

**Insider Trading: Unpleasant Event**

- Capital markets regulator SEBI in an interim order on 24<sup>th</sup> January 2022 barred 14 entities for indulging in insider trading and ordered impounding ill-gotten gains of ₹2.94 crore in the matter of Lux Industries Ltd.
- Those barred included Mr. Udit Todi, company’s executive director and son of the MD. SEBI’s initial findings revealed that Mr. Todi passed price sensitive information pertaining to financial results of the company
- The company in response to SEBI’s order released media statement stating that this is an Ex Parte Interim Order which is passed pending investigation and the observations are prima facie and believes that there has been no violation by the company in any manner & initiated the process of seeking required clarification and explanation from the concerned person.
- Mr. Todi will not attend any board meeting until matter resolved. There is no criminal liability announced till now
- Management hosted a conference call on 4<sup>th</sup> Feb 2022 to discuss the Q3FY22 result and shared few details on events mentioned above and below are the key takeaways from the conference call.

**Important Statistics**

<b>M.CAP (₹ Cr)</b>	₹8,433
52 Week H/L (₹)	₹4,641/₹1,618
NSE Code	LUXIND
BSE Code	539542

	Report Date	Report Price	Recommendation
Light house	26 <sup>th</sup> Oct, 2021	3,508	Buy on Dips
Q2FY22 Update	29 <sup>th</sup> Nov, 2021	3,986	Add on Dips

52 weeks high (₹4,641) on 17<sup>th</sup> Nov, 2021

**Key takeaways from Q3FY22 result**

- **Management’s Opening Remark** – Being a responsible company, Lux Industries Ltd always strive to increase stakeholders accountability and company’s business is guided by long standing dedication, high ethical standards and transparency.
- **Volumes & Sales Growth:**
  - Revenues for the quarter stood at ₹668Cr vs ₹540Cr, registering a growth of 24% compared to the same period last year. This growth was led by 6% volume growth and 16% realization increase.
  - Premium segment reported a flat volume growth while Mid - Premium and Economy segment reported volume growth of 5% YoY and 9% YoY respectively. For 9MFY22, revenues grew by 26% YoY driven by healthy demand traction across all its product categories.
  - The company is also witnessing healthy traction in the women’s wear portfolio, which is partially untapped by the branded players. In 9MFY22, women’s wear brand “Lyra” contributed 13% of total revenue.
- **Profitability Margin:**
  - Gross margin for Q3FY22 increased by 208 bps YoY to 37.6% on account of better product mix, price increase taken by the company and lower cost raw material inventory.
  - EBITDA increased by 33% with margin expansion by 154bps to 21.7% YoY. This was majorly attributable to improving product mix, prudent cost rationalization that was taken by the company over a period of time.
  - Quarterly profits stood at ₹101Cr, registering a strong growth of 35% with margin expansion by 122bps to 15.2% YoY on account of better operational performance.

Shareholding pattern (%)	Dec’21
Promoter	74.4
Institutions	10.6
Public &Others	15.5

➤ **Demand Trend:**

- Consumers are becoming more aware of the options and look for a high fashion factor as well as comfort, hygiene, brand image, and reasonable rates. This approach has largely graduated the business from unorganised to organised players.
- Expecting strong demand in upcoming quarters with opening up of economy

➤ **Greenfield Capacity Expansion:**

- The company plans to undertake a greenfield capacity expansion of ₹110 crs is on track and will be funded through internal accruals. With the capex coming on stream, the company is expecting to generate an incremental sales of ₹400Cr from it.

➤ **Corporate Governance Issue Update:**

- There is no observation against the company. Mr. Udit Todi also clarified that he was never involved in such activity and will demonstrate to SEBI for no violation and will not attend board meeting until matter resolved.
- Till now, there is no criminal liability against the company and the company has voluntarily taken steps to make sure that there has been no violation of rules.

➤ **Other Highlights:**

- E-commerce sales, the company is currently shipping 4000 plus online orders daily and aims to generate revenue of ₹100Cr by next 3 years.
- The company will gradually normalize its advertising expense back to 7-8% of its sales.

**Story in Nutshell**

9MFY22			Q3FY22		
Category	Sales Growth	Volume Growth	Category	Sales Growth	Volume Growth
Premium	52%	35%	Premium	16%	0%
Sub Premium	19%	5%	Sub Premium	9%	5%
Economy	32%	3%	Economy	64%	9%

Source: Company, Way2Wealth

**View**

Lux industries delivered strong all round performance in Q3FY22, however, given the circumstances under which SEBI initiated an action for indulging in insider trading make us worry and the same has dragged valuation to lower levels.

Over the years, the innerwear industry is gradually evolving from a functional category to a fashionable one. Lux being one of the leading organized players in the industry understood the magnitude of such shift and has delivered robust performance in the past.

However, corporate governance issues makes us cautious about the company in the near future. **Therefore, we are terminating coverage on Lux Industries Ltd. and advising investors to EXIT at the current market price. Further, we would like to watch out for company’s performance, regulatory developments and management commentary very closely and we may re-initiate our coverage on Lux Industries Ltd. based on any positive developments.**

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**Disclosure of Interest Statement Lux Industries Ltd. as on February 08, 2022**

Name of the Security	Lux Industries Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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