March 27, 2020

Luxor International Pvt. Ltd.: Rating upgraded to [ICRA] BBB- (Stable) and removed from 'Issuer not Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Cash credit	40.0	40.0	[ICRA]BBB- (Stable); Rating upgraded from [ICRA] BB+ (Stable) and removed from 'Issuer not Cooperating' category
Fund-based- Term Loan	23.0	23.0	[ICRA]BBB- (Stable); Rating upgraded from [ICRA] BB+ (Stable) and removed from 'Issuer not Cooperating' category
Non-fund based- Working Capital Facilities	2.0	2.0	[ICRA]BBB- (Stable); Rating upgraded from [ICRA] BB+ (Stable) and removed from 'Issuer not Cooperating' category
Total	**65.0**	**65.0**	

**Instrument details are provided in Annexure-1*

Rationale

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

The rating has been removed from the 'ISSUER NOT COOPERATING' category as the company has now submitted the information required for the rating exercise. The upgrade of the rating factors in a review of the information and performance of the company, and takes note of the continued strength of the business profile of the Luxor Group in the writing instruments industry, as well as the extensive experience of its promoters. The group has an established market position and its products – Parker, Waterman and Pilot – enjoy strong brand presence, with the group being the sole distributor and manufacturer for these brands in India on the back of exclusive long-term contracts with the principal manufacturer. Additionally, the Luxor brand also benefits from a strong market position, in both domestic and export segments. With these four brands, over 2,000 stock keeping units (SKUs) across luxury pens, ball pens, highlighters, colours, sketch pens, markers etc, and a healthy mix of domestic and export sales, the overall product and geographical profile of the entity is well diversified. Product are sold in the domestic market through a strong distribution network of over 130 super distributors and through B2B sales, while export sales are carried out in the form of contract manufacturing for leading international names like Walmart, Newell, Carrefour etc.

ICRA's rating is, however, constrained by the fluctuations witnessed in operating income growth and operating margin levels, given the Group's susceptibility to changes in sales mix, arising from variations in orders from key clients such as Newell. While the operating income increased to Rs 526.9 crore in FY2019 from Rs 473.9 crore in FY2018 (growth of 11%) and operating margins improved to 10.2% from 7.1% over the same period, revenue growth slowed to 3% (on an annualized basis) and margins declined to 7.3% in 9MFY2020. Moreover, net profit margins had declined to 1.6% in FY2019 owing to a one-time write-off of interest receivable from a group company, amounting to Rs 15 crore. Overall, return and debt coverage indicators remain moderate on a consolidated basis, with RoCE standing at 9.5% and interest

cover standing at 3x as on March 2019. RoCE has been adversely impacted by non-return yielding advances lent to the group companies and significant capex of Rs 36 crore incurred over the past two years, aimed at introducing new product lines and improving the existing infrastructure, with returns from the same yet to be fully realized. Further, ICRA notes that the utilization of working capital limits is high at 93%, resulting in a low cushion being available for working capital funding. Consequently, dependence on continued creditor funding, which is already high at present, is expected to continue, keeping TOL/TNW elevated (TOL/TNW stood at 1.7x as on March 2019). Moreover, with significant repayment obligations of around Rs 25 crore due over FY2020-FY2021, the group's ability to continue generating adequate cash accruals, manage its working capital requirements, and obtain creditor funding at favourable terms, will remain key rating monitorables.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters - The promoters of the Luxor Group have 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.

Established market position with strong brand presence – The group has an established market position and its products – Parker, Waterman and Pilot – enjoy strong brand presence, with the group being the sole distributor and manufacturer for these brands in India on the back of exclusive long-term contracts with the principal manufacturer. Additionally, the inhouse brand - Luxor – has been benefitting from a strong market position, in both domestic and export segments, for over five decades.

Strong distribution network and a diversified product profile - With four brands, over 2,000 stock keeping units (SKUs) across luxury pens, ball pens, highlighters, colours, sketch pens, markers etc, and a healthy mix of domestic and export sales, the overall product and geographical profile of the entity is well diversified. Product are sold in the domestic market through a strong distribution network of over 130 super distributors and through B2B sales, while export sales are carried out in the form of contract manufacturing for leading international names like Carrefour (France), Walmart and Newell (USA), Spar (France), The works (UK), Casino, Poundland (UK), etc. Exports contributed to around 33% of revenue in fiscal 2019.

Credit challenges

Fluctuations in operating income growth and operating margins given susceptibility to change in sales mix - The Group has reported fluctuating revenue growth and operating margins on a consolidated basis in the past, with revenue growth ranging from 1-11% and OPM standing between 7-10%, primarily due to variations in orders from key clients such as Newell. While the operating income increased to Rs 526.5 crore in FY2019 from Rs 473.9 crore in FY2018 (growth of 11%) and operating margins improved to 10.2% from 7.1% over the same period, revenue growth slowed to 3% (on an annualized basis) and margins declined to 7.3% in 9MFY2020. The improvement in FY2019 was largely attributable to high export sales and increased realizations for the orders received during the year.

Decline in PAT margins in FY2019 owing to a one-time loss; moderate coverage and return indicators on consolidated basis – Despite improvement in the OPM in FY2019, PAT margins witnessed a decline due to a one-time extraordinary loss booked by the group amounting to Rs 15.4 crore in FY2019. LIPL and LWPL had extended advances amounting to Rs 26 crore to a group company - DKJ Luxor Infrastructure LLP - in FY2015. Interest receivable of Rs. 15.4 crore on these advances was written off due to non-recoverability of the same, which adversely impacted net margins. However, ICRA notes that the loss is non-cash in nature.

Given that the advances extended LIPL and LWIPL to group companies yield low returns, the Group's RoCE stood at a moderate ~9.5% as on March 2019. Significant capex of Rs 36 crore incurred in the last two years to introduce new product lines and to improve the existing infrastructure, the returns from which are yet to be fully realized, have also weighed on the RoCE. Interest cover also stood at modest 3.0x as on March 2019, given the significant interest costs arising from near-full utilization of working capital limits.

Significant repayment obligations over the near-medium term; high dependence on creditors given limited buffer in working capital limits - ICRA notes that the utilization of working capital limits is high at 93%, resulting in a low cushion being available for working capital funding. Consequently, dependence on continued creditor funding, which is already high at present, is expected to continue, keeping TOL/TNW elevated (TOL/TNW stood at 1.7x as on March 2019). However, the creditor profile, which includes Pilot, Newell and local suppliers having long standing relationships with the group, provides comfort. Nonetheless, with significant repayment obligations of around Rs 25 crore due over FY2020-FY2021, the group's ability to continue generating adequate cash accruals, manage its working capital requirements, and obtain creditor funding at favourable terms, will remain key rating monitorables.

Liquidity position: Adequate

The Group has external term loans of Rs. 37.0 crore on its books as on March 31, 2019, of which Rs. 15.2 crore is scheduled to be repaid in FY2020 and Rs. 10.5 crore in FY2021. Although there is bunching up of repayments over the near term, internal accruals are expected to remain sufficient to meet the interest and repayment obligations. Capital expenditure is also expected to reduce over the near-medium term. However, ICRA notes that the buffer in working capital limits is low, with limits reflecting an average utilization of 93%. Given the company's growth plans, its ability to manage its working capital requirements, which will largely depend on its continued ability to obtain creditor funding at favourable terms, will remain a key rating monitorable.

Rating sensitivities

Positive triggers – Healthy growth in revenues and profits, leading to a sustained improvement in RoCE and debt coverage indicators. Specific credit metrics that could lead to rating upgrade include consolidated ROCE moving above 15% and DSCR moving above 2 times.

Negative triggers – Negative pressure may arise on the rating in case of a decline in profit margins or deterioration in leverage and/or debt coverage indicators. Specific credit metrics that could lead to a rating downgrade include consolidated ROCE dropping to below 10% and DSCR dropping to below 1.4x.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	Consolidated

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 Pvt. Ltd. (LIPL) was formed in 1980. It is primarily involved in export sales, and undertakes contract manufacturing for various retail chains across the world.

In FY2019, LIPL, reported a net profit after tax (PAT) of Rs. 3.6 crore on an OI of Rs. 195.2 crore compared with a PAT of Rs. 3.8 crore on an OI of Rs. 162.8 crore in the previous year. On provisional basis, as on 9MFY2020, the company has reported an OI of Rs 121.4 crore.

In FY2019, LWPL, reported a net profit after tax (PAT) of Rs. 4.7 crore on an OI of Rs. 351.0 crore compared with a PAT of Rs. 4.6 crore on an OI of Rs. 330.1 crore in the previous year. On provisional basis, as on 9MFY2020, the company has reported an OI of Rs 285.9 crore.

The Group, on a consolidated basis, reported a PAT of Rs. 8.3 crore on an OI of Rs. 526.5 crore in FY2019 compared with a PAT of Rs. 8.4 crore on an OI of Rs. 473.9 crore in the previous year. On provisional basis, as on 9MFY20, the company has reported an OI of Rs 407.3 crore.

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	473.9	526.5
PAT (Rs. crore)	8.4	8.3
OPBDIT/OI (%)	7.1%	10.2%
RoCE (%)	9.3%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.7
Total Debt/OPBDIT (times)	4.3	2.7
Interest Coverage (times)	1.8	3.0
DSCR	1.0	1.6

Status of non-cooperation with previous CRA: CRISIL B+ (Stable); Issuer Non-cooperation as on February 14, 2020

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 27-March 2020	Chronology of Rating History for the past 3 years: Date & Rating 23-January 2020	Date & Rating in FY2017 13-July 2018	Date & Rating in FY2016 -
1	Cash Credit	Long-term	40.0	38.6	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	-
2	Term Loan	Long-term	23.0	16.3	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	-
3	Non-fund based	Long-term	2.0	2.0	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	-

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 click here.

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	Sep 11, 2017	6.5%	NA	40.0	[ICRA]BBB-(Stable)
NA	Term Loan 1	Sep 11, 2017	11.%	March 2022	12.00	[ICRA]BBB-(Stable)
NA	Term Loan 2	Sep 11, 2017	11.%	March 2025	11.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee/ Letter of Credit	-	-	NA	2.00	[ICRA]BBB-(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Luxor Writing Instruments Pvt. Ltd.	-	Full Consolidation

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