

Luxor Writing Instruments Pvt. Ltd.

July 13, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	55.00	[ICRA]BBB(Stable); assigned
Long-term Fund-based – Term Loan	25.00	[ICRA]BBB(Stable); assigned
Long-term non-fund based	20.00	[ICRA]BBB(Stable); assigned
Commercial Paper	5.00	[ICRA]A3+; assigned
Total	105.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs.80.00-crore fund-based facilities and Rs. 20.00-crore non-fund based facilities of Luxor Writing Instruments Pvt. Ltd. (LWIPL)¹. ICRA has also assigned the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 5.00-crore Commercial Paper programme of LWIPL. The outlook on the long-term rating is 'Stable'.

Rationale

For the purpose of arriving at the ratings, ICRA has consolidated the risk profiles of Luxor Writing Instruments Private Limited (LWIPL) and Luxor International Private Limited (LIPL), herein referred as the Luxor Group, as both the companies have a common management and significant operational and financial linkages.

ICRA's rating draws strength from the extensive experience of LWIPL's promoter in the writing instruments industry and strong business risk profile marked by the presence of multiple strong brands, including its in-house brand – Luxor. The Group has exclusive long-term contracts with three global brands, namely Pilot, Parker and Waterman. ICRA's rating also factors in the Group's diversified geographical presence with a healthy mix of export and domestic sales, wherein exports contributed to ~33% of the Luxor Group's turnover in FY2018. The rating also takes cognisance of strong market presence of the Group with its extensive distribution network, B2B sales, contract manufacturing for leading international names like Walmart, Carrefour etc. ICRA also note that the Group has a diversified product profile with over 2,000 stock keeping units (SKUs) across pens, highlighters, colours, sketch pens, markers etc, which further helps in addressing varied customer needs.

ICRA's rating is, however, constrained by the limited growth in operating income (OI) in FY2018 coupled with subdued profitability in an intensely competitive industry. The OI of the Group was affected in the past two years by demonetisation and GST implementation. The Group's consolidated OI was Rs. 481.40 crore in FY2018 against Rs. 471.87 crore a year ago, up 2%. However, the Group has been able to generate healthy sales turnover of Rs. 129 crore in Q1 FY2019. ICRA's rating is further constrained by the Luxor Group's moderate capitalisation and coverage indicators. The Group's TD/OPBITDA and TOL/TNW remains high and its interest coverage and DSCR was modest for the period under consideration. In addition, the rating takes into account Luxor's high creditor days, which helped it to contain its working capital intensity at 15%. Further, the rating takes note of certain low return-yielding advances extended to Group companies, largely for real estate ventures, that has had an impact on the return on capital employed of Luxor. However, ICRA notes that there has been some reversal of advances to Luxor in FY2018. Going forward, ICRA expects the advances

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

to decline and the inflows from such reversal to support the cash flows of Luxor Group. In addition, ICRA's rating also factors in the ongoing debt funded capex in the group which is primarily to introduce new product lines, improve the existing infrastructure and expand at an existing location in order to shift some of the operations from a rental premise to the expanded facility. ICRA notes that the current on-going capex will keep the debt coverage indicators at moderate levels in the near to medium term. However, it is expected to result in improvement of operating margins.

Going forward, the Group's ability to improve its scale of operations and profitability indicators like operating margins and ROCE as well as maintain its working capital intensity would remain among the key rating sensitivities.

Outlook: Stable

ICRA believes that Luxor group would continue to benefit from the experience of its promoters and its strong brand image in the market. The rating outlook would be revised to positive if there is substantial improvement in scale & profitability and the company's debt coverage indicators. The rating outlook would be revised to negative if there is decline in profit margins or deterioration in capitalization and coverage indicators.

Key rating drivers

Credit strengths

Established presence of Luxor Group in writing instruments industry - The Group has been present in the writing instruments industry for over 50 years. The management's rich experience has aided in sustaining the Group's revenues in an industry characterised by low entry barriers and intense competition.

Healthy brand recognition and exclusive contracts with leading global brands - The brand Luxor has strong recall value in India. Further, the Group has exclusive long-term manufacturing and distributorship contracts with leading brands like Pilot, Parker and Waterman, which provides strong market position to the Group.

Diversified geographical presence with strong marketing team - Luxor has maintained a healthy mix of domestic and export sales with presence throughout India in the domestic market and worldwide presence through export sales to more than 90 countries. Further, the Group has a strong marketing team with robust distribution network, B2B sales, contract manufacturing for leading international names like Walmart, Carrefour etc.

Diversified product profile; introduction of more variants within current product portfolio likely to strengthen revenue base - With over 2,000 SKUs, the Group's product profile is well diversified across pens, highlighters, colours, sketch pens, markers etc. The Group is constantly coming up with new products based on the evolving preferences of the customers, which has aided in sustaining revenues.

Credit challenges

Stagnant OI in FY2018 and declining margins in past two years - The Group reported stagnant OI in FY2018 owing to GST implementation leading to low volumes in Q1 FY2018. Further, the operating margin of the Group remained modest due to intense competition in the industry with limited scope to pass on the increased raw material prices to the customers, especially in the lower price segment products.

Advances lent to the Group companies - The Group has extended some low return-yielding advances to associate companies, which adversely impacted the Group's RoCE. Although the Group is in the process of gradually reversing the advances, the timeline for such transactions remain to be seen.

Ongoing debt-funded capex to curtail financial flexibility in near-to-medium term - The Group is in the process of undertaking debt-funded capital expenditure to introduce more product lines and improve the existing infrastructure.

However, the repayment obligations towards the debt drawn is expected to curtail the Group's financial flexibility in the near-to-medium term.

Moderate coverage and capitalisation; high creditor days - The Luxor Group has moderate capitalisation and coverage indicators. It has modest interest coverage and low DSCR for the period under consideration. In addition, Luxor Group has high creditor days, which helped Luxor contain its working capital intensity at 15%.

Analytical approach: For the purpose of arriving at the ratings, ICRA has consolidated the risk profiles of LWIPL and LIPL as both the companies have common management and significant operational and financial linkages.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Luxor Writing Instruments Pvt. Ltd. (LWIPL) was formed in 1996 by late Mr. D.K. Jain for manufacturing writing instruments under the brand name, Luxor. It also has the exclusive manufacturing and distribution rights in India for writing instruments for other brands including Parker, Waterman and Pilot. The manufacturing facilities of the LWIPL are located in Haridwar, Gurgaon and Noida.

Luxor International Private Limited (LIPL) was formed in 1980 and has a similar operational profile to LWIPL. It is primarily involved in export markets and undertakes contract manufacturing for various brands across the world.

In FY2018, the company, on a provisional basis, reported a net profit after tax (PAT) of Rs. 4.77 crore on an OI of Rs. 329.58 crore compared with a PAT of Rs. 3.26 crore on an OI of Rs. 317.44 crore in the previous year.

The Group, on a consolidated basis, reported a PAT of Rs. 8.95 crore on an OI of Rs. 481.40 crore in FY2018 compared with a PAT of Rs. 6.60 crore on an OI of Rs. 471.87 crore in the previous year.

Key financial indicators (Consolidated)

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	471.87	481.40
PAT (Rs. crore)	6.60	8.95
OPBDIT/OI (%)	7.22%	7.29%
RoCE (%)	9.62%	8.99%
Total Debt/TNW (times)	1.08	0.97
Total Debt/OPBDIT (times)	4.40	4.15
Interest Coverage (times)	1.84	2.23
NWC/OI (%)	14%	15%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)	Chronology of Rating History for the past 3 years
------------	-------------------------	---

			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
	Type							
1	Cash Credit	Long-term	55.0	48.64	[ICRA]BBB(Stable)	-	-	-
2	Term Loan	Long-term	25.0	25.0	[ICRA]BBB(Stable)	-	-	-
3	Non-fund based	Long-term	20.0	20.0	[ICRA]BBB(Stable)	-	-	-
4	Commercial Paper	Short-term	5.0	Not placed	[ICRA]A3+	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	Oct 30, 2017	11.75%	NA	55.0	[ICRA]BBB(Stable)
NA	Term Loan 1	Oct 30, 2017	NA	March 2022	16.0	[ICRA]BBB(Stable)
NA	Term Loan 2	Oct 30, 2017	NA	March 2025	9.0	[ICRA]BBB(Stable)
NA	Bank Guarantee/ Letter of Credit	-	0.5%	NA	20.00	[ICRA]BBB(Stable)
NA	Commercial Paper	Not Placed	-	-	5.00	[ICRA]A3+
					105.00	

Source: LWIPL

ANALYST CONTACTS

Shubham Jain

+124-4545 306

shubhamj@icraindia.com

Rashmi Agarwal

+124-4545 871

rashmi.agarwal@icraindia.com

Manav Mahajan

+124-4545 817

manav.mahajan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents