

October 22, 2021

Lumax Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	185.00	210.00	[ICRA]A+(Stable); Reaffirmed
Long-term Term Loan	95.42	80.00	[ICRA]A+(Stable); Reaffirmed
Long term Unallocated	26.58	42.00	[ICRA]A+(Stable); Reaffirmed
Short-term fund-based limits	158.00	158.00	[ICRA]A1+; Reaffirmed
Short-term non-fund based limits	135.00	110.00	[ICRA]A1+; Reaffirmed
Total Bank Facilities	600.00	600.00	
Commercial Paper	50.00	50.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into consideration the strong market position of Lumax Industries Limited (LIL) as the leading supplier of automotive lighting systems, especially in the passenger vehicle (PV) segment in India, along with its strong technological and business support from Stanley Electric Co. Ltd., Japan (SECL, joint venture partner with 37.5% equity stake). The ratings assigned favourably factor in the company's strong customer base with established relationships with original equipment manufacturers (OEMs) across all segments of the automobile industry. Despite deriving 75-80% of its sales from the top six customers, ICRA believes that client concentration risk for LIL is mitigated, to a large extent, by its strong business share with its key client OEMs and their strong market position in their respective segments. In the two-wheeler (2W) space, LIL caters to Honda Motorcycle and Scooter India (HMSI) and Hero MotoCorp Limited (HMCL) (both market leaders), while in the PV segment it has Maruti Suzuki India Limited (MSIL), Honda Cars India Limited (HCIL), Mahindra and Mahindra (M&M) and Tata Motors Limited (TML) as its key clients. LIL is also expanding its product line to include Heating, Ventilation and Air Conditioning (HVAC) panels in collaboration with SECL, which would aid in diversification of product portfolio over the medium term.

ICRA notes that LIL's revenues remain susceptible to demand slowdowns in the domestic automobile industry. LIL's revenues declined by ~11% during FY2021 and operating profit margin (OPM) declined to 7.2% in FY2021 (from 10.4% in FY2020), mainly because of the adverse impact of the nationwide lockdown in Q1 FY2021. While the sales and OPM recovered gradually from Q2 FY2021 onwards, the performance was impacted again in Q1 FY2022 due to the resurgence of Covid-19 and regional lockdowns, besides the impact of semiconductor shortage and volatility in commodity prices. Given the low base of FY2021, the company's revenues are expected to grow in low double digits in FY2022; however, production constraints due to semiconductor chip shortage could restrict revenue growth and will remain a key monitorable. The profitability indicators are likely to remain under pressure during FY2022 because of hardening of raw material prices and losses incurred in Q1 FY2022. Nevertheless, the company has undertaken several backward integration initiatives, which are expected to support its profitability indicators over the medium term.

The ratings remain constrained by the company's high reliance on short-term sources of funds to fund its capital expenditure plans, which has resulted in an asset-liability mismatch. Further, due to the decline in profitability and cash flows from

operations in FY2021, the company's dependence on external borrowings remains high (Rs. 300.8 crore as on March 31, 2021 over Rs. 265.6 crore as on March 31, 2020), which led to moderation in the credit metrics with Total Debt (excluding lease)/OPBITDA deteriorating to 2.9x times (from 1.9x in FY2020) in FY2021. Given the high dependence on short-term borrowings, the TOL/ TNW ratio also continued to remain high at 2.0x in FY2021 (1.9x times in FY2020). Nevertheless, the refinancing risk is mitigated to an extent by its healthy financial flexibility, by virtue of a strong core business and low debt repayment obligations. ICRA expects the company to gradually address the asset-liability mismatch, going forward, and would continue to monitor the progress in this regard. ICRA also expects the company's profitability and cash accruals to improve, aided by recovery in demand and its localisation efforts, which would help reduce its dependence on external borrowings over the medium term.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite the production constraints due to the semiconductor chip shortage and risk of a third wave of the pandemic, LIL will continue to maintain a comfortable financial profile, aided by low debt repayment obligations and expectations of comfortable fund flow from operations. Moreover, the strong technological and business support from SECL and the company's established relationships with OEMs will help LIL maintain its market position.

Key rating drivers and their description

Credit strengths

Strong position in domestic automotive lighting segment - The company is a leading supplier of automotive lighting solutions in the domestic market with its product portfolio of automotive lighting systems such as head lamps (~66% of revenues in FY2021), tail lamps (~25%), other sundry and auxiliary lamps. The company's presence spans all segments in the automobile sector, viz., PV, 2W, commercial vehicles (CVs), buses, tractors, off-highway vehicles, etc. However, the PV segment is the primary revenue contributor with 62% contribution in FY2021. It is the leading supplier of lighting solutions for the PV segment and the third largest in the 2W segment after FIEM Industries and Minda Industries.

Access to technology from key shareholder, SECL - SECL is one of the leading suppliers of automotive lighting solutions globally and it developed the first LED high mount stop lamp for the automotive sector. The strong technical support from its collaborator helps LIL stay abreast of evolving trends in the lighting industry, such as LED headlamps. LIL is also expanding its product line to include HVAC panels in collaboration with SECL.

Diversified customer base and established relationships with OEMs across segments of the automobile industry - LIL is present across all segments of the automobile industry with 10 manufacturing plants in proximity to its key customers. The company enjoys a high share of business with MSIL (market leader with ~50% share of the domestic PV market) and is present in multiple models of the OEM, which has supported its business prospects over the years. Besides MSIL, the company enjoys a high share of business with other OEMs, such as HMCL, HMSI, HCIL, TML and M&M. It has gained high share of business in LED models and its technical centre helps LIL with new product development.

Trend of improving LED penetration in domestic automotive market augurs well for revenue growth - The LED segment drove 34% of LIL's revenues in FY2021 and Q1 FY2022 compared to 25% in FY2018, aided by the increasing trend in LED adoption by OEMs, especially in the PV and 2W segments. The increasing penetration of LED headlamps, coupled with the higher realisation, is expected to aid revenue growth for the company over the medium term.

Credit challenges

Intense competition in the domestic automotive lighting segment - LIL faces stiff competition from other companies in the automotive lighting industry, such as Minda Industries (PV and 2W), FIEM (2W), India Japan Lighting (PV) and Marelli

Motherson Automotive Lighting India Private Limited (PV). The PV lighting market has become highly competitive, as a result of which the margins of lighting companies, including LIL, have been under pressure for a while.

High reliance on short-term borrowings and creditors resulting in refinancing risk; although the same is partially mitigated by company's ability to access financial markets and strong relationship with suppliers - The company places high reliance on short-term debt and creditors for funding its business. Accordingly, the TOL to TNW ratio continued to be high at 2.0 times as on March 31, 2021. However, the associated risk of asset liability mismatch is mitigated to an extent by its access to banking and financial markets, low debt repayment obligations, availability of unutilised working capital limits and healthy relationship with its suppliers.

Susceptible to demand slowdowns in domestic automotive market; production constraints due to semiconductor chip shortage could constrain revenue growth – The demand trends in the domestic automobile industry and, consequently, LIL's revenue prospects were significantly impacted by the adverse impact of the lockdowns in Q1 FY2021. Nevertheless, the company's revenues recovered to a large extent from Q2 FY2021 onwards and reported a revenue decline of ~11% in FY2021. In Q1 FY2022, the company's revenues declined by ~38% QoQ, in line with ~36% QoQ decline in production volumes of automobile OEMs due to the resurgence of Covid-19 and regional lockdowns, besides the impact of semiconductor chip shortage. Given the low base of FY2021, the company's revenues are expected to grow in low double digits in FY2022; however, production constraints due to semiconductor chip shortage could restrict the revenue growth and will remain a key monitorable.

Liquidity position: Adequate

LIL's liquidity position remains **adequate**, supported by an expectation of comfortable fund flow from operations and availability of unutilised working capital limits (average unutilised limit of Rs. 43 crore against sanctioned limit of Rs. 210.0 crore during the 12-month period ending in June 2021). It is expected to meet its capex requirements (~Rs. 160 crore in FY2022) over the near term from a mix of internal accruals, available lines of credit and term loans. ICRA takes comfort from the fact that the company has low debt repayments (Rs. 5 crore in FY2022) over the medium term and most of its manufacturing units are collateral free and can be pledged to borrow long-term funds, thereby supporting its financial flexibility.

Rating sensitivities

Positive factors – Despite being a market leader in the automobile lighting segment, LIL's business profile is characterised by high concentration on the PV segment. The company's ability to, therefore, diversify its business profile by securing new business from other automotive segments will be considered favourably for a rating upgrade. In addition, improvement in funding mix with a track record of reducing reliance on short-term borrowings to fund capex, which addresses the asset-liability mismatch, besides maintaining healthy profitability and debt coverage indicators would be critical for an upward revision in rating.

Negative factors – Negative pressure on the rating could arise in case of inability to correct the asset-liability mismatch position, or weakening of financial risk profile with credit metrics such as TOL/TNW staying above 1.7 times on a sustained basis. Additionally, weakening of profitability and return indicators with RoCE below 15% on a sustained basis could also lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto-component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Lumax Industries Limited. The consolidated financials comprise the holding company and its interest in associate, SL Lumax Limited (see Annexure 2 for details).

About the company

LIL is one of the leading players in the domestic automotive lighting industry with a product portfolio of automotive lighting systems such as head lamps, tail lamps, other sundry and auxiliary lamps. The company's presence spans all segments of the auto sector, viz., PVs, 2Ws, CVs, buses, tractors, etc. However, sales of the PV segment continue to remain dominant with ~62% contribution in FY2021. The company is one of the leading suppliers of automotive lightings to MSIL and enjoys a healthy share of business with OEMs such as HMCL and HMSI. At present, it has 10 manufacturing units spread across Haryana, Uttarakhand, Maharashtra, Karnataka and Gujarat.

LIL was founded as a trading company in 1945 under the aegis of its founder, the Late S.C. Jain. In 1955, the company set up an automotive lighting equipment manufacturing unit, and later diversified into manufacturing automotive filters and rear-view mirrors. The company went public in 1984 and entered into a technical collaboration with Stanley Electric Co. Ltd. (SECL), Japan, in the same year. The SECL Group and the Indian promoters (Mr. D.K. Jain and family) each hold 37.5% equity stake in the company. Through other entities, the Group is present in other automotive segments, such as gear shifters, moulded parts and oxygen sensors.

Key financial indicators (audited)

LIL Consolidated	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,603.4	1,426.9	314.0
PAT (Rs. crore)	59.8	16.6	-9.9
OPBDIT/OI (%)	10.4%	7.2%	2.0%
PAT/OI (%)	3.7%	1.2%	-3.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.0	-
Total Debt/OPBDIT (times)	2.1	3.3	-
Interest Coverage (times)	7.4	3.5	1.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Oct 22, 2021	Nov 27, 2020	Apr 30, 2020	Feb 14, 2020 Nov 25, 2019	Dec 07, 2018	Sep 19, 2018
1	Long-term fund based limits	Long-term	210.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loans	Long-term	80.00	80.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-	[ICRA]A+ (Stable) Withdrawn
3	Unallocated	Long-term	42.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
4	Short-term fund based limits	Short-term	158.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Short-term non-fund based limits	Short-term	110.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial Paper	Short-term	50.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Long-term Term Loan	Simple
Long term Unallocated	Not applicable
Short-term fund-based limits	Simple
Short-term non-fund based limits	Very Simple
Commercial Paper	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term fund-based limits	NA	NA	NA	210.00	[ICRA]A+ (Stable)
NA	Long-term Term Loan	NA	NA	NA	80.00	[ICRA]A+ (Stable)
NA	Long term Unallocated	NA	NA	NA	42.00	[ICRA]A+ (Stable)
NA	Short-term fund-based limits	NA	NA	NA	158.00	[ICRA]A1+
NA	Short-term non-fund based limits	NA	NA	NA	110.00	[ICRA]A1+
NA	Commercial Paper	Yet to be placed		7-365 days	50.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	LIL Ownership	Consolidation Approach
Lumax Industries Limited	100.00% (rated entity)	Full Consolidation
SL Lumax Limited	21.28%	Equity Method

Source: LIL annual report FY2021

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar Krishnamurthy

+91-44-45964318

ksrikumar@icraindia.com

Rohan Kanwar Gupta

+91 124 4545 808

rohan.kanwar@icraindia.com

Arushi

+91 124 4545 396

arushi@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

+91-9354738909 (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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2021 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.