper class is expected to grow at ~8% to reach ~140 million households by year 2026. Nowadays the lower class is moving towards the middle class and in the future the present middle class will shift to the status of upper middle class, this shift is because of the economic growth, increasing disposable incomes, dual income households etc. This has brought remarkable changes in the lifestyle of the people. They have more income to spare, becoming more brand conscious and opting for better products and services

⇒ **Change from Need-Driven to Aspiration-driven Buying-**

With the changing social dynamics and buying power, men are becoming conscious of brands in intimate apparels too. While they still shop with mom and pop stores, they have also started exploring newer avenues like brand EBOs, LFS and online platforms. This paradigm shift in this sector can be attributed to aggressive marketing techniques of innerwear brands targeted at the aspiring and open-minded young middle class population. With increasing disposable incomes, they have shifted from need based shopping to splurging on styles. Many fashion brands have expanded their brand labels in menswear to men's innerwear as well.

⇒ **Increasing Urbanisation-**

Economic growth will be accompanied by shift in the underlying demographics. There will be an increasing trend of urbanisation, a peaking of the population in the working-age group, and a larger share of this population will be employed in the services sector. About ~34% of India's population is urban; ~400 million more are expected to become urban dwellers by 2050. By 2030, the proportion of India's urban population is expected to increase to ~40% even as the population becomes larger. This urbanization pace is rapidly creating a segment pool of Indians that display migrant tendencies and are without past baggage of habits. They look forward to new products, services and solutions that help them to adopt to new rules of living.

⇒ **Growing fashion-consciousness-**

With the rise in disposable income and sophistication of digital and other media, consumers are becoming more aware, fashion conscious demanding under varieties and designs. There is a trend towards brand loyalty, where style and design are among the top-three considerations for consumers

⇒ **Premiumisation focus-**

The Indian innerwear market was once highly price sensitive and people spent on innerwear cautiously. However, the market has changed and is witnessing the advent of premium innerwear brands along with the entry of global brands. Many established brands are introducing new and better product lines, while adhering to customer satisfaction

⇒ **Enhancing Exports-**

India is the world's second-largest textile exporter. Capacity built over years has led to low cost of production per unit in India's textile industry. This has lent a strong competitive advantage to the country's textile exporters relative to key global peers. In the coming decades, Africa and Latin America could turn out to be key markets for Indian textiles. Many Indian originated innerwear brands have marked their presence in other countries like Africa and Middle East.

Industry Overview-

Exhibit 8: Shopping frequency

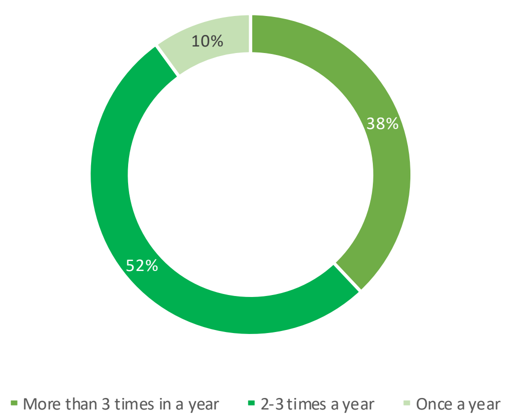
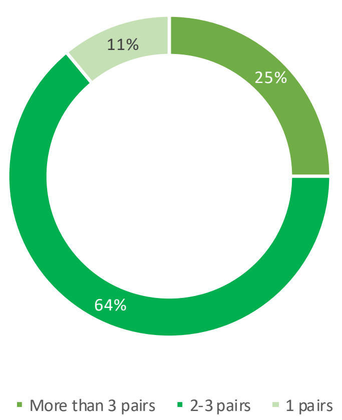


Exhibit 9: Quantity purchased per shopping trip



Source: Wazir Advisors SMIFS Research

COVID-19 impact on the innerwear industry-

⇒ Demand in economy range of innerwear products remained buoyant despite the outbreak of COVID-19. Nevertheless, there was an initial impact due to national lockdown which restricted sale of non-essential category products (innerwear included in this category), sales picked up quite sharply for few companies thereafter. Supply constraints due to lower availability of migrant labour led to demand-supply mismatch. Post Q3FY21, company comments suggest huge improvement in working capital led by a reduction in receivables days, which has been the core focus of the companies since last two years.

Key industry developments post COVID-19-

⇒ **During Q3FY21, industry players reported a healthy sales recovery on the back of strong pent up demand, traction in athleisure wear and festive season.**

⇒ **There has been an overall change in terms of trade across the system. Presently, companies are focusing on managing their working capital more efficiently driven by the optimisation of inventory and receivables.**

⇒ A strong hold on basic and mid-premium range is the primary success factor for an innerwear brand. The brand can build its premium range.

⇒ Few companies are further looking to expand their retail base by launching franchise EBO'S.

Industry Overview-

⇒ **Demand traction would more visible over the next 2-3 quarters-**

Over the last 2 quarters, innerwear products (comfort wear, leisurewear, inner wear, etc.) witnessed buoyant demand due to extended work from home facility across industries. Demand shifted across different states when daily workers migrated back to their respective hometown. ***Currently, dealers placing orders only for what can be sold by them and therefore even a reasonable improvement in consumer sentiment is likely to result in substantial improvement in domestic demand.***

⇒ **Better traction in the Economy segment-**

Initially there was strong demand for leisurewear, which normalised quickly. **Demand for lower price segments remained far more stable than premium products.**

⇒ **Winter wear category – A key focus area for the industry-**

Industry players have shifted their focus on winter wear category. Nationwide lockdown led to reverse migration of labour force which adversely affected winter wear's production. Post COVID-19, channel partners tried to liquidate their winter wear inventory and also distributors in winter areas procured winter wear to avoid stock-out situations.

⇒ **Price hike taken across brands-**

All branded players including Lux, Rupa and Dollar, have taken price hike. We believe, this price hike is largely driven by strong demand and increase in raw material prices, especially cotton.

⇒ **Advertisement & Promotion (A&P) spends-**

Traditionally, ~6-8% of the annual turnover is invested in brand promotion. Businesses have started rationalising their respective cost structure with majority of them limiting their A&P spends in FY21E. Some of the key initiatives include: tele calling, digital trade shows, virtual store visits, catalogue selling with home delivery/collect from store facility and leveraging social media to enhance consumer engagement.

⇒ **Buoyant yarn prices – A concern for the industry-**

Major raw material for the industry is cotton, yarn and fabric. Raw material cost formed about ~44%-50% of the total cost of sales. The yarn prices are dependent on the prices of cotton, which being a commodity in nature have volatile price movements. Yarn prices have inched up a bit more than the average price in previous years, this is a normal phenomenon as the prices are usually high before the new crop arrives (new crop arrival in Feb). While the industry pass on any change in raw-material prices, great volatility could have a temporary impact on margins. All the branded players have already taken price increases in order to pass on higher raw material prices.

Working capital cycle to improve

⇒ Innerwear companies have much higher working capital cycle (WC) due to higher receivables as MBO is the major selling channel (>90% of sales, ex Page). Even women's wear companies have a high share of WC driven by higher inventory (various SKUs plus seasonality). Over the past few years, WC has been increasing, driven by rising receivables as GST and demonetisation have impacted cash flows, especially of the MBO channel.

⇒ In the past few years post-demonetization, industry has been struggling to keep its working capital days at normal levels. Given the industry (ex Page) derives a good proportion of its sales from the rural belt of India, growth slowdown has impacted channel partner's liquidity, yielding to the spurt in receivable days for some of the companies.

⇒ Due to strong demand, economy brands like Lux, Rupa and Dollar are taking full upfront payment against the earlier practice of selling on credit. The only exception to this, are the distributors who have been associated with these brands for more than a decade and good credit history. We believe, industry continues to provide the credit period to distributors while the number of operating days have reduced.

⇒ There have been no major changes in dealer incentive structure across distribution network by different brands. Volume-based targets have remained unchanged by the companies which have no difficulties in production whereas they have been scaled down by companies which are facing difficulties in production. Further, these targets are reviewed quarterly and necessary revisions are done, depending on the market scenario.

⇒ Going forward, Higher outsourcing would improve the working capital cycle by reducing the requirement for raw material and WIP inventory. Furthermore, a focused attempt is made to streamline distribution via a tie-up with untapped retailers (through distributors) and increase in throughput for distributors, which would ultimately help

	Net sales (Rs Mn)		Growth %	EBITDA (Rs Mn)		Growth %	EBITDA margins %		Growth %	PAT (Rs Mn)		Growth %
Particular's	9MFY21	9MFY20	YOY	9MFY21	9MFY20	YOY	9MFY21	9MFY20	YOY	9MFY21	9MFY20	YOY
PAGE Industries Ltd.	19522	24043	-18.8%	3568	4744	-24.8%	18.3%	19.7%	*(146)Bps*	2250	3122	-27.9%
Lux Industries Ltd.	10121	9185	10.2%	1969	1425	38.2%	19.5%	15.5%	*394 Bps*	1390	955	45.6%
Rupa & Company Ltd.	8268	7649	8.1%	1665	1126	47.9%	20.1%	14.7%	*543 Bps*	1147	753	52.3%
Dollar Industries Ltd.	7302	7317	-0.2%	1070	836	28.0%	14.7%	11.4%	*323 Bps*	672	461	45.6%

For 9M FY21, mid ranged players (Lux, Rupa & Dollar) have reported a good set of numbers as compared to PAGE due to faster rural recovery and market-share gains from the unorganized segment.

Page Industries Ltd
Sector: Textile

Brief Overview

CMP (INR) (As at 5th April 2021)	29,655
Current Target (INR)	30,495
Upside(%)	3%
Recommendation	**Hold**

BSE Code	532827
NSE Code	PAGEIND
Reuters Ticker	PAGE.BO
Bloomberg Ticker	PAGE.IN

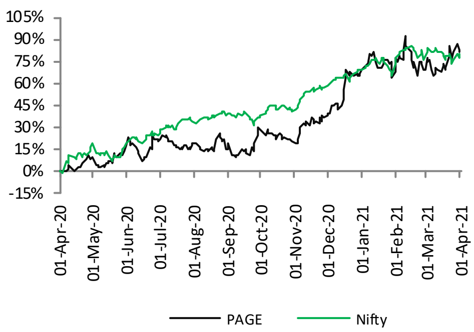
Stock Scan

Market cap (INR Cr.)	33,076
Outstanding Shares (Cr.)	1.1
Face Value (INR)	10.0
Dividend Yield(%)	0.5%
TTM P/E (x)	131.4
P/B (x)	37.4
Debt/Equity	0.0
Beta	0.57
52 Week High/ Low (INR)	32,372/16,300
Avg. Daily Vol. (NSE)/1 yr.	49,581

Shareholding Pattern (%)

	Dec-2020	Sep-2020	Jun-2020
Promoters	48.32	48.32	48.32
Institutions	41.61	40.69	39.62
Non-Institution	10.07	10.99	12.06

Stock vs. Nifty (Relative Returns)



Source: NSE

Company Overview

Page Industries Ltd (PAGE) established in 1995 by the Genomal family to market and manufacture the global innerwear brand 'Jockey' in India. PAGE has the license from the US-based Jockey International Inc. (JII) to manufacture and distribute the 'Jockey' brand of innerwear products in India, United Arab Emirates (UAE), Sri Lanka, Republic of Maldives, Bangladesh, and Nepal. **PAGE has become the largest player in the premium innerwear segment with net revenues of Rs 29,454 mn in FY20 and revenue CAGR (FY15-20) of 14%.** PAGE has 15 garment manufacturing units (>70% in-house manufacturing) located in South India with an annual installed capacity of 260 mn pieces. **Our key investment thesis are as follows.**

- **Established market position in the premium innerwear market in India–** PAGE built Jockey into an aspirational innerwear brand in the country driven by leadership across men's innerwear, women's innerwear and athleisure. Strong brand recall for its flagship brand 'Jockey' owing to its early mover advantage provides it a competitive edge. Company has capitalised on the 'Jockey' brand equity in the rapidly transforming innerwear market. It is currently among the leading players in the domestic market. The surge in men's innerwear was driven by branding, positioning and distribution. Women's innerwear and athleisure have sprung on the pedestal of brand visibility and distribution created by men's innerwear.

- **Strong distribution network to help Page further capitalise on rising demand-** PAGE's strong network of 72,000+ Multi Brand Outlets spread across,2890+ cities and towns. The products are sold through Exclusive Brand Outlets (EBO), Large Format Stores (LFS), Multi Brand Outlets (MBO), Traditional hosiery stores and Multi-purpose stores. Post lockdown, store network has largely opened with 100%/94%/93% opening of EBO/MBO/LFS channels. Management's efforts to expand length & width in the market continue as it added 80 new EBOs during 9MFY21 (including EBOs for kids -Jockey Jr). The company plans to add another 3000+ MBO stores by the end of the year.

- **Digital investment to aid future growth-** Company need to continue to make investments in digital and business transformation to strengthen efficiencies and speed to market. Company's investments in its supply chain via software's like DMS (Distribution Management Software), ARS (Automatic Replenishment System) and others like SAP, SFA etc. is expected to aid seamless distribution, improve distributor ROIs, minimize sales loss and ensure product availability as per customer requirements leading to stable growth going ahead.

Exhibit 10: Financial Performance at a glance (Standalone)

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	28522.0	29454.2	27780.3	34419.9	42749.5
Growth %	11.8%	3.3%	-5.7%	23.9%	24.2%
EBITDA	6169.2	5325.8	5527.7	7434.7	9319.4
EBITDA Margin (%)	21.6%	18.1%	19.9%	21.6%	21.8%
Net Profit	3939.4	3432.2	3589.1	4900.0	6184.4
Net Profit Margin (%)	13.8%	11.7%	12.9%	14.2%	14.5%
EPS	353.2	307.7	321.8	439.3	554.5
BVPS	694.8	735.1	696.8	920.2	1174.6
P / E (x)	66.2	89.3	92.2	67.5	53.5
P / BV (x)	33.6	37.4	42.6	32.2	25.2
ROE (%)	50.8%	41.9%	46.2%	47.7%	47.2%
ROCE(%)	67.2%	55.6%	58.0%	69.4%	68.7%
EV/EBITDA (x)	42.3	57.4	59.9	44.5	35.5

Source: Company Data, SMIFS Research

Investment Thesis …. Contd….

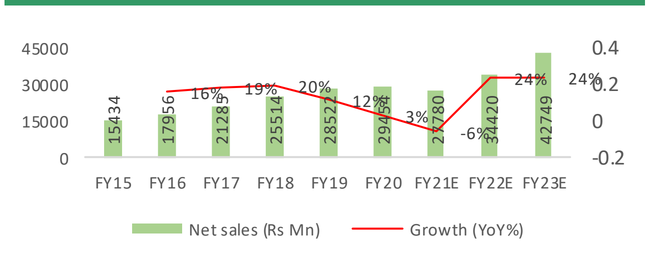
Fast growing women's innerwear and athleisure to strengthen revenue mix- PAGE's revenue mix has undergone a change with women's and athleisure segments contributes more to its overall revenue mix. The utility positioning and wide distribution of its men's innerwear helped PAGE scale up the Jockey brand in women's innerwear too. ***Company recently highlighted that its penetration in women's innerwear is just at 5-6% vs 19-20% share of men's innerwear market. Currently, company is in the process to develop value for money products where it sees huge scope to grow.*** Furthermore, athleisure vertical has been the fastest-growing sub-segment for the company backed by appropriate product extensions, the right point of purchase and, most importantly, the right pricing (along with quality).

EBO network expansion and e-commerce portal to aid new launches- Over the past few years, PAGE has rapidly accelerated the expansion of its Exclusive Brand Outlets (EBOs) from 71 stores in FY12 to more than 870 stores in Q3FY21. PAGE steered clear of wholesale distributors (that sold multiple brands) and appointed only exclusive distributors, who understood the product. We believe, rapid EBO expansion over the next 3-4 years will be one of the biggest growth drivers for PAGE. Unlike EBOs, large format stores (LFS) and MBOs have the discretion to purchase/reject Jockey's newly launched SKUs. Hence, the company uses EBO as a platform to introduce new SKUs. Once these new SKUs gain success, the same is purchased by large format stores and MBOs for their businesses. As a result, the business derived from MBOs eventually increases due to the launch of an EBO in their vicinity. Moreover, PAGE's reach has never been hgher, but it has managed to reach the pole position driven by high throughput/significant store market share. It is the only brand in the country with a presence across distribution segments, including its own e-commerce.

Kids wear remains a key focus area- The Jockey junior segment remains a key focus area of the management as the segment continues to see healthy traction. Currently kids segment is distributed through ~8000+ touchpoints. It has appointed distributors in 50 cities in phase-1 and will increase the count in phase-2. PAGE now has 28 EBOs, 192 distributors and 150 sales people for Jockey Junior and company is trying to place kids wear in women's EBOs given women being the target audience. We believe the kids wear segment could scale up quickly through leveraging jockey's existing strong distribution network.

Expect revenues to grow at 13% CAGR during FY20-23E- Management commentary indicated a continued recovery in sales. Channel confidence levels have increased with company adding channel partners and launching new products in a difficult environment. Furthermore, company retains its ambition of reaching USD 1 bn top line in 4-5 years. It has further strengthened its sales management and back-end capabilities coupled with an aggressive cost optimization agenda to continue. Therefore, management hopeful of a full recovery by Q4FY21. ***We are building in a revenue CAGR of 13% over FY20–23E with athleisure to see higher growth followed by women's innerwear.***

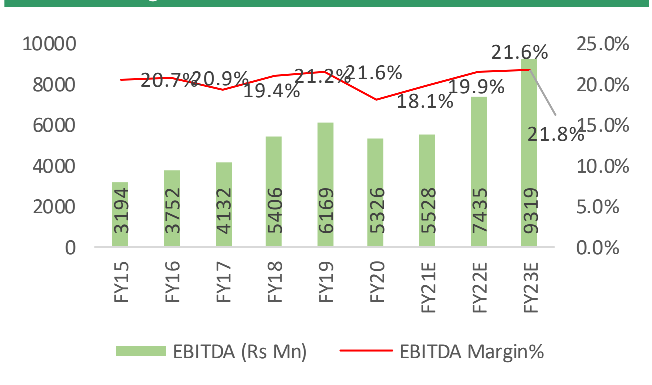
Exhibit 11: Revenue- YoY Sales



Source: Company Data, SMIFS Research

Margins to stabilize at 20-22% driven by better mix and cost savings- Page Industries had maintained its EBITDA Margin in the tight band of 20%+ over FY16-20, driven by its operating efficiency and pricing power to pass on RM (Raw material) cost inflation. Post COVID-19, company's revenue trajectory has been on an upward trend on a MoM basis, with August sales reaching pre-COVID levels while from September it witnessed double digit growth. We expect limited Gross Margin expansion in FY21E, given rising competition leading to limited scope for price hikes, however EBITDA Margins is expected to improve given management's aim to return to its historical Operating Margin band of 20-22%, led by cost saving efforts despite investments in digital infrastructure & marketing spends. Though cotton/yarn prices have inched up recently, the company did not witness any RM inflation as it procures RM in advance and expects prices to come off with the new crop coming in. The royalty payable to Jockey International was fixed at 5% p.a. of factory price (net sales), in accordance with an agreement that has been extended till 2040. However, the share of other costs has remained constant, and we expect only employee costs to rise on account of increments; this should drive operating leverage, going forward.

Exhibit 12: Margins to stabilize at 20-22%

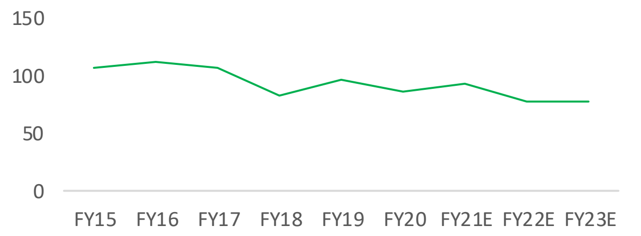


Source: Company Data, SMIFS Research

Investment Thesis …. Contd….

Changing mix to marginally increase working capital; cash flow robust- As per the management, higher outsourcing (currently estimated to be ~30%) would improve the working capital cycle by reducing the requirement for raw material and WIP inventory. Moreover, ongoing implementation of ARS across its business at the distributor level is expected to reduce inventory, benefits of this implementation will only be gradual. Product mix change of women's wear and sportswear will slightly drive inventory higher, as these two segments have higher SKUs than the men's segment. We expect a higher working capital cycle for FY21 due to (1) COVID-19 led inventory pile up (2) liquidity constraints among distributors and higher competition would lead to a relaxation in payment terms. However, we believe, a strong and healthy balance sheet shall cushion the impact to some extent in these tough business conditions.

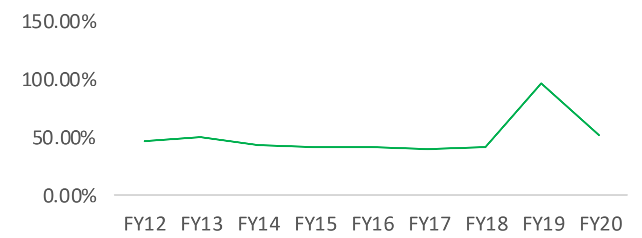
Exhibit 13: Working Capital Days



Source: Company Data, SMIFS Research

Dividend payouts to remain strong – Given the asset-light nature of its business and, consequently, lower capex requirement, Page has consistently kept high payout ratios. In FY19, it announced a special dividend and paid nearly its entire earnings out. During Q3FY21, Page has declared an interim dividend of Rs 150/share (Rs 250/share in 9MFY21). We expect Page to maintain a high payout of 50%+ going forward.

Exhibit 14: Dividend Payout



Source: Company Data, SMIFS Research

Risks & Concern

Volatility in the raw material prices – Innerwear products are made of cotton fabrics. Any major volatility in cotton prices may impact the raw material cost for the company and would impact earnings estimates.

Competition from peers – PAGE currently facing increased competitive intensity in both menswear and womenswear. In menswear Van Heusen is Page's main competitor and with ABFRL (Aditya Birla Fashion and Retail) facing elevated debt issues and focus on cost control, there is a possibility it may moderate its expectations on growing the men's innerwear business, which will benefit PAGE. In womenswear, PAGE's main competitors are recent start-ups such as Zivame and Clovia, which are still not profitable. If funding for these players dries up in the current uncertain environment, Page stands to gain.

Changing technology and consumer behaviour- The innerwear segment is subject to fast changes in consumer preference and technology. The inability of the company to respond to such changes would hurt its performance.

Non-renewal of license- The company promoters have a long standing relationship with Jockey International. However, failure to renew the license post 2040 will significantly affect the company.

Company Profile

Page Industries Ltd (PAGE) established in 1995 by the Genomal family to market and manufacture the global innerwear brand 'Jockey' in India. PAGE has the license from the US-based Jockey International Inc. (JII) to manufacture and distribution of the 'Jockey' brand innerwear products in India, United Arab Emirates (UAE), Sri Lanka, Republic of Maldives, Bangladesh, and Nepal. The products of PAGE can be largely classified under three major categories- men's innerwear, women's innerwear and athleisure. The Jockey brand is distributed through a multi-channel distribution network of exclusive brand outlets (870+ EBOs as on Q3FY21), large format stores (LFS), multi-brand outlets (MBO), traditional hosiery stores and multi-purpose stores encompassing over 72,000+ points of sale in about 2,890+ cities. PAGE has become the largest player in the premium innerwear segment with net revenues of Rs 29,454 mn in FY20 and revenue CAGR (FY15-20) of 14%. PAGE has 15 garment manufacturing units located in South India with an annual installed capacity of 260 mn pieces of men's innerwear, women's innerwear and athleisure together.

Exhibit 15: PAGE's milestones since incorporation

Year	Key Event
1995	Incorporation of the Company under the name and style of Page Apparel Manufacturing Private Ltd. Brand Jockey reached 100 towns
1997	Launched Jockey products for women under the style of 'Jockey For Her Launched the middle range of men's undergarments
2003	The turnover of the Company crossed Rs 500 mn Retail network of 10,000 outlets Achieved production of 1m pieces a month
2004	Jockey Socks launched
2005	Launch of Jockey brassieres in India
2006	The turnover of the Company crossed Rs 1 bn in terms of factory selling price Production crossed 2 mn pieces per month
2008	Jockey available across 1000 town
2011	Licensing agreement with Jockey International Inc. extended till 2030 Also been awarded the sole marketing and distribution rights for UAE Speedo Launch
2013	PAGE launched the Just Jockeying campaign to transform Jockey into a lifestyle brand
2014	Jockey.in launched
2015	Launch of first International format EBO in Bengaluru Launched its own B2C e-commerce channel and tied up with various leading online retailers to increase reach of products
2016	First Jockey EBO in Dubai
	Launched Jockey Towels
2017	First Jockey EBO in Sri Lanka
	Brand Jockey reached 50,000 outlets in India
2018	Jockey Licensing agreement extended till 2040 Jockey Active wear range launched Speedo apparel range launched Jockey woman launched 500 Jockey EBO's
2019	Jockey Juniors launched License agreement with Jockey International Inc., has been extended till December 31, 2040.

Source: Company Data, SMIFS Research

Brand Profile

PAGE currently enjoys a superior position in the premium branded space as it is positioned as an aspirational brand available at an affordable price. Over the years, Jockey has consistently deepened its portfolio by introducing new SKUs (variants/styles/colors/ patterns) in the existing offerings. It expanded its store reach to ~72,000 stores (in 2890+ cities and towns across the country). Moreover, during 9MFY21, the Company opened 80 EBOs through its authorised franchises, taking the total number of EBOs to 870 (including EBOs for kids -Jockey Jr).

Exhibit 16: Brand Profile

Source: Company Data, SMIFS Research

PAGE also entered an exclusive license agreement with Speedo International in July 2011 to widened its portfolio offerings. AC Nielsen studies on the swimming market shows a promising and fast evolving market for both swimwear and swim equipment. Management is confident that the Speedo business would experience healthy growth in the years to come as Speedo becomes a dominant brand in the premium swimwear market. Additionally, the brand Speedo has witnessed a 5-year revenue CAGR of 8.5% with the products available across 1,350 stores, 43 EBOs and 15 Large Format Stores.

Distribution Network

Widespread distribution with availability across 72,000 multi-brand outlets, large format stores (like Pantaloons, Lifestyle), over 870 exclusive brand outlets and an e-commerce channel (both on aggregator platforms like amazon.in)

Exhibit 17: EBOs & Distribution Network

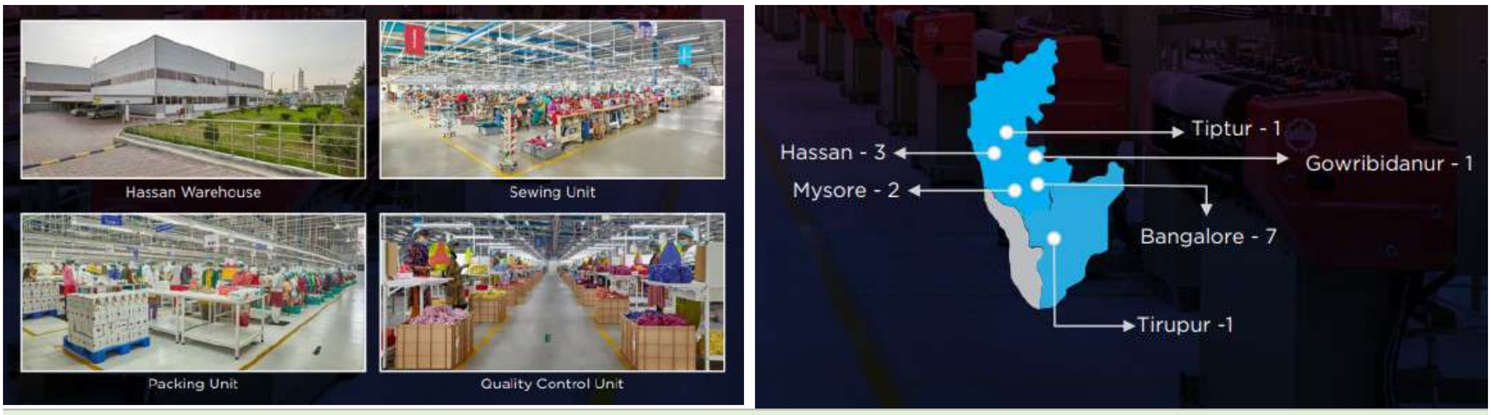
Exclusive Brand Outlets-	Pan India Distribution Network
870+ Exclusive Brand Outlets	3,865+ Distributor Accounts
43 Exclusive Womens Outlets	2,890+ Cities / Towns
190+ Outlets in mall	72,300+ Retail Network
680+ Outlets in high street	610+ Channel Sales Strength

Source: Company Data, SMIFS Research

Manufacturing Capacity

Company's current installed capacity is spread over 2.40 million sft across 15 manufacturing units and to meet the growing market demand, it has geared up to augment its production capacity. Further, in order to improve its supply chain, it is currently in the final stage of implementing its Enterprise wide supply chain optimization tools (Supply Chain Optimization and Re-Engineering- SCORE), in cooperation with the world's most reputed supply chain digitalisation partners. Post implementation, it will help the company to improve its demand forecasting, customer responsiveness, agility, service levels and optimisation of production and inventory. Moreover, in order to further improve warehousing operations, it has entered into a 3PL (Third Party Logistics) agreement with DHL for managing part of its warehouse operations.

Exhibit 18: Manufacturing Capabilities



Facilities spread over 2.4 million sq ft across 15 manufacturing units

Present in 14 locations in Karnataka and 1 in Tamil Nadu

>70% in-house manufacturing

Source: Company Data, SMIFS Research

PAGE's competitive advantages are unchallenged

PAGE's key competitive advantages are:

⇒ Backward-integrated manufacturing whilst maintaining low labour attrition rates of 12-13% in a highly labour-intensive manufacturing process, which helps deliver a high-quality product at affordable prices.

⇒ An aggressive approach towards distribution expansion, which creates an incentive-based push demand through the distributors.

⇒ 'Jockey' has a highly aspirational brand recall, which is maintained mainly through in-store advertising, use of Caucasian models and highly successful advert campaigns like 'Jockey or Nothing' and 'Just Jockeying.'

These characteristics are difficult for its peers to replicate over the short-to-medium run and at the same time are integral in establishing a scalable pan-India presence of innerwear products which are comfortable, durable, affordable and aspirational.

Appointment of Mr. V S Ganesh as Chief Executive Officer (CEO)

PAGE has appointed Mr. V S Ganesh as Chief Executive Officer (CEO) of the Company for a period of 5 years effective June 1, 2021. Mr. V S Ganesh joined Page on June 9, 2014 as Senior Vice President – Mfg. & Operations and has 30 years of rich experience in top leadership capacities in Page and other reputed organizations.

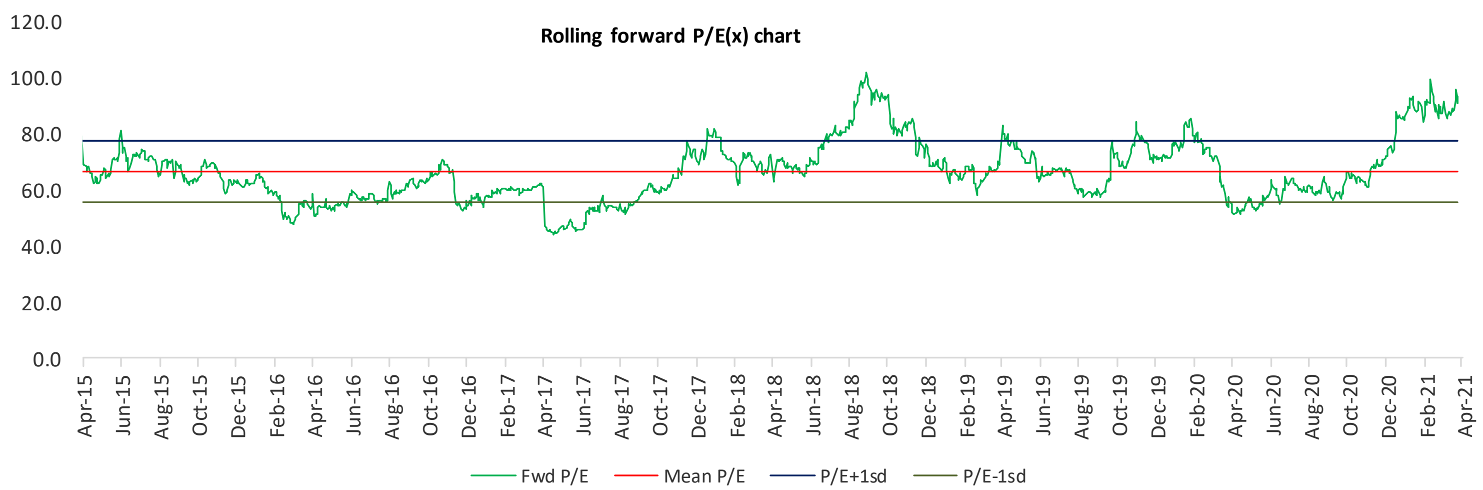
Outlook & Valuation

PAGE having significant pricing power and, consequently, stability in margins, along with working capital, its outlook and hence valuations have primarily been function of sales growth. Considering the strong financials and robust revenue growth trajectory, PAGE has always traded at rich multiples. Apart from the robust and consistent topline growth, the company has also consistently rewarded its shareholders. We believe widening product and brand portfolio, coupled with distribution expansion will aid market share expansion and drive multiple years of growth.

We expect in the near term PAGE likely to beat COVID-19 blues due to faster than expected recovery in business momentum and normalization of full business activity by Q4FY21. Further we expect a significant margin improvement from FY20 low of 18% to its historical EBITDA margin levels of ~20-22% led by its cost rationalization efforts. We expect PAGE to post Sales/EBITDA/PAT CAGR of 13%/21%/22% over FY20-23E.

Given the strong earnings visibility, steady return ratios and lack of credible/relevant competitor in the premium space, we expect the premium valuations to sustain. However, we believe at 53.5x FY23E EPS the stock is trading at rich valuations and offers limited upside. ***We have assigned a P/E multiple of 55x on FY23E EPS of Rs 554.5, to arrive at a target price of Rs 30,495. We thus recommend a "Hold" rating on the stock.***

Exhibit 19: Valuation Charts



Source: Company Data, SMIFS Research

Financials Details

Income Statement (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Net Revenues	**28522.0**	**29454.2**	**27780.3**	**34419.9**	**42749.5**
Cost of Raw Materials	11967.0	13108.2	12612.3	14594.0	18040.3
Sub contracting Expenses	1375.8	1237.0	1014.0	1583.3	1966.5
Gross Profit	**15179.2**	**15109.0**	**14154.1**	**18242.5**	**22742.7**
Employee Benefit Expenses	4668.1	5317.0	5392.7	6195.6	7694.9
Other Expenses	4341.9	4466.2	3233.6	4612.3	5728.4
Total Expenses	**22352.8**	**24128.5**	**22252.6**	**26985.2**	**33430.1**
EBITDA	**6169.2**	**5325.8**	**5527.7**	**7434.7**	**9319.4**
Depreciation & Amortisation	310.6	613.6	642.6	830.1	1017.7
EBIT	**5858.6**	**4712.2**	**4885.1**	**6604.5**	**8301.7**
Other Income	364.3	246.4	215.6	260.6	305.6
Interest Cost	162.6	338.6	302.4	314.4	339.4
PBT	**6060.3**	**4620.1**	**4798.3**	**6550.8**	**8267.9**
Tax expense	2120.9	1187.9	1209.2	1650.8	2083.5
PAT	**3939.4**	**3432.2**	**3589.1**	**4900.0**	**6184.4**

Balance Sheet (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Share Capital	**111.5**	**111.5**	**111.5**	**111.5**	**111.5**
Reserves & Surplus	7638.4	8087.3	7661.0	10151.7	12989.9
Networth	**7749.9**	**8198.8**	**7772.5**	**10263.2**	**13101.5**
Long term Borrowings	**198.7**	**200.6**	**400.6**	**200.6**	**200.6**
Other Non-Current Liabilities	218.6	1164.0	1164.0	1164.0	1164.0
Short term Borrowings	**526.6**	**67.8**	**199.8**	**199.8**	**199.8**
Other Current Liabilities	4812.1	5498.3	5252.1	6411.2	7752.1
Total Equity & Liabilities	**13505.9**	**15129.4**	**14789.0**	**18238.8**	**22417.9**
Net Tangibile Asset	**3078.6**	**4342.6**	**4450.0**	**6659.8**	**7192.1**
Other Non Current Assets	379.2	641.4	634.7	694.4	769.4
Inventories	7501.1	7185.7	7167.5	8130.2	10869.6
Trade Receivables	1238.4	737.8	1114.3	606.7	1530.8
Cash and Cash Equivalents	440.5	1169.2	158.6	581.5	111.0
Other Current assets	868.2	1052.9	1264.0	1566.1	1945.1
Total Assets	**13505.9**	**15129.4**	**14789.0**	**18238.8**	**22417.9**

Source: Company Data, SMIFS Research

Financials Details

Cash Flow Statement (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
PBT	**6060.3**	**4620.1**	**4798.3**	**6550.8**	**8267.9**
Depreciation & Amortisation	310.6	613.6	642.6	830.1	1017.7
Interest expense	162.6	338.6	302.4	314.4	339.4
(Increase)/Decrease in CA & CL	-1657.4	1024.2	-806.9	342.0	-2776.4
Others	-523.5	-159.4	59.7	0.0	0.0
Taxes Paid	-2055.5	-1270.1	-1209.2	-1650.8	-2083.5
Cash Flow from Operating Activities	**2297.1**	**5166.9**	**3787.0**	**6386.5**	**4765.0**
Capital Expenditure	-376.1	-747.4	-750.0	-3040.0	-1550.0
Others	2295.7	481.4	0.0	0.0	0.0
Cash Flow Investing Activities	**1919.6**	**-266.0**	**-750.0**	**-3040.0**	**-1550.0**
Increase/(Decrease) in Borrowings	262.8	-1024.9	332.0	-200.0	0.0
Dividend Payment	-4545.0	-2716.2	-4015.4	-2409.2	-3346.2
Others	-162.9	-431.2	-364.2	-314.4	-339.4
Cash Flow from Financing Activities	**-4445.1**	**-4172.3**	**-4047.6**	**-2923.6**	**-3685.5**
Net Cash Flow	**-228.4**	**728.7**	**-1010.6**	**422.9**	**-470.5**
Opening Cash	**668.8**	**440.5**	**1169.2**	**158.6**	**581.5**
Closing Balance	**440.5**	**1169.2**	**158.6**	**581.5**	**111.0**

Key Ratios					
Margins					
Particulars	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Gross Margin	53.2%	51.3%	51.0%	53.0%	53.2%
EBITDA Margin	21.6%	18.1%	19.9%	21.6%	21.8%
PAT Margin	13.8%	11.7%	12.9%	14.2%	14.5%
Per Share Data					
BVPS	694.8	735.1	696.8	920.2	1,174.6
EPS	353.2	307.7	321.8	439.3	554.5
DPS	344.0	161.0	300.0	180.0	250.0
No. of Shares	11.2	11.2	11.2	11.2	11.2
Financial Ratios					
ROE	50.8%	41.9%	46.2%	47.7%	47.2%
ROCE	67.2%	55.6%	58.0%	69.4%	68.7%
Debt/Equity(x)	0.1	0.0	0.1	0.0	0.0
Interest Coverage (x)	36.0	13.9	16.2	21.0	24.5
Valuation Ratios(x)					
P/E	66.2	89.3	92.2	67.5	53.5
P/BV	33.6	37.4	42.6	32.2	25.2
EV/EBITDA	42.3	57.4	59.9	44.5	35.5

Source: Company Data, SMIFS Research

Lux Industries Ltd

Sector: Textile

Brief Overview

CMP (INR) (As at 5th April 2021)	1,791
Current Target (INR)	2,535
Upside(%)	41%
Recommendation	**Strong Buy**
BSE Code	539542
NSE Code	LUXIND
Reuters Ticker	LUXI.NS
Bloomberg Ticker	LUX.IN

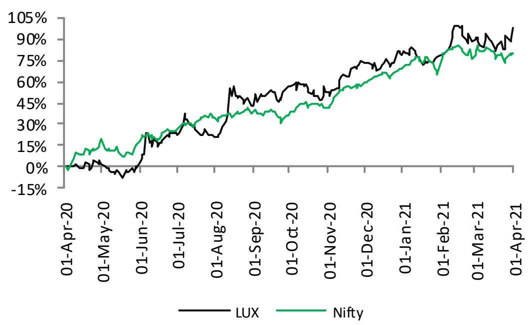
Stock Scan

Market cap (INR Cr.)	4,524
Outstanding Shares (Cr.)	2.5
Face Value (INR)	2.0
Dividend Yield(%)	0.7%
TTM P/E (x)	27.2
P/B (x)	3.2
Debt/Equity	0.3
Beta	0.50
52 Week High/ Low (INR)	1,899/840
Avg. Daily Vol. (NSE)/1 yr.	65,170

Shareholding Pattern (%)

	Dec-2020	Sep-2020	Jun-2020
Promoters	69.51	69.51	69.51
Institutions	7.94	8.05	8.20
Non-institutions	22.55	22.44	22.29

Stock vs. Nifty (Relative Returns)



Source: NSE

Company Overview

Lux Industries Ltd (LUX), incorporated in 1995, is one of the largest players in the hosiery business, having a market share of ~14-15% of the organised industry. Company's products include innerwear for men, women & kid's, winter wear, socks & slacks for women in varied colours and designs. ***LUX has more than 100 products across 15 brands to address the growing need of customers and also has ~5,000+ SKU's under various brands and sub-brands***. LUX has a presence across the globe with exports to 47 countries (Exports in FY20 Rs 1,330 mn). ***We believe, company is well-poised for growth on the back of increasing share of premium products, growing retail & online presence and improving balance sheet. Furthermore, the merger of two unlisted promoter owned companies Ebell Fashion Pvt. Ltd. and J.M Hosiery into LUX will bring operational synergy and will extend the company from inner wear to casual wear. Our key investment thesis are as follows.***

- **Strong market position backed by long track record–** LUX has a strong market position in the branded innerwear industry in India with a market share of ~14-15% in the organised sector. Company's established track record of operations and management experience has helped the company to develop a healthy relationship with its distributors and suppliers.

- **Strong brand equity and wide distribution network-** Company sells around 100 products under the umbrella brand of 'LUX' catering to various segments such as Mass (LUX Venus); Mid (LUX Cozi) and Premium (LUX Onn) along with presence across various price points ranging from Rs. 38 to Rs. 1,790. Over the years, LUX has created a wide-ranging portfolio of brands across various sub-segments. With a wide array of offerings, the company caters to customers from all segments.

- **Merger will bring operational synergy-** Company is planning to merge the two unlisted promoter owned companies Ebell Fashion Pvt. Ltd. and J.M Hosiery into the listed company LUX. J.M. Hosiery owns the men's brand GenX, while Ebell Fashions owns the women's brand Lyra. ***Therefore, the merger of these two companies will strengthen its overall portfolio and will enable the company to carve away a larger share of the overall wardrobe spending.***

- **Focus on improving net working capital-** The company has achieved positive operating cash flow of Rs 1,067 mn in FY20 mainly due to implementation of strict debtor's policy and better inventory management. Currently company has cash surplus of Rs 1,400 mn at the end of Q3FY21. After the merger, management is planning to aggressively reduce the short term debt/working capital loans through internal cash flows generation which is expected to improve PAT margin further.

Exhibit 20: Financial Performance at a glance (Standalone)

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	12086.8	12026.9	14169.4	16263.9	18206.1
Growth %	12.2%	-0.5%	17.8%	14.8%	11.9%
EBITDA	1802.8	1883.1	2720.5	2634.8	3049.5
EBITDA Margin (%)	14.9%	15.7%	19.2%	16.2%	16.8%
Net Profit	1013.1	1260.1	1945.2	1835.3	2132.4
Net Profit Margin (%)	8.4%	10.5%	13.7%	11.3%	11.7%
EPS	40.1	49.9	77.0	72.7	84.4
BVPS	163.9	197.5	244.3	284.9	331.7
P / E (x)	32.0	31.8	23.3	24.6	21.2
P / BV (x)	3.1	3.2	2.9	2.5	2.1
ROE (%)	27.7%	27.6%	34.9%	27.5%	27.4%
ROCE(%)	29.3%	28.0%	34.2%	26.7%	26.3%
EV/EBITDA (x)	19.0	21.9	16.4	16.7	14.6

Source: Company Data, SMIFS Research

Investment Thesis …. Contd….

Diversified geographical presence- The company has a diversified presence across geographies. ***LUX's sales in the domestic market accounted for around 89-90% of the total revenues while the balance was from exports in FY20.*** In the domestic market, the company has a significant presence in West and Central India with highest absolute sales from Madhya Pradesh, U. P. and Uttarakhand. LUX is currently looking to expand their reach in the southern region by increasing distributer's network. In the export market company's sales focussed in tropical countries with demographics similar to India thereby offering a huge potential. The company exports mainly to Africa, Middle East, Australia and Europe .

Strong brand equity and wide distribution network- ***The company sells around 100 products under the umbrella brand of 'Lux' catering to various segments such as Mass (Lux Venus); Mid (Lux Cozi) and Premium (Lux Onn) along with presence across various price points ranging from Rs. 38 to Rs. 1,790. Over the years, Lux has created a wide-ranging portfolio of brands across various sub-segments. With a wide array of offerings, the company caters to customers from all segments.***

Over the years, LUX has widened and deepened its distribution networks across India, to craft easy access to their product for their customers. The Company works in unison with trade partners to make sure that its products and collaterals are visibly showcased across urban metropolises and rural hinterlands .

Exhibit 21: Comprehensive brand portfolio

Brands	Category	Brand Ambassador	
Lux Venus	Economy	Amitabh Bachchan	**Range of more than 100 products under 15 well-established brands for men, women and children, ensuring relevance across ages, genders, geographies and seasons.**
Lux Cozi	Mid-economy	Varun Dhawan	
CootsWool	Winter Wear	NA	
Inferno	Mid-premium	Kartik Aaryan	
ONN	Premium	NA	
Lyra	Mid-premium	Tapasee Pannu	
Genx	Mid-economy	NA	
One8	Super Premium	Virat Kohli	

Source: Company Data, SMIFS Research

The company's revenue growth is driven by new changing demographics, leading to new customers entering the target audience and also by the customer's willingness to move up to the higher segment. In order to cater to new customers, the company needs to continuously enhance its retail base and distribution network. LUX has forged long-standing ties with wholesalers and retailers. This has made it possible for the company to market a larger product thus enhancing revenue per dealer and pan-India distribution efficiency. The company has also boosted offtake through e-commerce, enhancing consumer convenience and sending out a strong message of adaptability.

The company currently has a wide distribution network consisting of more than 950 exclusive distributors spread across the country. The Company's products are available across 4.5 lakh retail points right down to remote and rural population clusters, putting them within the rare category of Indian brands that boast of near-pan India product availability.

Exhibit 22: Right distribution setup to Support Growth

950+ exclusive distributors with over 35 years of relationship

160 large format stores - Enable to showcase entire product range and portfolio under a single roof.

4 exclusive brand outlets - Amongst the few companies in Innerwear Sector to have presence through EBOs

Merchandise Strength

Core strength lies in the goodwill that company enjoy among distributors, dealers and retailers rather

Capitalizing Opportunity

First Indian innerwear company to organize distributor and owner conferences within and outside India

Source: Company Data, SMIFS Research

The distributors have been associated with the 'LUX' brand since more than three decades. LUX's strong brand equity and its widespread distribution network along with the long standing relationship with its distributors will continue to support its business profile and help it to enhance its market share further. LUX also has over 5,000+ SKU's, among the largest innerwear ranges in the Industry, thus graduating into a one-stop destination. Increase in its distribution reach and visibility will enable the company to further grow its top-line. Also, it will be able to leverage on this strong network to market its newly launched products.

It recently began extending its network under 'Cozi World' EBOs. Company plans to add 6 EBOs by Mar 2021 and by FY22 aims to add at ~50 EBOs.

Investment Thesis …. Contd….

Merger will bring operational synergy- Company is planning to merge the two unlisted promoter owned companies Ebell Fashion Pvt. Ltd. and J.M Hosiery into the listed company LUX. J.M. Hosiery owns the men's brand GenX, while Ebell Fashions owns the women's brand Lyra. ***Therefore, the merger of these two companies will strengthen its overall portfolio and will enable the company to carve away a larger share of the overall wardrobe spending.*** Furthermore, consolidation of these two companies will enhance synergies, potential gains in market share, bring in operational efficiency and value enhancement through the elimination of distribution and administrative costs. The merger will extend the company from inner wear to casual wear.

The consideration is in form of issue of shares and does not involve any cash transaction. Based on the proposed merger, LUX would issue 4.8 mn new equity shares as consideration for the amalgamation. ***This would result in ~16% equity dilution. LUX's shares outstanding will increase to 30.1 mn and the post-merger FY20 consolidated EPS would be Rs 59.95, 20% higher than LUX's standalone EPS.***

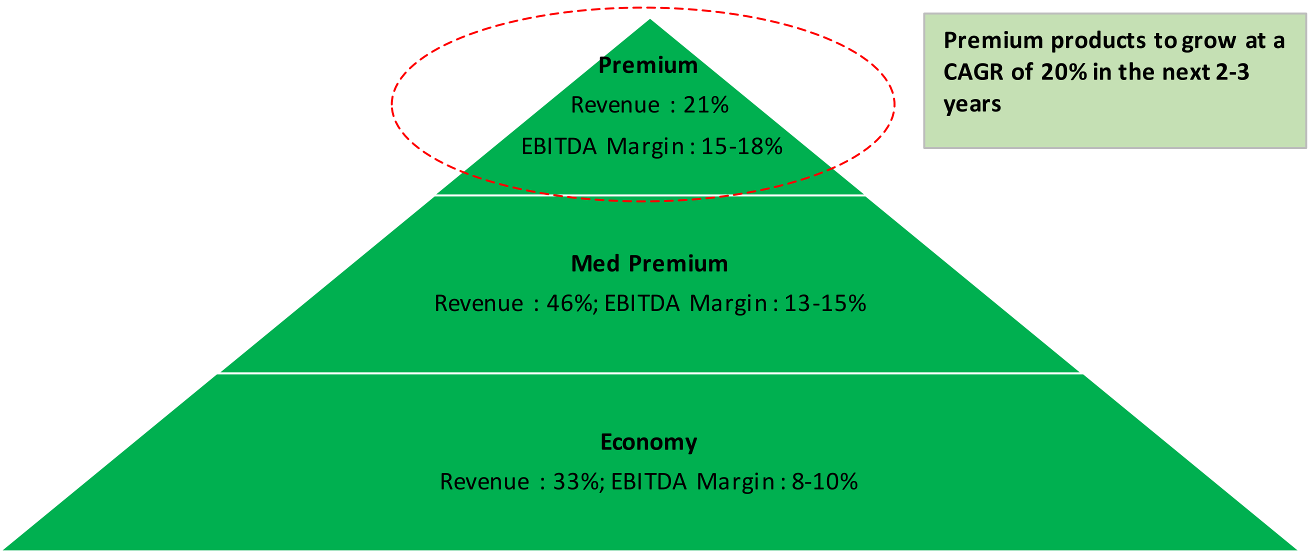
Scheme of merger as follows-

⇒ 1,142 shares of Lux Industries will be issued for every 100 shares of Ebell Ebell Fashions Pvt. Ltd.
⇒ 29 shares of Lux Industries will be issued against every 100 shares of J.M Hosiery.

Company had already received the NOC from SEBI, further on March 25, 2021 Hon'ble National Company Law Tribunal, Kolkata bench sanctioned scheme of amalgamation with appointed date being 01 April, 2020.

Presence across all segments with self-owned brand portfolio- The company has created various brands. As on date, the company manages over 5,000+ SKU's comprising different products ranging from men's and women's innerwear to casual and thermal wear. ***Going forward, the company can leverage these brands to introduce new products, either under the same brand or in the form of brand extensions.*** *LUX has a very wide portfolio in terms of pricing ranging from Rs. 38 to Rs. 1,790*. Company's chronological and tiered pricing strategy has made it possible for consumers to graduate impeccably to the next quality level without incurring substantial increments. As a result, it has achieved superior price-value proposition when compared to international brands and a steadily increasing slice of the market.

Exhibit 23: Comprehensive brand portfolio



Lux Cozi is one of the strongest and fastest growing men's innerwear brands (economy and midsegment)	**Lux Cozi** GLO is a durable player in the economy to mid-brand segment	**Lux Venus** is one of the largest vest brands in the economy category	**Lux Cozi Bigshot** is a preferred consumer brand in the boxer/ briefs segment	**ONN** is emerging as one of the most promising mid-to-premium men's innerwear brands

Source: Company Data, SMIFS Research

Investment Thesis …. Contd….

⇒ **Huge opportunity in women's garment space-** Intending to diversify its range from just men's innerwear, the company is focusing on the fast-growing women's innerwear and outerwear category. Women's top innerwear is a very complex product and once any players who can make it way in terms of comfort and price can see significant traction over the years to come. This business was severely impacted in H1FY21 since demand for innerwear & outerwear products remained subdued. But, the company believes demand recovery from Q4FY21, assuming that COVID-19 related fears will subside.

Lyra was launched with the aim to become a wardrobe essential for girls. The brand Lyra started as a leggings brand and has grown to a complete women's wear brand. Lyra offers a variety of women's wear including leggings for women and kids, loungers, palazzo, track pants, t-shirts, along with lingerie. Recently the brand launched the pocket leggings range. ***The strength of Lyra's market leadership is strengthened through endorsement; a functional product was now positioned as a lifestyle statement. It is the only brand in the Indian retail space to offer a wide product portfolio, including outerwear and innerwear. Lyra is expected to be a disruptor in the women's garment space in next 2-3 years led by strong brand presence, visibility & a diverse product portfolio.*** Lyra is focused on women's leggings and lingerie (sales of Rs 2,710 mn in FY20), in last 5 years Lyra has posted sales & EBITDA CAGR of 14%, 36% respectively.

⇒ **Winter wear business to fuel top line growth -** Demand trend in the winter wear market was very strong in 9MFY21 with sales of Rs ~ 2,250 mn. The company had achieved Rs 2,000 mn revenue from sale of winter wear products in FY20 and bulk of the sales are accounted for Q2 and Q3. Industry level challenges like supply-chain, labour, etc. resulted in disruptions in output since the production cycle is from March-June of every calendar year. However, the company reported double digit volume growth in Q3FY21.

⇒ **Exports segment to support growth-** Exports were largely restricted during Q1FY21 due to Covid-19 led pandemic crisis. However, exports have resumed since June 2020 and the company expects to reach pre-COVID level by end of FY21E. Lux is focusing on South -East Asia, Middle East and Africa for export opportunities. ***The company has already captured sizeable portion (~15-17%) of market share in certain African countries.***

⇒ **Premiumisation to expand margin-** ***Only 20% of the innerwear market accounted for premium and super premium segments, offering significant headroom for premiumisation. LUX GLO in the mid-premium segment introduced in January 2017. The company has added premium products in their portfolio like brand ONN and One8 (Tie-up with Virat Kohli). With "One8", company has entered into the super premium product category which has better margins.***

The company launched the product (***One8)*** online and thereafter through a select distribution network with virtually no promotional and advertising support. Furthermore, the company grew the offtake of its premium product quarter-on-quarter with an increasing proportion of repeat indents from trade partners. The company intends to grow this brand into a high-margin contributor to its bottom-line, shifting the needle decisively in favour of a value-added product portfolio. ***Currently, LUX has appointed 35 distributors for its One8 business. It plans to appoint another 15 distributors by end of FY21E.***

⇒ **Gaining market share through product innovation—**LUX launched an innovative product - "Scented Vest" (endorsed by Varun Dhawan) under its flagship brand "LUX Cozi". It is a landmark product in the Men's Innerwear Category - Creating value-based products keeping in mind the essential necessity and aspirational style quotient of India. Product has received very positive response from the market coinciding with appropriate weather (summer).

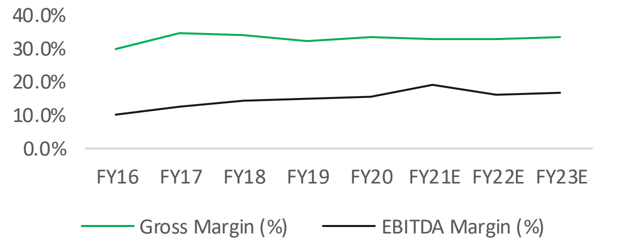
⇒ **Mass and economy segments are witnessing healthy demand, whereas premium category would take some time to recover-** Innerwear industry is witnessing a downtrading where mass and economy segments are witnessing healthy demand. Whereas premium category witnessed recovery in Q3FY21 compared to Q2FY21. Industry is witnessing a growth in mass, mid and winterwears. Premium innerwear segment and Lyra still to recover fully. Generally, March month witnesses lot of scheme-based buying which results in good offtake in the month of March. Channel partners ordering only required and need based goods.

Investment Thesis …. Contd….

Margins to improve on the back of Automation- Company has installed cutting machines (from Morgan Technica SPA, Italy) around mid 2016, which has reduced wastages at cutting stage of manufacturing process (fabric conversion from Kg to pieces) thus improving operating margins. Earlier cutting process outsourced which is not completely in-house.

Usually, traditional players like LUX follows cost plus model in pricing. The increased yarn prices resulted in hike in prices of finished products which was taken by the company in a phased manner ***(Full impact of an increase in product prices would be visible in Q1FY22).*** Traditionally, 8% of the annual turnover is invested in brand promotion. However, the company plans to invest only 3-4% of its annual turnover in the current year as part of its cost reduction strategy Therefore, we expect company to improve its margin with the help of cost optimization and higher demand creation in the premium segment.

Exhibit 24: Margins to improve

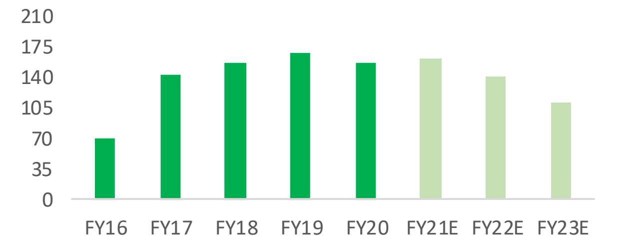


Source: Company Data, SMIFS Research

Focus on improving net working capital- ***With a view to improve the working capital, the company introduced 60 days payment schemes which resulted in lower receivables significantly to 70-75 days as compared to 130 days two years back and it is planning to continue with this policy***. It took 2 years to bring down receivables to this level. The company has achieved positive operating cash flow of Rs 1,878 mn in H1FY21 mainly due to implementation of strict debtor's policy and better inventory management.

Reduction in working capital can be attributed to overall changes in credit terms of trade. This reduction in credit days is likely to revert by some extent going forward with mean reversion of demand-supply mismatch.

Exhibit 25: Working Capital Days



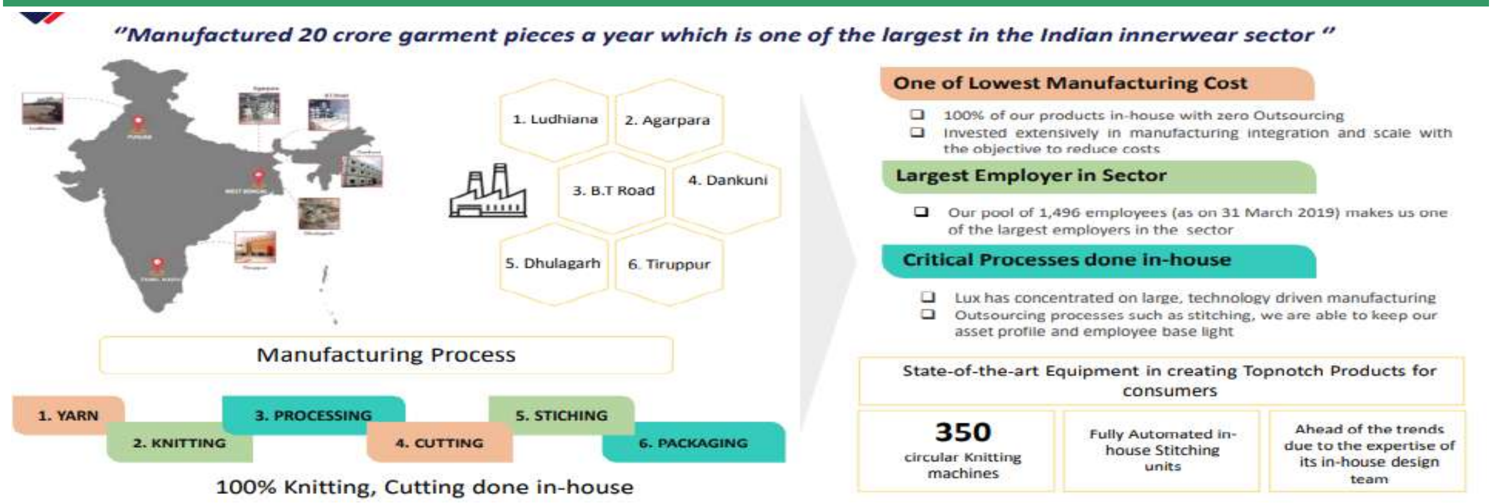
Source: Company Data, SMIFS Research

Currently company has cash surplus of Rs 1,400 mn at the end of Q3FY21. After the merger of the unlisted companies management is planning to aggressively reduce the short term debt/working capital loans through internal cash flows generation which is expected to improve PAT margins further.

Plant location

Lux has strategically outsourced capital intensive and labour intensive processes such as stitching, dying & bleaching to keep their asset and employee base light. The Company possesses 6 state-of-the-art manufacturing facilities across India with a cumulative capacity of 20 crore garment pieces a year. The company's manufacturing units are located in Dankuni, Srijan Industrial Logistic Park, Dhulagarh and BT Road (West Bengal), Tirupur (Tamil Nadu) and Ludhiana (Punjab). The Company has enhanced cutting edge technology orientation by introducing a bouquet of modern equipment imported from reputed brands. The Company has 108 sewing machines from Singapore, 11 high-speed knitting machines from Germany and 2 cutting machines from Singapore and Italy.

Exhibit 26: State of the Art Manufacturing Facilities



Source: Company Data, SMIFS Research

Company Overview-

Lux Industries Limited (LUX) was incorporated in 1995 and has emerged as one of the largest players in the hosiery business, having a market share of ~14-15% of the organised industry. The Company got listed in regional stock exchange on 1st Dec'2015. Company's products include innerwear for men, women & kid's, winter wear, socks & slacks for women in varied colors and designs. LUX has more than 100 products across 15 brands to address the growing need of customers and also has ~5,000 SKU's under various brands and sub-brands. LUX has a presence across the globe with exports to 47 countries (Exports in FY20 Rs 1330 mn).

Exhibit 27: Details about the Promoters

Mr. Ashok Kumar Todi - Chairman

- His forte lies in Marketing of the products and formulating various policies for Growth & Expansion of the business on pan India basis.

Mr. Pradip Kumar Todi -Managing Director

- Forte is in developing new patterns, yarn combinations, knitting technologies
- Helped the Company to introduce new products with new styles from time to time

Mr. Navin Todi Director – J.M.Hosiery

- Under his leadership, Company successfully rose to the challenges by enhancing product offerings.

Mr. Saket Todi President – Marketing

- His contribution towards strengthening the premiumisation of brand "Lux" is significant.
- Has been associated with the Company since 2014 with his in-depth knowledge in marketing which has helped the Company to achieve greater success and increase profitability.

Mr. Udit Todi President - Strategy

- Has been associated with the Company since 2014 and has expertise in the field of finance and his proficiency in the management marketing area of the Company is remarkable

Source: Company SMIFS Research

Strong brands and market presence

Company sells its products under different brands- LUX Venus (Economy), LUX Cozi (Mid-Premium), Inferno, Cottswool (Winter wear), ONN (Premium), One8 (Super Premium), Lyra (women), GenX (Athleisure), etc across different price ranges. LUX is among the first Indian innerwear brand to extend its product portfolio from innerwear vests to outerwear cum related products. Product offerings include Vests, briefs, trunks, boxers, thermal wear, panties, camisoles, leggings, lounge wear, t-shirts and socks across ages, genders and seasons. It is also present in high-growth segments of active wear and sportswear. **Lux through its wholly-owned subsidiary, Atrimas Fashions Pvt Ltd has bagged the manufacturing and marketing rights of Virat Kohli's innerwear brand 'One8'.**

Exhibit 28: Brand portfolio

Range of more than 100 products under 15 well-established brands for men, women and children, ensuring relevance across ages, genders, geographies and seasons.

Source: Company SMIFS Research

Outlook & Valuation

Innerwear is largely a necessity-based product whose consumption may be postponed but cannot be foregone. Demand in the economy price range of innerwear products remained buoyant despite outbreak of COVID-19. Extended WFH (work from home) scenario is supporting the demand for leisurewear products. E-commerce platform can support the weakness in physical stores demands to some extent as their contribution in overall top-line to the company is in single digits.

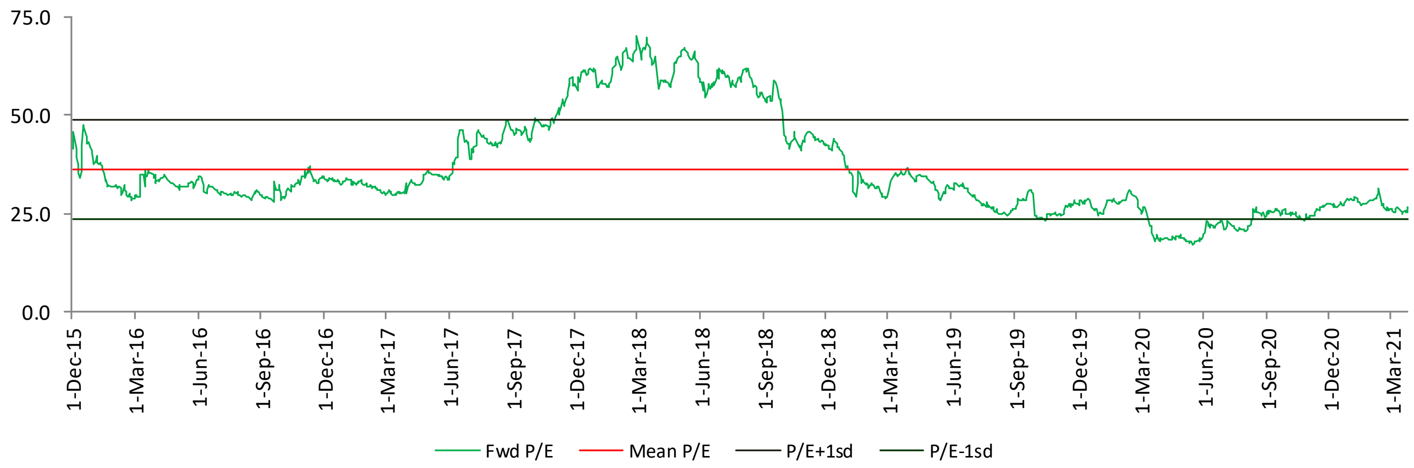
The Board of LUX at its meeting held on 12th February 2021 has appointed Mr. Saurabh Kumar Bhudolia as Chief Financial Officer (CFO) and Key Managerial Personnel of the Company with effect from 13th February 2021. Prior to LUX, Mr. Saurabh Kumar Bhudolia was associated with Future Lifestyle Fashions Limited,

The management plans to achieve a double digit sales growth in FY21E. Reduction in brand promotion spends may contribute 350-400 bps improvement in EBITDA margin. However, this temporary reduction is likely to revert to the pre-COVID level in FY22-23E. The company will focus on maximising EBITDA margins going forward. Further, margin profile will improve with increasing share of premium products in revenue mix.

LUX is utilising its optimal capacity, consequently Board of Directors has recently approved a greenfield expansion plan of Rs 1,100 mn. The company has identified a land parcel measuring the construction area of around 4,60,000 Sq.ft of which ~20%- 30% will be used for manufacturing unit and balance for warehousing, storage and finishing facilities The capex will be completed over next 12-18 months and would be funded through the internal accruals. With this investment company is expecting to get an incremental sale of ~Rs. 4,000 mn.

Internet penetration and urbanization are the key areas which LUX is targeting in order to carve out a market share in the premium and super-premium segments with the help of e-commerce, modern outlets, and EBO models. The Company is radically trying to change the way it operates by transforming itself to a value-driven, innovation inspired, asset light and brand powered company. ***We have assigned a P/E multiple of 25x on FY23E group EPS of Rs 101.4, to arrive at a target price of Rs 2,535, which provides an upside of 41% based on the current market price. We thus recommend a "Strong Buy" rating on the stock.***

Exhibit 29: Valuation Charts (Rolling forward P/E (X) chart)



Source: Company Data, SMIFS Research

Key Risks

Volatile raw material prices- Any delay or inability of the company to pass on fluctuation in raw material prices could impact margins.

Changing technology and consumer behaviour- The innerwear segment is subject to fast changes in consumer preference and technology. The inability of the company to respond to such changes would hurt its performance.

Cut-throat competition- The company operates in a cut-throat competitive environment with international and domestic brands. Standing out in such a competitive environment is essential.

Financials Details

Post-merger Financial Statement-Pro Forma					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Net Sales	17896.8	17886.9	19672.5	22829.3	25794.6
EBITDA	2636.9	2711.2	3570.6	3869.6	4501.2
EBITDA Margin (%)	14.7%	15.2%	18.2%	17.0%	17.5%
PAT	1491.7	1767.8	2558.0	2730.0	3173.2
PAT Margin (%)	8.3%	9.9%	13.0%	12.0%	12.3%
EPS	49.6	58.7	81.7	87.2	101.4
NetDebt/Equity	0.4	0.2	-0.1	-0.1	-0.2
P/E	25.9	27.0	21.9	20.5	17.7

Income Statement (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Net Revenues	**12086.8**	**12026.9**	**14169.4**	**16263.9**	**18206.1**
Cost of Raw Materials	5770.2	5273.5	6418.8	7318.8	8083.5
Sub contracting Expenses	2405.9	2749.0	3103.1	3578.1	4041.8
Gross Profit	**3910.7**	**4004.4**	**4647.6**	**5367.1**	**6080.8**
Employee Benefit Expenses	434.9	468.1	481.8	569.2	637.2
Other Expenses	1672.9	1653.2	1445.3	2163.1	2394.1
Expenses	10284.0	10143.8	11448.9	13629.2	15156.6
EBITDA	**1802.8**	**1883.1**	**2720.5**	**2634.8**	**3049.5**
Depreciation & Amortisation	112.4	123.9	132.5	212.6	274.2
EBIT	**1690.5**	**1759.2**	**2588.0**	**2422.2**	**2775.3**
Other Income	92.0	42.1	73.1	51.5	72.1
Interest Cost	236.0	131.6	68.3	34.2	28.3
PBT	**1546.4**	**1669.7**	**2592.8**	**2439.5**	**2819.2**
Tax expense	533.3	409.6	647.6	604.2	686.8
PAT	**1013.1**	**1260.1**	**1945.2**	**1835.3**	**2132.4**

Balance Sheet (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Share Capital	**53.0**	**53.0**	**53.0**	**53.0**	**53.0**
Reserves & Surplus	4086.2	4933.9	6116.6	7142.5	8322.3
Networth	**4139.2**	**4986.9**	**6169.6**	**7195.5**	**8375.3**
Long term Borrowings	**52.9**	**63.9**	**86.2**	**88.4**	**88.4**
Other Non-Current Liabilities	104.6	189.3	174.5	176.9	178.7
Short term Borrowings	**1724.0**	**1191.3**	**414.9**	**264.9**	**264.9**
Other Current Liabilities	2013.6	1834.4	2138.2	2877.1	2942.5
Total Equity & Liabilities	**8034.3**	**8265.8**	**8983.4**	**10602.8**	**11849.8**
Net Tangibile Asset	**1326.5**	**1259.5**	**1387.2**	**1879.6**	**2363.4**
Non Current Investments	46.3	46.1	46.1	46.1	46.1
Other Non Current Assets	33.1	174.1	174.9	174.3	174.3
Inventories	2509.7	3210.3	2873.1	3483.3	3926.5
Trade Receivables	3682.9	3067.4	2904.6	3210.4	3698.9
Cash and Cash Equivalents	19.2	12.6	452.6	970.3	520.6
Current Investments	0.0	0.0	710.0	500.0	700.0
Other Current assets	416.5	495.8	434.9	338.8	420.0
Total Assets	**8034.3**	**8265.8**	**8983.4**	**10602.8**	**11849.8**

Source: Company Data, SMIFS Research

Financials Details

Cash Flow Statement (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
PBT	**1546.4**	**1669.7**	**2519.7**	**2388.0**	**2747.1**
Depreciation & Amortisation	112.4	123.9	132.5	212.6	274.2
Interest expense	236.0	124.7	68.3	34.2	28.3
(Increase)/Decrease in CA & CL	538.7	-407.4	848.1	-78.0	-945.7
Others	-36.7	16.6	0.0	0.0	0.0
Taxes Paid	-468.8	-460.6	-647.6	-604.2	-686.8
Cash Flow from Operating Activities	**1928.0**	**1067.0**	**2921.1**	**1952.6**	**1417.1**
Capital Expenditure	-124.1	-78.9	-260.1	-705.0	-758.0
Others	-26.7	80.2	-710.0	210.0	-200.0
Cash Flow Investing Activities	**-150.8**	**1.3**	**-970.1**	**-495.0**	**-958.0**
Increase/(Decrease) in Borrowings	-1482.0	-526.8	-754.1	-147.8	0.0
Dividend Payment	-60.9	-411.0	-688.5	-757.9	-880.6
Others	-236.0	-137.0	-68.3	-34.2	-28.3
Cash Flow from Financing Activities	**-1779.0**	**-1074.9**	**-1510.9**	**-939.9**	**-908.8**
Net Cash Flow	**-1.8**	**-6.6**	**440.0**	**517.7**	**-449.7**
Opening Cash	**21.1**	**19.2**	**12.6**	**452.6**	**970.3**
Closing Balance	**19.2**	**12.6**	**452.6**	**970.3**	**520.6**

Key Ratios					
Margins					
Particulars	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Gross Margin	32.4%	33.3%	32.8%	33.0%	33.4%
EBITDA Margin	14.9%	15.7%	19.2%	16.2%	16.8%
PAT Margin	8.4%	10.5%	13.7%	11.3%	11.7%
Per Share Data					
BVPS	163.9	197.5	244.3	284.9	331.7
EPS	40.1	49.9	77.0	72.7	84.4
DPS	3.5	12.5	23.1	25.4	29.6
No. of Shares	2.5	2.5	2.5	2.5	2.5
Financial Ratios					
ROE	27.7%	27.6%	34.9%	27.5%	27.4%
ROCE	29.3%	28.0%	34.2%	26.7%	26.3%
Debt/Equity(x)	0.4	0.3	0.1	0.0	0.0
Interest Coverage (x)	7.2	13.4	37.9	70.9	98.2
Valuation Ratios(x)					
P/E	32.0	31.8	23.3	24.6	21.2
P/BV	3.1	3.2	2.9	2.5	2.1
EV/EBITDA	19.0	21.9	16.4	16.7	14.6

Source: Company Data, SMIFS Research

Dollar Industries Ltd

Sector: Textile

Brief Overview

CMP (INR) (As at 5th April 2021)	229
Current Target (INR)	289
Upside(%)	26%
Recommendation	**Strong Buy**

BSE Code	541403
NSE Code	DOLLAR
Reuters Ticker	DLLA.BO
Bloomberg Ticker	DOLLAR.IN

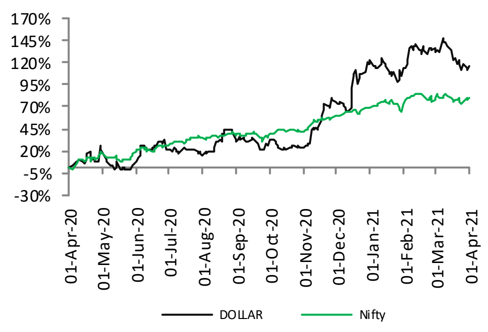
Stock Scan

Market cap (INR Cr.)	1,298
Outstanding Shares (Cr.)	5.7
Face Value (INR)	2.0
Dividend Yield(%)	0.7%
TTM P/E (x)	16.5
P/B (x)	2.2
Debt/Equity	0.5
Beta	0.80
52 Week High/ Low (INR)	284/95
Avg. Daily Vol. (NSE)/1 yr.	1,65,792

Shareholding Pattern (%)

	Dec-2020	Sep-2020	Jun-2020
Promoters	72.91	72.61	72.20
Institutions	3.9	5.06	5.90
Non-Institution	23.19	22.33	21.90

Stock vs. Nifty (Relative Returns)



Source: NSE

Company Overview

Dollar Industries Ltd (DIL), established in 1972 by Mr. Dindayal Gupta as a proprietorship, the company was incorporated in 2005 as Bhawani Textiles, and then renamed as Dollar Industries Ltd in 2008. The company is present across segments in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Lehar, Ultra, Force Go Wear, etc. ***DIL is shifting focus towards premium segment by introducing new brands and entering into newer product categories for diversifying from being a predominantly Men's Innerwear company to a lifestyle brand catering to Men, Women and Kids segments.*** Our key investment thesis are as follows.

- **Presence across all segments with a widening product basket-** DIL has evolved from being another regional player to an all-out pan India player with strong brand recall. It captures the whole economic pyramid at a stretch. The company has evolved as an umbrella brand, launching an array of sub-brands such as Dollar Big Boss Innerwear, Missy, Champion, Lehar, Force Go Wear, Ultra Thermals, Force NXT. ***Furthermore, DIL has been gradually inching its presence in mid and premium market segment with higher growth categories like women's leggings, thermal wear, premium inner-wear and leisure wear.*** The efforts have yielded results, with the sales mix changing in favour of the premium & mid premium category. Shifting focus to the premium categories has helped it to expand margins.

- **Strong brand positioning with 7-8% of revenues as ad-spend-**The company has aggressively pursued various marketing and promotional activities to compete with existing players in the industry. In the last 5 years DIL has been constantly investing behind brand promotion activities toward its mid-market brand "Bigboss"- endorsed by Akshay Kumar and women's legging brand "Missy"- endorsed by Chitrangada Singh. **The ad spends as a percentage of net sales reduced from 10% in FY19 to 7.5% in FY20, which is now more or less in line with other industry players.**

- **Restructuring distribution model with project "Lakshya" aimed at better inventory management and shortening the working capital cycle-** DIL has started to work with Vector Consultants to implement Theory of constraints (TOC), in an attempt to keep a tab on its working capital mainly by reducing receivables and inventories. DIL initiated its inventory transformation project to replace its existing inventory push model. ***Through this project, DIL aims to increase the regional presence of its products, increase channel partners in the mix and optimise working capital levels.*** The project required mapping individual stores wherein the company's products are required to be sold to a particular distributor appointed by DIL. It had started serving retailers through newly appointed distributors in Karnataka and Rajasthan through the set of new distributors appointed under project Lakshya. Now, DIL is planning to roll out the model in Maharashtra, Gujarat, Telangana and Andhra Pradesh. Due to the size of the project and involvement of multiple parties, minimum two more years will be required to complete the project. ***The entire process will result in maximised sales and better realisations for the company. With smaller receivables and faster inventory turns, the company will also be able to reduce its working capital requirement significantly.***

Exhibit 30: Financial Performance at a glance (Standalone)

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10287.6	9693.2	10030.0	11464.1	12388.9
Growth %	11.2%	-5.8%	3.5%	14.3%	8.1%
EBITDA	1356.6	1045.8	1434.3	1547.7	1678.7
EBITDA Margin (%)	13.2%	10.8%	14.3%	13.5%	13.6%
Net Profit	752.5	594.5	908.9	985.6	1090.9
Net Profit Margin (%)	7.3%	6.1%	9.1%	8.6%	8.8%
EPS	13.3	10.5	16.0	17.4	19.2
BVPS	73.6	82.0	94.4	108.2	123.8
P / E (x)	10.5	17.5	14.3	13.2	11.9
P / BV (x)	1.9	2.2	2.4	2.1	1.8
ROE (%)	18.0%	12.8%	17.0%	16.1%	15.5%
ROCE(%)	21.2%	13.7%	19.4%	20.3%	20.6%
EV/EBITDA (x)	7.3	11.9	9.5	8.7	7.6

Source: Company Data, SMIFS Research

Investment Thesis …. Contd….

Increasing focus on super premium segment - DIL has largely been present in economy and mid-premium segment through its Dollar Regular (Realization Rs 35/piece) and Big Boss (Realization Rs 62 per piece) brands with 31% and 42% revenue contribution, respectively. The company is now focusing on premium category with its brand Force NXT (Realization Rs 114/piece) launched in August 2015 and contributed ~2% of FY20 sales. It aims to grow this brand focused on aspirational segment over the next 3-4 years. Further, Missy is expected to do well with women innerwear and leggings products. As per the company, there is an opportunity to grow by focusing on segments between mid-range product and Super premium products offered by Jockey. Most of the organised players are focusing on filling this gap by launching their products in this segment. LUX is focusing on this through ONN brand, RUPA through 'Macroman M-series' & 'Macrowoman W-Series'. Similarly, DIL is focusing on this space with its brand Force NXT which will help in tapping aspirational segment. The company intends to achieve the same by focusing on quality, comfort, design, packaging, etc.

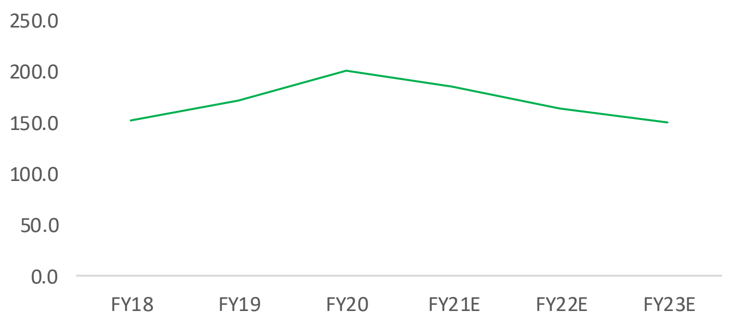
Exhibit 31: Product Portfolio (Premium & super premium segment)

Missy	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Sales (Rs Mn)	206	361	523	573	768	853
Growth (%)		74.9%	44.9%	9.5%	34.0%	11.1%
Contribution % of Revenue	**2.9%**	**4.5%**	**6.1%**	**6.4%**	**7.7%**	**9.0%**
Force NXT	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Sales (Rs Mn)	78	144	129	166	219	190
Growth (%)		84.4%	-11.0%	28.7%	32.1%	-13.3%
Contribution % of Revenue	**1.1%**	**1.8%**	**1.5%**	**1.9%**	**2.2%**	**2.0%**
Thermal	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Sales (Rs Mn)	548	586	506	506	664	853
Growth (%)		6.8%	-13.6%	-0.1%	31.4%	28.4%
Contribution % of Revenue	**7.7%**	**7.3%**	**5.9%**	**5.7%**	**6.6%**	**9.0%**
Pepe	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Sales (Rs Mn)					15	47
Growth (%)						214.9%
Contribution % of Revenue					**0.2%**	**0.5%**

Source: Company Data, SMIFS Research

Free Cash flows to improve on marginal capex and reduction in debtors - The COVID-19 pandemic has helped companies like DIL to rationalise their inventories and debtors. Due to production getting affected, the channel was starved of goods when things started to open up. At that time, DIL started to insist on faster realisation of debtors and shifted to pull factor from push factor resulting in lower inventory carrying requirements. These advantages may be available to them even after COVID-19 pandemic. The company has been giving higher credit to its distributors in the past three years in order to grab market share and push new brands. As a result, its debtor's days increased from 84 days in FY16 to 133 days in FY20. The company believes there is scope to reduce debtor days to 60 days. Furthermore, management targets to reduce the working capital days to 120 days from current 201 days. Additionally, we believe that the company would be able to grow its business without any major capex for the next three years in existing line of business. This will positively impact its operating cash flows and would help in generating healthy free cash flows in FY21-23E.

Exhibit 32: Working Capital Days



Source: Company Data, SMIFS Research

Financials set to improve-

⇒ ***A strong brand bouquet and continuous expense on increasing brand awareness would enable DIL to leverage the industry demand and register 9% revenue CAGR over FY20-FY23E to Rs 12,389 mn.***

⇒ The company's focus on the higher-value-added category is expected to lead to changes in the product mix toward the premium category where realisations are higher. Further, efforts to rationalise incentives to distributors and some sort of cap on brand-promotion spend (Expected reduction in ad expenses from 10% of sales to 7-8% of sales) would lead to cost savings. ***Therefore, we believe that these efforts would help the company to achieve an EBITDA margin of 13-14% over the next 2 two years.***

⇒ The company has one of the highest leverages (D/E- 0.5x), of its peer set; management is keen on reducing this. We believe that higher free-cash flows in the next two years would help it become debt free by the end of FY23, which would imply lower interest expense.

⇒ We expect company to report a 22% CAGR in net profit over FY20-23E to Rs 1,091 mn leading to an improvement in ROCE from 13.7% in FY20 to 20.6% in FY23E.

Company Profile

Dollar Industries Ltd (DIL), established in 1972 by Dindayal Gupta as a proprietorship, the company was incorporated in 2005 as Bhawani Textiles, and then renamed as Dollar Industries Ltd in 2008. The company is present across segments in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Ultra, Force Go Wear, etc. Its brands are also marketed in over 10 countries which includes UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal and Sudan. Presently, it is strong in north, west and east regions which together contribute 94% of its top-line. Southern India contributes only 6% to its top-line, where it aims to increase presence. ***DIL is shifting focus towards premium segment by introducing new brands and entering into newer product categories for diversifying from being a predominantly Men's Innerwear company to a lifestyle brand catering to Men, Women and Kids segments.***

Exhibit 33: Brand Wise Revenue Break Up (FY20)

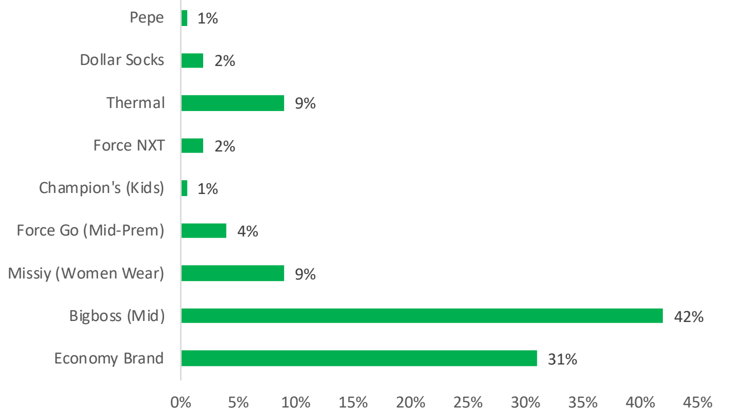
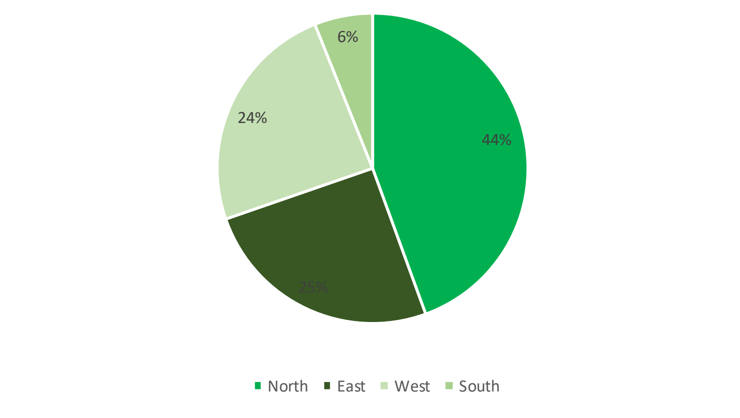


Exhibit 34: Geo-Graphical Revenue Distribuon (FY20)



Source: Company Data, SMIFS Research

Brand Profile

DIL caters to the economy, middle and premium segments. While the economy range contributes ~31% to revenue, premium and super premium contribute the balance. Exports constitute 9% of sales. It has been given the status of an "export house" by the government of India. The company is targeting the upper class via new brand FORCE NXT (super premium), which is also targeted by other players. The company has launched an array of sub-brands such as Dollar Big Boss Premium Innerwear, Missy, Champion, Force Go Wear and Ultra Thermals. Fitness, quality and contemporariness are Dollar's unique selling points.

Post rebranding announcement in May, 2020, the brand has created 5 broad categories – Dollar Man, Dollar Woman, Dollar Junior, Dollar Always, and Dollar Thermals under which there are various products. Additionally, Force NXT, RKG, Force Go Wear, and Club will be standalone brands.

DIL's principal achievement has been that brand recall has not just survived but thrived over the past decade. Even as macro-economic trends have undergone a sea change, their corporate identity and product portfolio have evolved by riding attributes. DIL's brands have been positioned around the tagline of 'affordable premium'. This does not mean that one needs to have deep pockets to buy their products. This means that whatever the Company make for a specific consumer segment carries certain attributes that they associate with products bought by people with an income higher than theirs. This approach is neatly described in one word 'Aspirational'.

The Company provides a wide choice in terms of product categories; DIL has extended from men's innerwear to casuals, from female inners to stylist leggings and capris from t-shirts for kids to seasonal winter thermals. They have a very wide portfolio in terms of pricing, for men from Rs 50 to Rs 600 per unit contribute 70-75% of the revenue, for women from Rs 80 to Rs 650 per unit contribute 9% revenue and for children from Rs 50 to Rs 400 per unit contribute 1% of the revenue. DIL's chronological and tiered pricing strategy has made it possible for consumers to graduate impeccably to the next quality level without incurring substantial increments. As a result, they have achieved superior price-value proposition when compared to international brands and a steadily increasing slice of the market.

Exhibit 35: Key brands and target segment

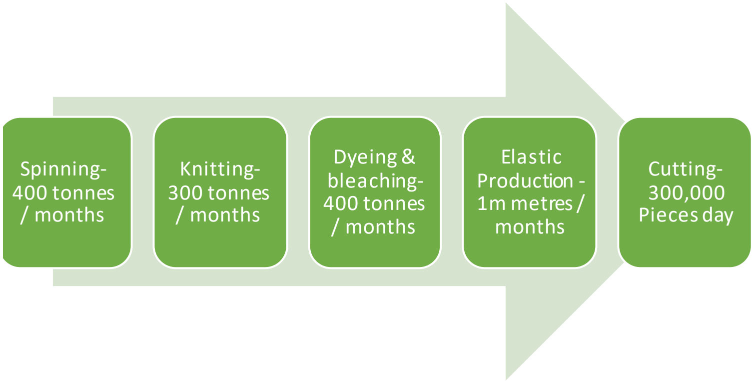
Brand Name	Segment	Brand Name	Segment	Brand Name	Segment	Brand Name	Segment	Brand Name	Segment	Brand Name	Segment
Dollar Man		Dollar Women		Dollar Junior		Dollar Always		Dollar Thermals		Standalone Brands	
Big Boss	Mid- Premium	**Missy**	Premium	**Champion**	Mid- Premium	**Lehar**	Economy	**Ultra**	Premium	**Force NXT**	Premium
J-Class	Premium			**Kids Care**				**Winter Care**	Mid- Premium	**Force Go Wear**	Premium
Athleisure										**Pepe**	Super- Premium

Source: Company Data, SMIFS Research

Backward Integration

DIL manufactures more than 350 products across all innerwear segments. The company is backward integrated and has manufacturing facilities both owned and outsourced – are at Kolkata and Tirupur, Delhi and Ludhaina. These facilities comprise spinning, knitting, processing, bleaching, cutting, stitching packaging and dispatching, assuring complete integration. ***~30% of its requirement is met in-house and balance is through job work which helps it to be asset light.***

Exhibit 36: Backward-integrated operations



Source: Company Data, SMIFS Research

The Company invested in progressive backward integration – from the consumption of raw cotton to final product delivery. The Company is convinced that the economies-of-scale and centralized supervision would enhance its competitiveness and reduce an overt reliance on job-working. This backward integration – one of few such instances in India's innerwear hosiery sector – will help strengthen margins and profits above the sectoral average.

Product Portfolio

Economy Brand: This brand attracts the mass segment of our economy that contributes 31% to total revenue in FY20, with the EBITDA margin of 8-10% and average selling price nearly Rs 33-35.

Bigboss: The main purpose of this brand to serve the need of a mid-upper segment of our economy that contributes ~42% to the total revenue in FY20, with the EBITDA margin of 10-12% and average selling price nearly Rs 63-65.

Missy: This brand line caters exclusively to the women innerwear segment that contributes ~9% of the total revenue in FY20, which yields an EBITDA margin of 18-20% and the average selling price of the products in this segment hovers around Rs 75-80.

Force NXT: DIL introduced Force NXT in recent past to foray into premium men innerwear segment. ~2% of the total revenue comes from this segment in FY20 which generates an EBITDA margin of 18-20% and the average selling price lingers around Rs 120-125.

Force Go: Forge Go was created with an idea to make the company's presence felt in the sportswear and leisure wear segment. It contributes ~4% of the revenue in FY20 and achieves an EBITDA margin of 10-12%. The selling price in this segment averages around Rs 900-1000.

Champions: DIL made their inroads into the kids segment with this brand which contributes 1% of the total revenue in FY20. This brand line offers a considerably high EBITDA margin compared to the company's other brands and the selling price hovers around Rs 90-100.

Thermal: DIL's thermal wear business generates around 9% of the revenue despite its cyclical nature and high reliance on the intensity of the winter. It yields an EBITDA margin of 16-17% with average selling moves around Rs 180-185.

Exhibit 37: Product Portfolio

	Brand Wise Revenue Break Up	Margin (%)	ASP (Rs)
Economy Brand	31%	8-10%	Rs 33-35
Bigboss	42%	10-12%	Rs 60-65
Missy	9%	18-20%	Rs 70-80
Force Go	4%	10-12%	Rs 900-1000
Champions	1%		Rs 90-100
Force NXT	2%	18-20%	Rs 110-125
Thermal	9%	16-17%	Rs 175-185

Source: Company Data, SMIFS Research

Distribution network

DIL is focused on increasing its distribution across region. Presently, it is strong in north, west and east regions which together contribute ~94% of its top-line. Southern India contributes only 6% to its top-line, where it aims to increase presence. In the past three years, it has increased its distribution from 750+ distributors to 900+ distributors and 1,10,000+ MBOs. It is increasing focus from conventional distribution to large format stores, modern retail and e-commerce, especially for selling premium products. It distributes Force NXT through modern retail, through Shop in Shop, EBOs, MBOs, etc.

JV with Pepe Jeans

DIL aims to further accelerate its footprint in the premium inner and leisure-wear space through 50:50 JV with the well-known brand 'PEPE Jeans Europe B.V' under the name 'PEPE Jeans Innerfashion Pvt. Ltd'. This JV has an exclusive agreement for sales in India, Bangladesh, Bhutan and Srilanka. It has been in the process of scaling-up brand “Pepe” through continued expansion of its product range. This will help the company to grab opportunities in the super premium segment.

Risks & Concern

Volatility in the raw material prices – Innerwear products are made of cotton fabrics. Any major volatility in cotton prices may impact the raw material cost for the company and would impact earnings estimates.

Competition from peers – DIL’s economy and mid segment products are mostly sold through wholesale model and is competing against its peers in the segment. Any aggressive approach by its peers in terms of discounts or promotional schemes to dealers may affect earnings of the company.

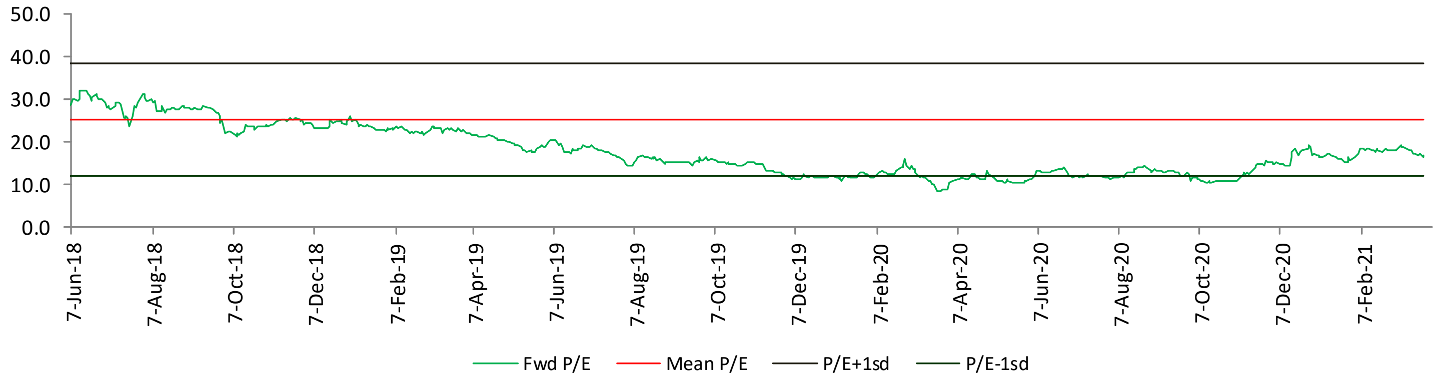
Changing technology and consumer behaviour- The innerwear segment is subject to fast changes in consumer preference and technology. The inability of the company to respond to such changes would hurt its performance.

Elongated working capital: DIL has a stretched working capital and its debtors has increased over the years but that could reverse soon. If DIL’s working capital continues to be stretched, then Company’s revenue and profitability could be impacted.

Outlook & Valuation

Post COVID-19 pandemic, branded innerwear as a category is all set to go through a structural shift. DIL’s strong brand recall coupled with deeper penetration and consumers shifting towards affordable branded quality products are strong macro tailwinds for the company. Internet penetration and urbanization are the key areas which DIL is targeting in order to carve out a market share in the premium and super-premium segments with the help of e-commerce, modern outlets, and EBO models. The Company is radically trying to change the way it operates by transforming itself to a value-driven, innovation inspired, asset light and brand powered company. ***We have assigned a P/E multiple of 15x on FY23E EPS of Rs 19.2, to arrive at a target price of Rs 289,which provides an upside of 26% based on the current market price. We thus recommend a “Strong Buy” rating on the stock.***

Exhibit 38: Valuation Charts (Rolling forward P/E (X) chart)



Source: Company Data, SMIFS Research

Financials Details

Income Statement (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Net Revenues	**10287.6**	**9693.2**	**10030.0**	**11464.1**	**12388.9**
Cost of Raw Materials	4335.4	4484.7	4312.9	4952.5	5352.0
Sub contracting Expenses	2110.7	1855.8	1955.9	2315.7	2496.4
Gross Profit	**3841.5**	**3352.7**	**3761.3**	**4195.9**	**4540.5**
Employee Benefit Expenses	336.3	420.7	421.3	481.5	520.3
Other Expenses	2148.6	1886.2	1905.7	2166.7	2341.5
Expenses	8930.9	8647.4	8595.7	9916.5	10710.2
EBITDA	**1356.6**	**1045.8**	**1434.3**	**1547.7**	**1678.7**
Depreciation & Amortisation	111.0	142.1	142.7	181.5	220.9
EBIT	**1245.7**	**903.7**	**1291.6**	**1366.2**	**1457.8**
Other Income	22.1	47.1	20.4	24.9	35.2
Interest Cost	157.4	152.9	92.1	59.2	18.8
PBT	**1110.4**	**797.9**	**1220.0**	**1331.9**	**1474.2**
Tax expense	357.8	203.4	311.1	346.3	383.3
PAT	**752.5**	**594.5**	**908.9**	**985.6**	**1090.9**

Balance Sheet (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Share Capital	**113.4**	**113.4**	**113.4**	**113.4**	**113.4**
Reserves & Surplus	4063.5	4536.0	5240.7	6022.2	6908.9
Networth	**4176.9**	**4649.5**	**5354.1**	**6135.6**	**7022.3**
Long term Borrowings	**156.6**	**50.0**	**24.1**	**19.1**	**14.1**
Other Non-Current Liabilities	21.7	93.8	93.8	93.8	93.8
Short term Borrowings	**2076.7**	**2049.9**	**1220.9**	**720.9**	**220.9**
Other Current Liabilities	1667.9	1395.1	1764.0	1808.9	2063.3
Total Equity & Liabilities	**8099.8**	**8238.3**	**8456.9**	**8778.3**	**9414.4**
Net Tangibile Asset	**722.3**	**883.8**	**862.1**	**1081.7**	**1261.8**
Non Current Investments	8.5	6.2	10.0	11.5	12.4
Other Non Current Assets	112.4	198.3	205.0	210.7	214.4
Inventories	3245.7	3049.7	3358.4	3647.4	3235.3
Trade Receivables	3476.2	3600.9	3085.8	3283.2	3599.5
Cash and Cash Equivalents	207.3	58.9	610.6	287.1	441.8
Other bank balances	8.0	3.0	0.0	0.0	0.0
Other Current assets	319.4	437.5	325.0	256.8	649.2
Total Assets	**8099.8**	**8238.3**	**8456.9**	**8778.3**	**9414.4**

Source: Company Data, SMIFS Research

Financials Details

Cash Flow Statement (Standalone)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
PBT	**1110.4**	**797.9**	**1220.0**	**1331.9**	**1474.2**
Depreciation & Amortisation	111.0	142.1	142.7	181.5	220.9
Interest expense	157.4	152.9	92.1	59.2	18.8
(Increase)/Decrease in CA & CL	-924.3	-337.8	680.3	-380.5	-46.8
Others	-0.8	19.7	0.0	0.0	0.0
Taxes Paid	-445.3	-246.1	-311.1	-346.3	-383.3
Cash Flow from Operating Activities	**8.4**	**528.7**	**1823.9**	**845.8**	**1283.8**
Capital Expenditure	-127.2	-224.5	-121.0	-401.0	-401.0
Others	-31.2	-26.6	0.0	0.0	0.0
Cash Flow Investing Activities	**-158.4**	**-251.2**	**-121.0**	**-401.0**	**-401.0**
Buyback Expense	0.0	0.0	0.0	0.0	0.0
Increase/(Decrease) in Borrowings	431.8	-133.4	-854.9	-505.0	-505.0
Dividend Payment	-109.2	-116.4	-204.2	-204.2	-204.2
Others	-158.8	-176.1	-92.1	-59.2	-18.8
Cash Flow from Financing Activities	**163.8**	**-425.9**	**-1151.2**	**-768.4**	**-728.0**
Net Cash Flow	**13.8**	**-148.4**	**551.7**	**-323.6**	**154.8**
Opening Cash	**193.6**	**207.3**	**58.9**	**610.6**	**287.1**
Closing Balance	**207.3**	**58.9**	**610.6**	**287.1**	**441.8**

Key Ratios					
Margins					
Particulars	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Gross Margin	37.3%	34.6%	37.5%	36.6%	36.7%
EBITDA Margin	13.2%	10.8%	14.3%	13.5%	13.6%
PAT Margin	7.3%	6.1%	9.1%	8.6%	8.8%
Per Share Data					
BVPS	73.6	82.0	94.4	108.2	123.8
EPS	13.3	10.5	16.0	17.4	19.2
No. of Shares	56.7	56.7	56.7	56.7	56.7
Financial Ratios					
ROE	18.0%	12.8%	17.0%	16.1%	15.5%
ROCE	21.2%	13.7%	19.4%	20.3%	20.6%
Debt/Equity(x)	0.5	0.5	0.2	0.1	0.0
Interest Coverage (x)	7.9	5.9	14.0	23.1	77.5
Valuation Ratios(x)					
P/E	10.5	17.5	14.3	13.2	11.9
P/BV	1.9	2.2	2.4	2.1	1.8
EV/EBITDA	7.3	11.9	9.5	8.7	7.6

Source: Company Data, SMIFS Research

Rupa & Company Ltd

Sector: Textile

Brief Overview

CMP (INR) (As at 5th April 2021)	296
Current Target (INR)	345
Upside(%)	17%
Recommendation	**Buy**

BSE Code	533552
NSE Code	RUPA
Reuters Ticker	RUPA.NS
Bloomberg Ticker	RUPA.IN

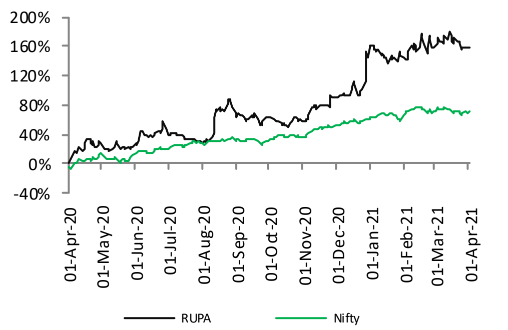
Stock Scan

Market cap (INR Cr.)	2,356
Outstanding Shares (Cr.)	8.0
Face Value (INR)	1.0
Dividend Yield(%)	0.97%
TTM P/E (x)	23.3
P/B (x)	4.2
Debt/Equity	0.3
Beta	0.86
52 Week High/ Low (INR)	361/114
Avg. Daily Vol. (NSE)/1 yr.	1,06,044

Shareholding Pattern (%)

	Dec-2020	Sep-2020	Jun-2020
Promoters	73.28	73.28	73.28
Institutions	1.51	0.00	0.02
Non-Institution	25.21	26.72	26.70

Stock vs. Nifty (Relative Returns)



Source: NSE

Company Overview

Rupa & Company Limited (RUPA) Incorporated in 1985. It is engaged in the manufacturing, marketing, selling and distribution of men's and women's innerwear, thermal wear and fashion wear across economy, mid-premium, premium and super-premium categories. **RUPA owns a bouquet of leading knitted innerwear and intimate wear brands with flagship brands like Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline etc.** Furthermore, its wholly-owned subsidiary, Oban Fashions Private Limited, has an exclusive license for the brand 'FCUK' and the brand 'Fruit of the Loom (FOTL)', to manufacture, market and sale of innerwear and other products in India. **Our key investment thesis are as follows.**

- **Diversified Product Portfolio-** The Company caters to all segments, including men, women and kid segment with its wide bouquet of brands. Over the years, the company has created over 18 sub-brands catering to various socio-economic classes. Apart from umbrella brand Rupa, the company has created various subbrands (Frontline, Jon, Air, Macroman, Macroman M series, Macrowoman W series, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline, etc) to differentiate each product offering from the other. Going forward, the company can leverage these brands to introduce new products, either under the same brand or in the form of brand extensions.

- **Targeting higher sales from premium brands and super premium brands-** The company targets higher sales from its premium brands and super premium brands (M-series, FCUK,FOTL). Premium and super premium category have higher potential to grow and the market keeps shifting from the economy segment driven by rising disposable incomes. RUPA's brand in this segment has directly competed with Jockey. The company has priced its product similar to jockey. Recently, it saw an uptick in the demand trend and is trying to increase its presence in General Trade and e-commerce.

- **Consistency in Brand building efforts:** RUPA has been consistently investing ~7-8% of sales between FY16-FY20 in brand development to create a robust portfolio. Strong brand recall developed through consistent investment in advertising and brand promotion strategies. In last 5 years it has spent ~Rs 3,930 mn behind A&P activities. Presently, RUPA reduced its advertising and promotion spends in 9MFY21, in line with competition in order to save cost and protect margins. However, the company continued with its in-shop branding while limiting the Television Ads.

Exhibit 39: Financial Performance at a glance (Consolidated)

Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	11486.5	9746.4	11073.0	12556.8	13832.6
Growth %	2.5%	-15.1%	13.6%	13.4%	10.2%
EBITDA	1510.7	1137.5	2114.9	1820.7	2033.4
EBITDA Margin (%)	13.2%	11.7%	19.1%	14.5%	14.7%
Net Profit	741.8	619.0	1384.9	1191.2	1372.7
Net Profit Margin (%)	6.5%	6.4%	12.5%	9.5%	9.9%
EPS	9.3	7.8	17.4	15.0	17.3
BVPS	68.5	72.7	82.8	89.7	95.5
P / E (x)	21.0	39.4	17.0	19.8	17.2
P / BV (x)	2.9	4.2	3.6	3.3	3.1
ROE (%)	14.2%	11.0%	21.0%	16.7%	18.1%
ROCE(%)	19.9%	12.6%	25.8%	20.8%	22.6%
EV/EBITDA (x)	11.6	23.0	11.2	12.9	11.1

Source: Company Data, SMIFS Research

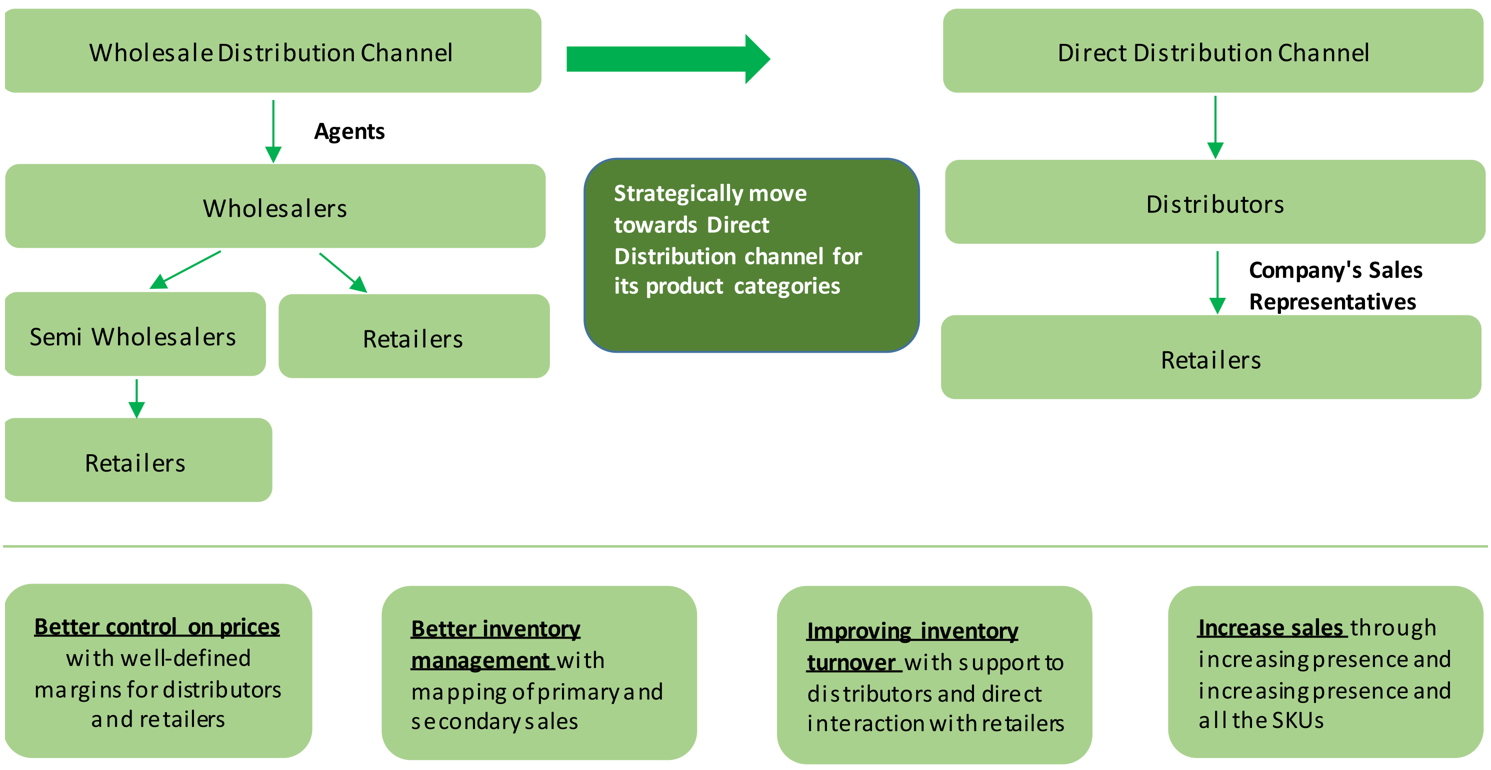
Investment Thesis …. Contd….

Strong Distribution Reach- RUPA enjoys a very strong position in the East of India and has gained significant presence in the North followed by the West of India. It's strategy is to foraying in newer markets by appointing new distributors and building experienced team and further dealers penetrate in the existing markets. Furthermore, RUPA is increasing its footprints in South India and plans to expand and improve market share going ahead.

RUPA has a strong distribution network of 125,000 retail touchpoints, 1200 dealers, 11 EBO's (exclusive business outlets), 4 central warehouses, and its products are available on various other e-commerce platforms. With efficient business model, the company manages 7000+ SKUs portfolio of different range for kids, men and women. The company is planning to increase reach through presence in e-commerce, MBOs (Multi-Brand Outlets) and LFRs (Large Format Retail Stores). The company is also looking forward to open 150 more EBOs in the next 2 years, through the franchisee route across India and expand its retail footprint. Furthermore, it plans to have presence through 300 LFS in the next 2 years. Currently, company is moving from wholesale distribution channel to a direct distribution channel for some products.

RUPA has more than 30 distribution points at pan India level, available on Amazon, Myntra, Paytm, Flipkart and other Ecommerce Portals. Currently, the company witnessed good traction in its online sales through Amazon and Flipkart as well as its own in-house website. It also experienced demand from places where the distribution network is non-existent. Online sales contributed ~1-1.5% in FY20 and are expected to contribute ~3-4% in FY21E. The contribution may reach ~10% within three years' time-frame.

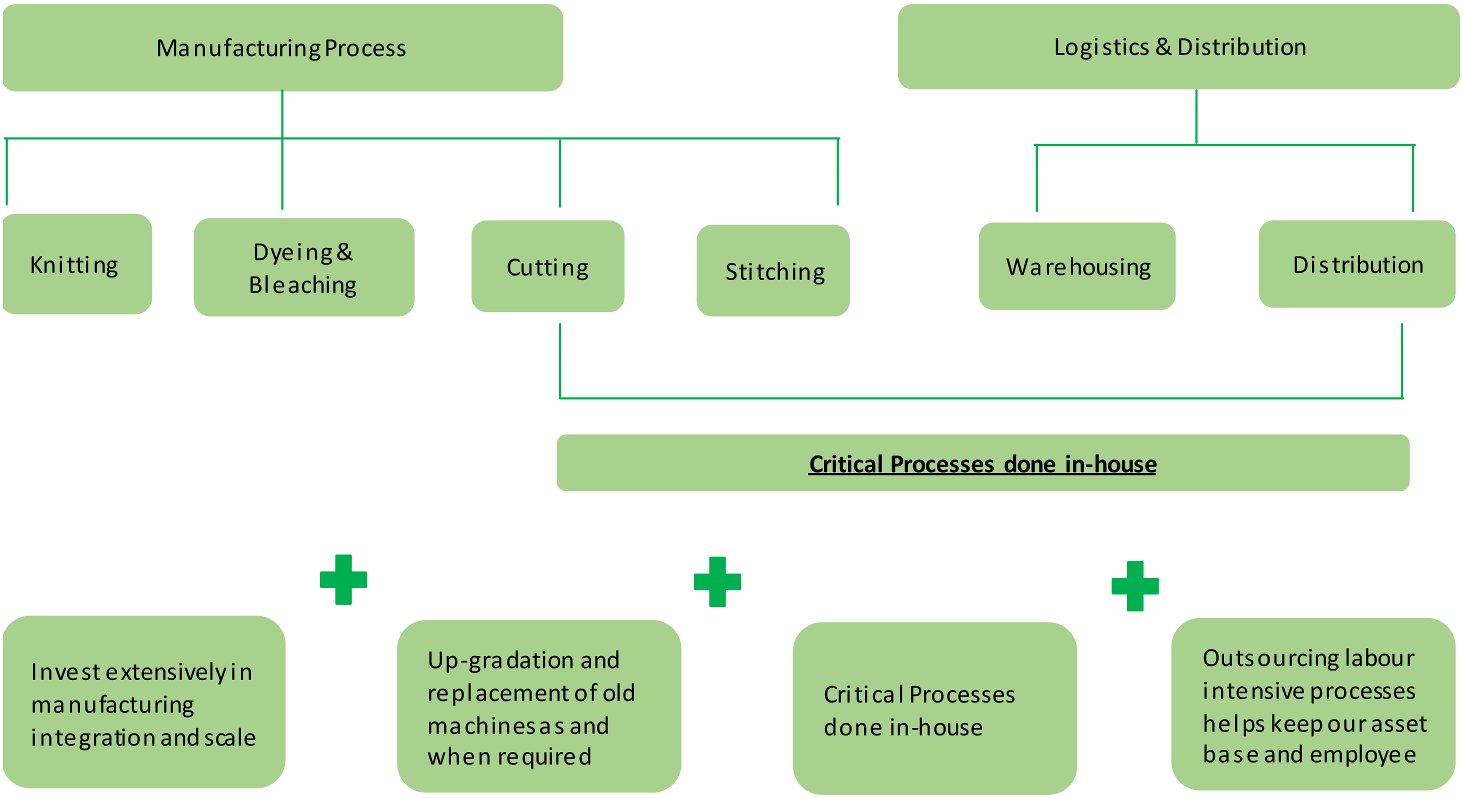
Exhibit 40: Re-organising Distribution model



Source: Company Data, SMIFS Research

Asset light efficient business model- The company primarily focuses on creating brands and has adopted an asset-light business model by largely outsourcing the production of its knitted products. The Company is utilizing the resources to focus more on value addition, product differentiation, branding and distribution. The Company procures yarn, does dying in-house, carries out kniting process partly in -house, design and cutting in-house and outsources stitching, which is labour intensive through job work (90% of job work). Rupa has a total bleaching and dyeing capacity of 28 tonnes per day (3 tonnes of yarn dyeing and 25 tonnes of fabric dyeing per day).

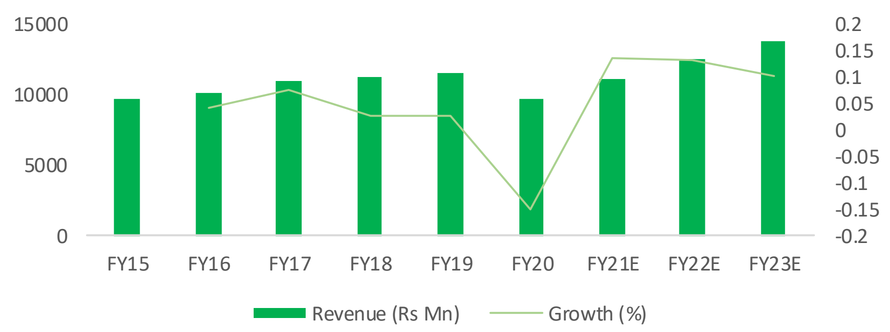
Exhibit 41: An integrated & efficient business model



Source: Company Data, SMIFS Research

Financials set to improve– RUPA has posted a revenue CAGR of 6% over FY10-20 led by its continuous focus on consistent brand promotion and deeper penetration across India. In FY20, company reported a decline in revenues due to COVID related lockdown. Economy segment is facing competition from un-organised players and consumer preference have slowly shifted towards premium & super premium segment. Therefore, company is increasing premiumization with addition of FCUK & FOTL which would improve sales going forward. RUPA had a relatively better 9MFY21 largely due to pent-up demand in its key markets. Eastern India continues to contribute >40% to the overall top-line of the company.

Exhibit 42: Sales to grow at CAGR of 12.4% during FY20-23E



Source: Company Data, SMIFS Research

We expect volume CAGR of 11% over FY20-23E. Consequently, we expect realisations to increase from Rs 60.6/piece in FY18 to Rs 69.5/ piece in FY23E. The premium and super-premium segments is likely to aid realisation growth. We expect revenues to increase at a CAGR of 12.4% during FY20-23E. We expect revenues to touch Rs 13,833 mn on the back of improved realisations due to an improving product mix.

RUPA has gradually increased the share of premium & super-premium products to its overall sales. Consequently, the Gross margin has also increased from 32.3% in FY15 to 35.2% in FY20. Going forward, EBITDA margin of the company will improve backed by a better product mix and positive operating leverage driven by strong volume uptick. Consequently, we expect company to post an EBITDA CAGR of 21% over FY20-23E.

Company's Debt to Equity ratio has come down from 0.9 in FY12 to 0.3 in FY20. We expect company to post a PAT CAGR of 30% over FY20-23E.

Furthermore, company believes there is scope to reduce inventory days to 115 days. Management targets to reduce the working capital days to 150 days from current 187 days.

Company Profile

Rupa & Company Limited (RUPA) is one of the leading and largest knitwear brand in India. The Company is present across the entire value chain in the knitted garment space offering a gamut of products from innerwear to fashion wear. ***It is engaged in the manufacturing, marketing, selling and distribution of men's and women's innerwear, thermal wear and fashion wear across economy, mid-premium, premium and super-premium categories.*** The Company operates through its state-of-the-art manufacturing facilities in West Bengal, Tamil Nadu, Karnataka and Uttar Pradesh. Its sales offices are situated in West Bengal, Tamil Nadu, Karnataka, Uttar Pradesh, Bihar, Maharastra and Delhi. The company primarily focuses on creating brands and has adopted an asset-light business model by largely outsourcing the production of its knitted products. ***RUPA owns a bouquet of leading knitted innerwear and intimate wear brands with flagship brands like Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline etc.*** Furthermore, its wholly-owned subsidiary, Oban Fashions Private Limited, has exclusive license for the brand 'FCUK' and the brand 'Fruit of the Loom (FOTL)', to manufacture, market and sale of innerwear and other products in India.

Diversified product portfolio

The Company offers an extensive range of products across all segments including men, women and kids and across all price points. This has helped reaching out to millions of customers across categories and meeting their ever-changing demand. Over the years, the company has created over 18 sub-brands catering to various socio-economic classes. ~80-85% of Rupa's existing business is contributed by male innerwear segment catered through ***brands like Jon, Frontline, Macroman, Euro, FCUK and now Fruit of the Loom. Rupa currently is catering to female innerwear space through its brands Jon, Softline , Macrowoman W Series and Femmora.***

Though the mass and economy segments in the men's innerwear space form a bulk of Rupa's market share, the company has managed to realise the potential of celebrity brand ambassadors better, especially in a price-sensitive market with a large rural base. It has roped in A-Star celebrities to endorse its brand and strengthen its proposition among the people. At present, it has top celebrities like Ranveer Singh, Sidharth Malhotra, Ranbir Kapoor and Anushka Sharma is promoting various products. Moreover, the company plan to grow through in-licensing or inorganic brand associations as well through organic growth of the Casual wear range.

Rupa exports its products in Middle East Countries like UAE, Saudi Arabia, Kuwait, Iraq, etc. Myanmar, Ukraine, Algeria, Indonesia, Nigeria, Congo, Russia, USA and Singapore e among others and it aims to strengthen its presence in the existing markets and introduce localised products as per the varied preferences of the consumers. Company's focus is to double exports and tap new geographies in the next 2 years.

Exhibit 43: Diversified product offering across customer types, product categories and price segments

	Brand across Men	Brand across all Users	Brand across Women
Economy		Jon	
Mid-Premium Segment	Frontline,Euro,Macrowoman	Thermocot, Torrido,Bumchums,Footline	Softline,Femmora
Premium	Macrowoman M	Fruit of the Loom	Macrowoman W
Super-Premium	FCUK		

Diversified product offering across customer types, product categories and price segments

↓

Bouquet of Brands across Price Segments

↓

Gamut of products from innerwear to casual and athleisure wear (Inner wear + Thermal wear + Active owes ' wear)

↓

Strategically making presence in Mid-premium to Super premium brands

↓

Licensing of International Brands

Source: Company Data, SMIFS Research

Mr. Dinesh Kumar Lodha has been appointed as Chief Executive Officer (CEO), with effect from February 25, 2019. Mr. Lodha is a senior level executive with extensive experience in business leadership - built businesses. scaled-up growth stage businesses, managed complex organisations as the CEO, worked in global matrix organizations with multiple stakeholders.

Risks & Concern

Volatility in the raw material prices – Innerwear products are made of cotton fabrics. Any major volatility in cotton prices may impact the raw material cost for the company and would impact earnings estimates.

Competition from peers – Over the next 2-3 years, company will focus on premium inner-wear, women's brasserie and leisure wear segment. There's a need for further product and SKU expansion which can drive future growth. Any aggressive approach by its peers in terms of discounts or promotional schemes to dealers may affect earnings of the company.

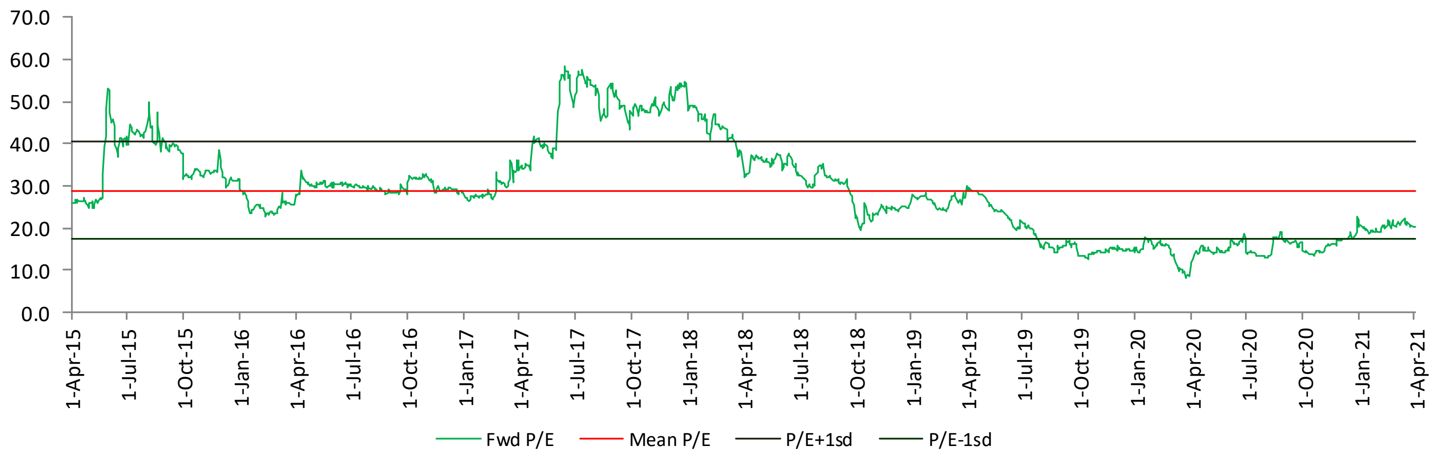
Changing technology and consumer behaviour- The innerwear segment is subject to fast changes in consumer preference and technology. The inability of the company to respond to such changes would hurt its performance.

Elongated working capital: RUPA has a stretched working capital and its debtors and inventory has increased over the years but that could reverse soon. If Rupa's working capital continues to be stretched, then Company's revenue and profitability could be impacted.

Outlook & Valuation

RUPA would be a clear beneficiary in the event of the market shifting from the economy segment due to its robust distribution network and strong brands in the premium and super premium segments. Going forward, company is expected to carve out a higher market share in the premium and super-premium segments with the help of e-commerce, modern outlets, and EBO models. We expect, the company to record a Revenue and PAT of 12% and 30% CAGR over FY20-23E. ***We have assigned a P/E multiple of 20x on FY23E EPS of Rs 17.3, to arrive at a target price of Rs 345,which provides an upside of 17% based on the current market price. We thus recommend a "Buy" rating on the stock.***

Exhibit 44: Valuation Charts (Rolling forward P/E (X) chart)



Source: Company Data, SMIFS Research

Financials Details

Income Statement (Consolidated)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Net Revenues	**11486.5**	**9746.4**	**11073.0**	**12556.8**	**13832.6**
Cost of Raw Materials	4957.2	3999.7	5126.8	5700.8	6238.5
Sub contracting Expenses	2599.7	2314.2	2114.9	2498.8	2766.5
Gross Profit	**3929.6**	**3432.5**	**3831.3**	**4357.2**	**4827.6**
Employee Benefit Expenses	566.6	656.8	454.0	527.4	664.0
Other Expenses	1852.3	1638.3	1262.3	2009.1	2130.2
Expenses	9975.8	8609.0	8958.1	10736.1	11799.2
EBITDA	**1510.7**	**1137.5**	**2114.9**	**1820.7**	**2033.4**
Depreciation & Amortisation	150.1	185.1	145.3	159.7	172.0
EBIT	**1360.5**	**952.3**	**1969.7**	**1661.0**	**1861.4**
Other Income	19.8	73.7	59.8	67.8	74.7
Interest Cost	185.5	186.2	142.7	106.0	66.0
PBT	**1194.8**	**839.8**	**1886.8**	**1622.8**	**1870.1**
Tax expense	453.0	220.8	501.9	431.7	497.5
PAT	**741.8**	**619.0**	**1384.9**	**1191.2**	**1372.7**

Balance Sheet (Consolidated)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Share Capital	**79.6**	**79.6**	**79.6**	**79.6**	**79.6**
Reserves & Surplus	5367.1	5699.9	6503.2	7051.1	7517.8
Networth	**5446.7**	**5779.5**	**6582.8**	**7130.7**	**7597.4**
Long term Borrowings	**81.3**	**109.0**	**109.0**	**109.0**	**109.0**
Other Non-Current Liabilities	39.4	95.7	88.9	88.9	88.9
Short term Borrowings	**1998.2**	**1650.9**	**1050.9**	**950.9**	**550.9**
Other Current Liabilities	2598.8	2308.2	3846.7	3607.2	4639.0
Total Equity & Liabilities	**10164.4**	**9943.3**	**11678.2**	**11886.7**	**12985.2**
Net Tangibile Asset	**1845.7**	**1917.0**	**1971.4**	**2011.7**	**2039.7**
Other Non Current Assets	108.5	229.0	209.4	209.7	210.0
Inventories	3822.9	4673.1	4554.4	4514.4	4323.1
Trade Receivables	3965.4	2512.9	3331.1	3296.1	4004.5
Cash and Cash Equivalents	72.0	12.8	1002.9	1164.2	1647.2
Other bank balances	3.9	4.2	0.0	0.0	0.0
Other Current assets	345.9	594.1	609.0	690.6	760.8
Total Assets	**10164.4**	**9943.3**	**11678.2**	**11886.7**	**12985.2**

Source: Company Data, SMIFS Research

Financials Details

Cash Flow Statement (Consolidated)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
PBT	**1194.8**	**839.8**	**1886.8**	**1622.8**	**1870.1**
Depreciation & Amortisation	150.1	185.1	145.3	159.7	172.0
Interest expense	185.5	186.2	142.7	106.0	66.0
(Increase)/Decrease in CA & CL	-1184.5	188.1	774.2	-246.3	444.3
Others	-11.9	-53.1	59.7	0.0	0.0
Taxes Paid	-605.5	-442.5	-501.9	-431.7	-497.5
Cash Flow from Operating Activities	**-271.5**	**903.7**	**2506.8**	**1210.5**	**2054.9**
Capital Expenditure	-244.8	-181.3	-199.9	-200.0	-200.0
Others	46.8	29.4	7.5	0.0	0.0
Cash Flow Investing Activities	**-198.0**	**-151.9**	**-192.4**	**-200.0**	**-200.0**
Increase/(Decrease) in Borrowings	948.8	-313.6	-600.0	-100.0	-400.0
Dividend Payment	-287.6	-287.6	-581.7	-643.2	-906.0
Others	-184.9	-209.8	-142.7	-106.0	-66.0
Cash Flow from Financing Activities	**476.3**	**-811.0**	**-1324.3**	**-849.2**	**-1371.9**
Net Cash Flow	**6.8**	**-59.2**	**990.0**	**161.3**	**483.0**
Opening Cash	**65.2**	**72.0**	**12.8**	**1002.9**	**1164.2**
Closing Balance	**72.0**	**12.8**	**1002.9**	**1164.2**	**1647.2**

Key Ratios					
Margins					
Particulars	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**
Gross Margin	34.2%	35.2%	34.6%	34.7%	34.9%
EBITDA Margin	13.2%	11.7%	19.1%	14.5%	14.7%
PAT Margin	6.5%	6.4%	12.5%	9.5%	9.9%
Per Share Data					
BVPS	68.5	72.7	82.8	89.7	95.5
EPS	9.3	7.8	17.4	15.0	17.3
DPS	3.0	3.0	6.1	6.7	9.5
No. of Shares	79.5	79.5	79.5	79.5	79.5
Financial Ratios					
ROE	14.2%	11.0%	21.0%	16.7%	18.1%
ROCE	19.9%	12.6%	25.8%	20.8%	22.6%
Debt/Equity(x)	0.4	0.3	0.2	0.1	0.1
Interest Coverage (x)	7.3	5.1	13.8	15.7	28.2
Valuation Ratios(x)					
P/E	21.0	39.4	17.0	19.8	17.2
P/BV	2.9	4.2	3.6	3.3	3.1
EV/EBITDA	11.6	23.0	11.2	12.9	11.1

Source: Company Data, SMIFS Research

Analyst Certification:

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