



“Lux Industries Limited Q3 FY2018
Earnings Conference Call”

January 22, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Lux Industries Limited Q3 FY2018 Earnings conference call. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saket Todi, Promoter & Senior Vice President - Marketing of Lux Industries. Thank you and over to you Sir!

Saket Todi: Good afternoon and a very warm welcome to everyone. Along with me, I have Udit Todi, Senior Vice-President Strategy, Mr. Ajay Patodia, Chief Financial Officer and SGA our Investor Relation Advisor. I hope you have received our result and Investor Presentation by now. For those who have not you can view them on our website.

I will start with a brief on the industry background.

The innerwear industry in India is on a cusp for rapid growth and with per capita expenditure on innerwear is expected to double to Rs.300. As per the industry reports, the innerwear market is expected to grow at a CAGR of 8% to 10% for the next three to four years.

The growth will be on the back of manufacturing, automation like ultrasonic cutting system, which will increase efficiency and global competitiveness supported by emergence of purpose specific innerwear. The men’s innerwear market where our major presence is also expected to mirror the overall innerwear industry growth primarily driven by increasing disposable income and changing consumer’s attitude towards the category.

The men’s innerwear industry in India is dominated by economy of marked segment, which forms around 55% followed by mid-price segment contributing to 30% and balance 15% by premium and super premium products. With overall innerwear industry poised for a rapid growth the organised sector is expected to grow at a much faster rate due to economies of scale and superior manufacturing technology, brand consciousness through advertising, innovation, spread and strength of omni channel distribution, last but not the least implementation of GST. Now I will share a brief update on implementation of GST and its effects on industry and on the company.

During the initial period of GST implementation, the industry faced a few hiccups. The July month saw a dip in sales as the whole trade channel were implementing the changes with regards to GST. The distributors were not placing the order as the retailers were not ready to able to pickup the required quantity; however, post the initial hiccups the implementation of GST has been smooth and considering the scale at which the implementation has happened that the



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Government of India has done a commendable job in normalizing the effects of GST implementation in the following month.

The organized player in the industry will be the major beneficiary of the GST as the compliance cost for the unorganized sector will increase and the pricing difference between the organized and the unorganized will narrow down. In fact, due to input credit mechanism under the GST the unorganized sector will witness an increased cost by 500 basis points. In fact, we have seen pickup in the business from the month of August onwards and the performance for Q3 has been testimony of the same.

In the pre-GST era, the economy or the mass segment, which is amongst the major segment in the innerwear industry, has been facing competition from the unorganized sector; however, post GST implementation, we are witnessing a gradual shift by the consumers from the unorganised player to an organized player. While formulating the marketing strategy we had anticipated the shift and to capitalise on the same we signed up Mr. Amitabh Bachchan as a Brand Ambassador for the brand Lux Venus, which caters to mass segment, which help us, strengthen the bond with the masses.

Very shortly, we would be launching a pan India marketing campaign including TV commercials for Lux Venus featuring Mr. Bachchan. We believe associating with India's finest actor, the legacy of Lux Venus will take a phenomenal leap in the marketing impetus in the popular segment. Apart from Mr. Bachchan, we have also signed Mr. Varun Dhawan as brand ambassador of Lux Cozi which is our product offering for mass to mid-segment.

I would also like to share with you an update on a winterwear segment, which is witnessing a good growth in the recent times. The overall winter market is expected to grow at a CAGR of 5% to 6% for the next ten years, currently majority of the market is dominated by unbranded or unorganized players; however, the branded segment is bridging the gap by innovative product offerings. The market is driven by factors such as lifestyle positioning, product innovation and increased fashion awareness. We derive approximately 10% of our total revenue from winterwear under the brand Lux Cotts Wool and Lux Inferno, and have better margins. The current winter season have witnessed improved volumes and better pricing.

With this I will now ask Mr. Udit Todi who is spearheading the Strategy for the Company to share his thoughts.

Udit Todi:

Thank you Saket and good evening everyone. I will share with you our strategic initiative on three fronts of Manufacturing, Marketing and Distribution. Our manufacturing strategy is to maintain high quality standards while being cost leaders who have ability to manufacture the largest innerwear volumes at one of the lowest cost. This dual benefit of larger volumes and lower cost has been derived from vertical integration manufacturing operations.



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Over the years, we have made setup manufacturing capacities at various locations to either service local demand or capitalize on localized advantages and procurement of raw materials or skills availability. In an industry where there are large number of unorganized and small scale manufacturing units we have always concentrated on large technology driven manufacturing, a strategy to be present across the entire manufacturing value chain help us to maintain product quality which is core differentiator.

In the whole Manufacturing value chain we have a few critical processes which is done in-house whereas the outsource process such as stitching, which help us to keep our asset profile and employee base light. We had invested in state-of-the-art equipment like knitting machines imported from Germany, cutting machines from Italy, which help us to save on wastage per meter and increase the number of pieces cut per 100 meters of fabric. With investments in automation like computer-aided design and auto cutters the garment rejection rates have come down drastically. We focus on technology and automation led manufacturing has helped us improve our profitability and deliver consistently superior quality product to our customers.

Now coming to the Marketing front, as part of our core business strategy we are open to constant strategic marketing innovation and customer's demand driven product offering backed by our association with renowned faces to represent various brands. Taking a step forward in the same direction as Saket indicated, we have signed Mr. Bachchan as brand ambassador for a brand Lux Venus. This is the first time that Mr. Bachchan will be a brand ambassador for a hosiery product in India. The whole idea of signing Mr. Bachchan is that the brand appeal synergizes with the personality and this will help us to communicate and reach wider segments for customer. This coupled with the implementation of GST, we expect that the pace at which the value buyers are shifting towards the organized sector will only accelerate from here on.

The signing of Mr. Varun Dhawan is also part of a similar strategy to reposition ourselves among the youth. Mr. Varun Dhawan has created a niche in the minds of the youth and his connect from with the youth audience will work in our favour. On the brand investment side our endeavor is to keep the investment in brand at around 7% to 8% of the topline. Over the past five years we have invested approximately Rs. 277 Crores across different brands.

Another part of a marketing strategy is to collaborate with like minded brand owners, which will help us to disrupt the stereotype and pioneer initiatives in the organized innerwear market category as we have the strongest capability of manufacturing and distribution channel within the organized innerwear segment in India. To fulfill this we have recently acquired manufacturing and marketing rights of Mr. Virat Kohli's brand One8. Under this agreement Lux Industries would be manufacturing and marketing a unique collection of socks, innerwear and sleepwear under the brand One8 globally. The association will help us fill the need base vacuum that is created in the premium innerwear category.

The collaboration is based on a fact that is style towards building a brand is in perfect sync with Mr. Virat Kohli's sentiment to nurture his brand.



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Now coming to the distribution front. As you might be aware that we are the largest domestic innerwear player by volume. Now to achieve this we follow a simple strategy, "Lux is available wherever the customer is" and this has been possible due to core strength of distribution and the goodwill we enjoy with our distributors, dealers and retailers. We are the first innerwear company to organize distributors and owners conference within and outside India. We have more than 900-distributors and more than 50% of them are working with us for more than ten years translating into relationship stability and continuity. And as a testimony to that our distribution attrition is made less than 1%.

Now I hand over to our CFO Mr. Ajay Patodia to provide you an insight of a financial performance of the year.

Ajay Patodia:

Thank you Mr. Udit. First I will take you through the brief financial highlights for the Q3. Revenue for the Q3 of FY2018 grew by 29% to Rs.298 Crores as compared to Rs.231 Crores in Q3 of FY2017. EBITDA for Q3 of FY2018 grew by 31% to Rs.37 Crores as compared to Rs.28 Crores in Q3 of FY2017. The EBITDA margin saw an improvement of 26-basis point to 12.5% in Q3 of FY2018 from 12.2% in Q3 of FY2017. Profit after tax grew by 31% to Rs.18 Crores in Q3 FY2018 as compared to Rs.14 Crores in Q3 FY2017. Our PAT margin also improved to 6.2% in Q3.

Now I will share a brief highlight for nine month of FY2018. Our revenue saw a growth of 15% in nine month FY2018 to Rs.783 Crores as compared to Rs.680 Crores in the corresponding period last year. The EBITDA grew by 19% to Rs.98 Crores in nine months compared to Rs.82 Crores in nine month of FY2017 whereas the EBITDA margin saw an improvement of 43 basis points to 12.5% in nine month of FY2018 as compared to 12.1% in corresponding period of last year. The profit for nine-month period of FY2018 came in at Rs.47 Crores a growth of 17% as compared to nine month of FY2017. The PAT margin improved to 6.1% in nine month as compared to corresponding period of last year.

With this we are now open the floor for question and answer.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question answer session. We take the first question from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy:

Congratulations Sir for the good result. I have just two to three questions regarding your business, actually after GST and demonetization, there have been issues so that is why all organized players are expecting that they can easily tap the unorganized market. Sir I have just one question, actually the unorganized players are holding 50% of the market share right now so do you really think that it is equal to achieve, to gain rest 50% market share that is with unorganized players? What is the strategy to capture those markets if you can put some light on that?



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Udit Todi: As we already mentioned, you correctly pointed out that about 50% to 55% of the market is unorganized right now and after the GST implementation it has really helped the organized sector to capture the unorganized share of the market and as far as the company's strategy to capture the share of the market, , as we mentioned earlier, we have signed with Mr. Bachchan so he will be endorsing the mass brand of ours, which is Lux Venus so the mass category is the category, which is most poised to shift from the unorganized to the organized so for that we already have a branded endorsement in a category, which was previously unadvertised so we are very hopeful that from Q4 onwards the shift will be very visible and the company will be able to drop some part of the problems on the unorganized market.

Pratim Roy: In your presentation that you mentioned that the Rs. 40,000 Crores by 2020 so out of that how much market share do we expect to actually by 2020? Is there any approximate idea?

Udit Todi: Right now our market share stands at about 15%, the industry is growing at about 8% to 10% whereas the company is aiming a CAGR of more than 15% in the coming three to four years so going by those figures the market share of the company should definitely increase from 15% to something which is much more than that.

Pratim Roy: Thank you Sir. One more thing Sir, in women innerwear segment there is a huge opportunity I think you know that very well so what is a strategy on that particular segment in the lingerie products?

Udit Todi: You very correctly mentioned that the women's innerwear markets is very big market which lies untapped for us so we see that as a big opportunity and scope of growth as a company going ahead.

Pratim Roy: But is there any specific strategy right now because other market players are trying to catch the market so do not you think that if the growth does not come in proper time means first mover advantages taken by the competitor so I believe that as a market leader Lux so you people should definitely think about something to achieve that thing?

Udit Todi: At the management level we are already considering a lot of efforts to enter into this market category and very soon we will be entering this category so as and when there is some news available we will coming back to you all.

Pratim Roy: Okay Sir. And one more thing Sir, other market players right now they have a JV to support their brand premiumization so like Dollar with Pepe Jeans, Rupa with Fruit of the Loom and is there any kind of plan going on your mind so to grab the premium segment in a much faster pace like other competitors?

Udit Todi: So going forward premiumization is one of the core strategies of our company and going by this strategy we have already launched our brand ONN which are been operating in the market from the last four to five years and has been really well contributing about 10% of the topline and as



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we already mentioned in our investor update the company has also signed a contract with Mr. Virat Kohli's brand One8. So One8 brand will be branded as One8 by ONN and that will be our second bet on the premium end of the category so we will be having two premium brands in our portfolio and going forward I think this should contribute healthily to the topline of the company.

Pratim Roy: Sir just I am going to ask one thing, that everyone is looking for asset light model and right now 100% of your product is in-house with zero outsourcing but going forward if you think that if you want to grab the market share further so are you going to look for asset light model or you would prefer in-house knitting machine or stitching machine to produce your products in-house only?

Udit Todi: The company always tries to follow an asset light model but there are certain steps of production which we always try to keep in-house in order to ensure that whatever quality of the goods it produces as per is one of the best quality produced, so certain integral steps of manufacturing and processing cannot be outsourced those are the steps which are taken in-house and overall the company follows a very asset light model so going forward we do not see any major capex coming along may be a few minor capex here and there just a maintenance capex.

Pratim Roy: Is it maintenance capex kind of a thing right?

Udit Todi: No we were not looking at any major capex.

Prateek Roy: That is it from my side and again congratulations for the result. Thank you.

Moderator: Thank you. Next question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

Niket Shah: Thanks for the opportunity. Just two questions on my end, wanted to understand your distribution network, which I am seeing on the presentation, in FY2015 and FY2017 actually the similar number so is it just like an approximately a round figure number that you put on the presentation or is there some more room for us to improve a distribution and retail network? I am just seeing your presentation on slide #15, the distribution, the retail network that you have how much scope is there to increase these numbers because from FY2015 to FY2017 the numbers look stagnant kind of thing so just some update from you would be very helpful?

Saket Todi: No, see like we are very strong on the northern, western and eastern part of the country so there they are majorly covered and all the districts with our distributors and the southern part of the country, which consists of the five states, we have a good area open for us to expand the distributor base so next coming years that will be our target to expand the distributor in the southern base but wherever we are present right now we are completely covered in all the districts.



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- Niket Shah:** So bulk of the growth is going to come from the existing distribution network, the newer distribution network, I mean you will obviously increase but there will not be like a significant number?
- Saket Todi:** Yes.
- Niket Shah:** Okay. The second question is on your category wise growth your premium, medium and mass segment, which segment and you all should grow at a faster pace over the next two to three years?
- Saket Todi:** For us the mass segment will be growing as the fastest rate because as the GST has come in the unorganized market is going to go down and for that in the unorganized market 90% of it in the mass segment because of that the mass segment is completely open for us and this is the first season, like the season starts in the month of February-March in the hosiery segment, so after GST this is the first season and we have witnessed the shift from the unorganized to the organized segment now in the mass segment as well as we have a premium brand ONN, which witnesses a growth of around 30% to 35%.
- Niket Shah:** I think there is a contribution from the mass segment but the margins is in the range of 8% to 10% so if that grows at a faster pace and your blended margins will come down right?
- Saket Todi:** Yes, that is true but as we have started a new unit at Dhankuni we are yet to optimize it for the cost efficiency so there would be an increase in cost efficiencies in that which would increase the profit and here as you rightly said the mass segment with low profit margin so we would expect in totality that the profit would either remain the same or would grow in terms of percentage.
- Niket Shah:** Okay and what would be your utilization level right now? I mean it is very tough to put a utilization number because of so many SKUs?
- Saket Todi:** The utilization level is right now 80% to 85%.
- Niket Shah:** Perfect. Thank you so much and I will come back in the queue.
- Moderator:** Thank you. We take the next question from the line of Nikunj Doshi from Bay Capital. Please go ahead.
- Nikunj Doshi:** Good evening to all. Just wanted to understand what is the winterwear contribution in the Q3 numbers and I believe you mentioned that winterwear contributes about 10% of our revenue so is it only in Q3 or overall for the year?
- Saket Todi:** No that is for overall the financial year and in Q3 it is approximately Rs. 100 Crores.
- Nikunj Doshi:** This time winter was severe so perhaps?



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- Saket Todi:** Yes, winter was severe as well as what has happened because of the severity of the winter the whole chain right now is without stock so we expect the next winter to be very good as well.
- Nikunj Doshi:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.
- Kunal Bhatia:** Thanks for the opportunity. Sir just I missed out on your initial comment wherein you were mentioning that in case of men's approximately 35% is mass am I right on that?
- Saket Todi:** Yes.
- Kunal Bhatia:** 35% is mass, 45% medium and 20% is premium?
- Saket Todi:** Premium and super-premium, yes.
- Kunal Bhatia:** This you are talking for us or as an industry as a whole?
- Saket Todi:** This I am talking for the industry as a whole.
- Kunal Bhatia:** Okay and Sir how would this be comparatively for us?
- Sakete Todi:** For us mass would not be in at a great extent some mass could be approximately 35%, the medium would be 45% and the premium would be 15% to 20%. So that is the gap the mass segment is very empty and as I said that in the mass segment pre-GST the unorganized had a huge role in that. So that would drastically go down.
- Kunal Bhatia:** Okay. And Sir in these category wise would you be able to share anything in terms of volume?
- Saket Todi:** The volumes we would not be able to share right now. We will be able to share you by the financial year-end.
- Kunal Bhatia:** Okay. And Sir generally for us in the mass segment what could be the price range?
- Saket Todi:** In the mass segment our average ASP is Rs.33 to Rs.35.
- Kunal Bhatia:** How about Sir in case of medium and premium?
- Saket Todi:** Medium would be around Rs.60 to Rs.62 and premium would be around Rs.100 to Rs.105.
- Kunal Bhatia:** Okay. And also in terms of your distribution because there just disconnect between other players because we have been talking about 450000 reach vis-à-vis if you look at other company say a



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Dollar or a Rupa it is about 118000 and 84000 so and the topline say in case of rupee is almost similar so where is the disconnect here? Are they not showing or what do we have in addition?

Saket Todi: We cannot comment about our competitors on such a comment, but our distribution basis 4.5 lakhs, retail base.

Kunal Bhatia: Okay. Sir and in terms of the raw material could you give us some sense where is the raw material pricing currently and what is the kind of sourcing we do on an annual basis?

Udit Todi: As far as a raw materials are concerned in the chain process we start from procuring yarn so yarn is something which you purchase from outside and after that Knitting and the following process are done in-house, so right now, I mean currently the yarn prices are very high and going forward that will also increase the selling price of the product.

Kunal Bhatia: So currently we are importing yarn right?

Udit Todi: No. It is domestically produced but we purchase yarn.

Kunal Bhatia: Okay and from where would we purchasing if you could share any sourcing details?

Udit Todi: There are lots of spinning mills spread across the country and we have a lot of vendors on board for purchasing yarn.

Kunal Bhatia: Okay so we are not dependent on a particular?

Udit Todi: No there are more than 100 mills associated with the company.

Kunal Bhatia: Okay. And Sir when you are saying the yarn prices are on higher side so on a year-on-year basis what is the kind of increase you have seen?

Saket Todi: Actually the yarn prices are on a higher side right now, in the whole 12 months it fluctuates. It goes up and down and it is not stable like every day the new price comes in.

Kunal Bhatia: Right, so Sir on an average if you could share something?

Saket Todi: It is very difficult, sometimes it goes up 5%, sometimes it is down 3%, sometimes it goes up 6% every year.

Kunal Bhatia: No problem. Thank you so much.

Moderator: Thank you. The next question is from the line of Kislay Upadhyay from Ambit Capital. Please go ahead.



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- Kislay Upadhyay:** Congratulations on a good quarter. Sir my question is on the online channel. Can you share your perspective about what percentage by volume and value is we selling through the online channel and what would those numbers be for the industry?
- Saket Todi:** See the online industry is increasing and right now it is negligible in our company as well as the industry, it is less than 1%, the total volume as well as the value.
- Kislay Upadhyay:** Okay. Sir given that our core supply chain strength for the brick and mortar model given 900 distributors spread all across the country how much do you see the e-commerce channel being a disruptive for the players who already have a good strength in the distribution capabilities?
- Udit Todi:** As far as our brand is concerned Lux Cozi and Lux Venus is something, which operates in the mass and the mid level segment so as far as the mass and the mid level segment is concerned the e-commerce is not a very big threat but coming to the premium end of the category like our brand ONN so when we come to the premium end even our contribution from e-commerce is healthily trending at 1% to 2% which is about the industry average and going by your question of threat arising from the e-commerce channel we do not see that as a very major threat because if you look at the size of the e-commerce market compared to the size of the brick and mortar that is negligible.
- Kislay Upadhyay:** Yes, correct. What is the number did you say for premium segment for the industry is at?
- Udit Todi:** So for the premium brand ONN our online sales is between 1% and 2%.
- Kislay Upadhyay:** And the industry in premium segment?
- Udit Todi:** I am sorry I could not get your question.
- Kislay Upadhyay:** What would that number be for the industry for the premium segment?
- Udit Todi:** For the industry there is no separate breakup for the premium and the non-premium but if you go by the general perception overall the e-commerce contributes about 1% to the total sales of compared to the brick and mortar.
- Kislay Upadhyay:** Thank you so much. This is very useful.
- Moderator:** Thank you. We take the next question from the line of Himanshu Nayyar from Systematix shares. Please go ahead.
- Himanshu Nayyar:** Congratulations on a great set of numbers. Sir firstly I believe we do a significant portion of exports as well and the business normally fluctuates depending on our orders in hand so can you give us some outlook on the exports part of the business?



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- Saket Todi:** See the export is growing continuously. In the last two three years there were stagnant in the exports because our major importing countries were the African country Nigeria, Ghana, Benin, Togo, Sudan, Algeria, and also western part of the Africa so there were high currency fluctuation, last six to eight months it has stabilized to a certain extent and because of that the export from this year last three months have started going up very well. As well as we are moving to newer avenues of export, which is the European countries so soon we will be starting to export to countries like France and Germany as well as in our industry we are a leading exporter in our own brand.
- Himanshu Nayyar:** So you think we can grow inline with the growth rate of our domestic sales Sir in the export side for the next couple of years?
- Saket Todi:** Yes, comfortably, much more than that.
- Himanshu Nayyar:** And the sort of margins that we make, are they higher or lower than our domestic business Sir?
- Saket Todi:** It is higher.
- Himanshu Nayyar:** So we predominantly I think cater to more of mid and premium there or what is it like the product portfolio?
- Saket Todi:** That depends on country-to-country. We export from Australia to Thailand to Singapore to Malaysia to Middle-East GCC Countries like Saudi Arabia, UAE, Kuwait, Bahrain to underdeveloped countries like Nigeria, Ghana, Sudan as well as to now developed countries as France and Germany so depends on country-to-country which kind of product mix we sell there.
- Moderator:** Thank you. We have Mr. Himanshu Nayyar back on call. Over to you Sir!
- Himanshu Nayyar:** Sorry, the line got disconnected. I was just asking you can you share a number as to how much is a percentage of our own brand sales in the exports?
- Saket Todi:** Percentage of our own brand will be approximately 70% to 75% and around 20% to 25% would be the other brand.
- Himanshu Nayyar:** Got it. Sir one final thing, on this tie-up with Virat Kohli's brand would it be possible to share the arrangement as to what is the sort of royalty that we have decided?
- Saket Todi:** No, that we cannot disclose. That is a agreement between us which none of us can disclose.
- Himanshu Nayyar:** Okay and any rollout plans can you share when do we see those products in the market, how soon can we see that?
- Saket Todi:** We will be do that in the month of May to June, so by Q2 of the next year we will be able to update you on it.



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- Himanshu Nayyar:** Got it, thank you Sir and all the best.
- Moderator:** Thank you. Next question is from the line of Abhishek Jaiswal from Ratnabali Investment. Please go ahead.
- Abhishek Jaiswal:** Thank you for taking my question. Congratulations Sir. Just two questions I think they have answer it mostly, so I would just try to understand the impact of GST on your company vis-à-vis compared to the unorganised sector and if you can give some sense regarding the unorganised sector compared to the organized one? And secondly what would be the budget of yours going forward for marketing and advertisement cost?
- Udit Todi:** As far as marketing spends are concerned as the company we cap our marketing spends at about 7% to 8% of the topline and the way that budget is spent it depends on year-to-year on a strategy as to where we want to allocate this budget on which brand do we want to allocate this budget. But as far as the total budget is concerned that is capped at 7% to 8% of the topline of the company.
- Abhishek Jaiswal:** And about the GST?
- Udit Todi:** So whatever lag was there in the implementation of GST has been I think we have already overcome the lag effects of the GST and the GST effects have already started to come in as you can see it in the figures of the Q3 results the Q3 results were very good predominantly on back of GST as well so we have seen increased demand from all sectors and all fragments of the economics, such as rural and urban or whether tier 1, 2 and 3 kind of cities, so I think post Q3 and quarter going forward also we are very hopeful that beneficial effect of the GST will continue to show and help the company to grow at an even faster rate.
- Abhishek Jaiswal:** Thank you.
- Moderator:** Thank you very much. We take the next question from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.
- Kunal Bhatia:** Thanks for the opportunity again. Sir just in terms of GST I wanted to know everybody is talking big about getting business from the unorganized segment but if we look at our revenue growth in the last one, which you have given in your presentation FY2013 to FY2017 you have grown at 8% CAGR what do you sense post the GST implementation? Any rough guesstimate have you all done in terms of what would be the post GST picture change like and what kind of growth are we envisaging for the future say in the next two to five year period?
- Saket Todi:** As like we have already said industry growth at the rate of 8% to 10% we will be growing at around 15%. Secondly the GST which is mainly a segment, which was always price sensitive so there was no brand ambassador in that segment in any of the industry in any of the brand so this is a first mover advantage, which we will be getting by getting Mr. Amitabh Bachchan on board



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to endorse the mass market segment brand which is Lux Venus so we would see the results after the Q4 that how well we have positioned ourselves and how much advantage we are getting with the first mover advantage in it.

Kunal Bhatia: Okay. And Sir do you foresee many of the unorganized players getting out of the market or because even they would be having some of the larger players who also be having capability to get into the proper GST net so what is your view on the same?

Saket Todi: See if they get into the GST net then there is no space for them because we are already a branded player and they are non-branded that would be the different and they are diminishing in numbers that is a reason there is a tremendous growth.

Kunal Bhatia: And Sir currently what would be the difference in our costing and pricing for a branded player like us and an unorganized player?

Saket Todi: Before GST, it was approximately 10%. Now after the GST it will be approximately 3% to 4%.

Kunal Bhatia: Thank you so much.

Moderator: Thank you. We have Mr. Abhishek Jaiswal back on call. Sir you may please go ahead with your question.

Abhishek Jaiswal: My last question is again on the line of GST. I just wanted a sense like how big is this unorganized market vis-à-vis the organized market and post GST what shift have you seen from unorganized sector to the organized and if you can also elaborate on the margins that how your margins have been impacted post GST?

Saket Todi: See the unorganized segment is approximately 12000 to 13000 Crores and post GST this is the first season so as I said before also that our hosiery industry the season start from February-March so right now the GST implementation has not affected so much but in the month of February-March we will come to know how much it has affected how many unorganized players have gone down and how many organized players have grown up.

Abhishek Jaiswal: Okay and the margin difference Sir?

Saket Todi: Before GST it was around 10%, now it is 3% to 4% approximately that is the difference in price.

Abhishek Jaiswal: Thanks a lot Sir.

Moderator: Thank you. Next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy: Again, I have few question that can you please tell me the reason on why market share in south region and north region is stagnant if you can give the approximate idea, it would be good?



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- Udit Todi:** It will be difficult to provide you market share for the company region wise but overall the market share for the company is about 15% and if you look at the region such as North, East and Central India and the Western India also the company is very, very strong in these areas. It is only south India where the company can be already directed all our efforts in growing our distributor network there and increasing sales in the Southern part of the country.
- Pratim Roy:** Thank you Sir and can you give the margin guideline for the coming fiscal and what is the margin you are expecting?
- Udit Todi:** The margins as you can already see in the current nine month ended FY2018 the EBITDA margins have already increased by about 50 basis points and we expect that going forward during close the quarter similar margins.
- Pratim Roy:** Okay, so there is no expansion expected in terms of margin?
- Udit Todi:** So right now we are looking at the similar percentage may be next financial year we should look more into as to how we can increase the margins even further.
- Pratim Roy:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Kislay Upadhyay from Ambit Capital. Please go ahead.
- Kislay Upadhyay:** In the brasserie segment could you give the split of woven brasserie versus the knit brasserie?
- Udit Todi:** As far as the split between the woven and knit is concerned we would like to draw your attention to the fact that Lux as a company is primarily knit based and we have always represented as knit based manufacturer and even if you look at the industry data there has been a tremendous shift which has been taking place from the woven segment to the knitwear segment so just to give you one example, earlier T-shirts, a lot of people in the country has shifted towards wearing T-shirts on a regular basis so we think T-shirt as a big category going forward and so all these T-shirts and everything is basically comfort knitwear.
- Kislay Upadhyay:** Thanks for that. Also on the supply chain side, what percentage of involvement either through the distributors or directly is wholesale representation?
- Udit Todi:** I am sorry I could not get your question, could you please repeat?
- Kislay Upadhyay:** What would be the share of sales through wholesale either you supplying directly to wholesale or the distributors supplying into wholesale who supply to the end retailer?
- Udit Todi:** As we have already mentioned in our presentation we work primarily through distributors and majority of our sales are coming through distributor, off late we have also ventured into EBOs and large format stores but that is for our premium brand, which is ONN.



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Kislay Upadhyay: Okay and for all the distributors they have supplied directly to the retailers there is no wholesaler involved in the trade is that correct?

Udit Todi: No so the distributors also sell to certain wholesaler who in turn sell to retailer and then there are other set of distributors who will sell directly to retailers. So it is totally the distributors prerogative and to whether they deal through wholesalers or directly to retailers. If you look at the company level there is healthy mix between distributors those who are working through wholesaler and distributor who are working directly with retailer.

Kislay Upadhyay: And would you have any sense some perspective if you could share on the disruption the wholesalers have experienced post GST if you would get to know through your distributors?

Udit Todi: So as an organized players all the distributors we work with have also been fairly organized because we have been working with them for past thirty to forty years so post implementation on GST, I think a lot of these wholesalers those who are working under this distributor have also tried to convert them into more organised players and reap the benefits of GST so I think the conversion from the wholesalers to an organized wholesale market has been witnessed in the last three to four month.

Kislay Upadhyay: Thank you so much.

Moderator: Thank you. Well that seems to be the last question for today. I now hand the floor over to the management for closing comments.

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

Moderator: Thank you very much. Ladies and gentlemen on behalf of Lux Industries Limited we conclude today's conference thank you for joining us you may disconnect your lines now. Thank you.