September 29, 2023

Luxor International Pvt. Ltd.: Rating upgraded to [ICRA]BB+ (Stable) from [ICRA]BB(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	22.54	22.54	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Long-term fund-based – Cash credit	40.00	40.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Long-term non-fund based	2.00	2.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Total	**64.54**	**64.54**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Luxor International Pvt. Ltd. (LIPL) and Luxor Writing Instruments Pvt. Ltd. (LWIPL) (together referred as the Luxor Group), given the common management and promoters, strong business and financial linkages and cash flow fungibility.

The rating upgrade for the Luxor Group factors in the healthy increase in its revenues, improvement in operating profitability and liquidity position in FY2023, which is expected to sustain in FY2024. The Group's revenues grew by 33% year-on-year (YoY) to Rs. 700 crore in FY2023, driven by increase in volumes and improvement in realisations. This resulted in better absorption of fixed costs, which along with easing of input costs, supported an increase in the operating margins to 6.4% in FY2023 (PY: 3.5%). The company is estimated to report revenues of Rs. 750-770 crore in FY2024 and its operating margins are likely to remain in the range of 6.5-7.0%. Further, its liquidity position improved on the back of improvement in working capital cycle and enhancement in fund-based limits in H1 FY2024. The rating notes the extensive experience of the Luxor Group's promoter in the writing instruments industry, its established market position and strong business risk profile, marked by the presence of multiple strong brands such as Parker and Waterman, as well as its in-house brand – Luxor. The Group has got exclusive contracts for Parker in India since 1996 and for Waterman since 2003. In FY2024, Luxor has discontinued its partnership with Pilot brand and has onboarded a new brand Schneider. ICRA notes 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 the varied customer needs. The Luxor Group has a strong distribution network in the domestic market, along with long-standing association with leading international retailers for the exports.

The rating is, however, constrained by the volatility in the Group's operating profitability. Raw material prices account for a major portion of the overall production cost in the stationery industry, which exposes its operating profit margin to fluctuation in raw material prices. The Group is susceptible to fluctuations in prices of key raw material like tips, polymers, ink, etc. Further, the ability to pass on the prices to customers remains limited, given the intense competition in the industry. This is reflected in the decline in operating margins in FY2021 and FY2022 and remained volatile in the range of 3.5-6.5% during the last four years. The company's debt levels remain elevated owing to regular debt-funded capex towards the existing plants, along with moderate working capital utilisation (78% for LWIPL and 90% for LIPL for 12-month ending March 2023) leading to moderate debt protection metrics. Although the Group's working capital cycle has improved in FY2023, the ability to sustain the same remains important. The company faces stiff competition due to the highly fragmented nature of the Indian stationery industry, characterised by low pricing power and the presence of several unorganised players in the non-premium pen segments and competition from other established brands in the domestic as well as international markets.

The Stable outlook on the rating reflects ICRA's opinion that the company will benefit from its established market position, strong distribution network and the experienced management team.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established market position with strong brand presence – The promoters of the Luxor Group have been present in the writing instruments industry for over five decades. The management's experience has aided in sustaining the Group's revenues in an industry characterised by low entry barriers and intense competition. The Group has an established market position and its products – Parker and Waterman – 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. Until June 2023, Luxor had an exclusive contract for Pilot in India (since 1982). In FY2024, Luxor has discontinued its partnership with Pilot and has onboarded a new brand – Schneider. Additionally, the in-house 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 across premium 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. The products are sold in the domestic market through a strong distribution network of over 5,000 super distributors, distributors, and dealers and through B2B, e-commerce and modern trade sales and over 98,000 retailers, while the export sales are carried out in the form of contract manufacturing for leading international retailers like Walmart and Newell.

Healthy growth in revenues and improvement in operating margins – The Group's revenues grew by 33% YoY to Rs. 700 crore in FY2023, driven by expansion increase in volumes and improvement in realisations. This led to better absorption of fixed costs, which along with easing of input costs, supported an increase in the operating margins to 6.4% in FY2023 (PY: 3.5%). Further, the liquidity position improved on the back on improvement in working capital cycle and enhancement in fund-based limits. The company is expected to report revenues of Rs. 750-770 crore in FY2024 and the operating margins are estimated to remain in the range of 6.5-7.0%.

Credit challenges

Susceptibility of operating margin to fluctuations in raw material prices – Raw material prices account for a major portion of the overall production cost in the stationery industry, which exposes its operating profit margin to fluctuation in raw material prices. The Group is susceptible to fluctuations in prices of key raw material like tips, polymers, ink, etc. Further, the ability to pass on the prices to customers remains limited, given the intense competition in the industry. This is reflected in the decline in operating margins in FY2021 and FY2022 and remained volatile in the range of 3.5-6.5% during the last four years.

High debt levels and moderate debt protection metrics - The debt levels remain elevated due to regular debt-funded capex towards the existing plants, along with moderate working capital utilisation (78% for LWIPL and 90% for LIPL for 12-month ending March 2023) resulting in moderate debt protection metrics. Although the Group's working capital cycle has improved in FY2023, the ability to sustain the same remains important.

Exposure to intense competition – The company faces intense competition due to highly fragmented Indian stationery industry, characterised by low pricing power and the presence of several unorganised players in the non-premium pen segments and competition from other established brands in the domestic as well as international markets.

Liquidity position: Adequate

The liquidity position of the Group is adequate with cash balance of Rs. 3.7 crore as on August 31, 2023, and cushion of around Rs. 25 crore in working capital facilities. Further, in H1 FY2024, the Group has enhanced its working capital limits by Rs. 10 crore to support the increasing scale. The Group has debt repayment obligations of Rs. 14.3 crore and Rs. 22.7 crore in FY2024 and FY2025, respectively, which can be serviced through its estimated cash flow from operations. The Group has capex plans of around Rs. 30-35 crore in FY2024, which is expected to be funded through debt: internal accruals in the ratio of 75:25.

Rating sensitivities

Positive factors – The rating will be upgraded in case of a significant improvement in profitability, debt protection metrics and liquidity position on a sustained basis.

Negative factors – Negative pressure may arise on the rating in case of a deterioration in profit margins, debt coverage indicators or liquidity position on a prolonged basis. Further, significant debt-funded capex resulting in moderation of debt protection metrics and liquidity position will be a credit negative. Specific credit metric that could lead to a rating downgrade is Total Debt/ OPBITDA increasing above 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of LIPL and LWIPL given the common management and promoters, strong business and financial linkages and cash flow fungibility. ICRA has considered the consolidated financials of LWIPL and LIPL.

About the company

The Luxor Group, comprising Luxor Writing Instruments Pvt. Ltd. (LWIPL) and Luxor International Pvt. Ltd. (LIPL), was formed in 1963 for manufacturing writing instruments. The Group was founded by the Late D.K. Jain and is currently managed and controlled by the Jain family (led by Mrs. Usha Jain and Ms. Pooja Jain). The Group manufactures writing instruments under its own brand – Luxor. Its manufacturing facilities are in Haridwar, Udyog Vihar and Noida.

LIPL, incorporated in 1980, exports writing instruments and undertakes contract manufacturing for various brands across the world. LWIPL, incorporated in 1996, on the other hand, manufactures writing instruments under the brand name, Luxor, having exclusive manufacturing and distribution rights in India, for writing instruments for other brands including Parker and Waterman.

Key financial indicators

Consolidated	FY2022	FY2023
	Audited	Provisional
Operating income	525.65	700.05
PAT	-3.13	11.03
OPBDIT/OI	3.50%	6.42%
PAT/OI	-0.60%	1.58%
Total outside liabilities/Tangible net worth (times)	2.01	1.74
Total debt/OPBDIT (times)	8.10	2.82
Interest coverage (times)	1.24	2.85

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore
Source: Company; ICRA Research

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL Ratings Limited	CRISIL B+/Stable/CRISIL A4 (ISSUER NOT COOPERATING)	September 13, 2023

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Aug 31, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Sep 29, 2023	June 21, 2022*	Dec 20, 2021	Oct 06, 2020
Term loan	Long Term	22.54	12.87	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Stable); ISSUER NOT COOPERATING
Cash credit	Long Term	40.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Stable); ISSUER NOT COOPERATING
Non-fund based	Long Term	2.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Stable); ISSUER NOT COOPERATING

**removed from ISSUER NOT COOPERATING category*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loan	Simple
Long-term – Cash credit	Simple
Non-fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2018		FY2023-26	22.54	[ICRA]BB+ (Stable)
NA	**Cash credit**	-	-	-	40.00	[ICRA]BB+ (Stable)
NA	**Bank guarantee/ Letter of credit**	-	-	-	2.00	[ICRA]BB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Luxor International Pvt. Ltd.	Rated entity	Full Consolidation
Luxor Writing Instruments Pvt. Ltd.	^	Full Consolidation

^owned by promoters of LIPL

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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.

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