February 19, 2024

Lumax Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund based-Cash credit	210.00	294.00	[ICRA]A+(Stable); reaffirmed and assigned
Long term-Fund based-Term loan	236.60	236.60	[ICRA]A+(Stable); reaffirmed
Long term-Unallocated	42.00	220.00	[ICRA]A+(Stable); reaffirmed and assigned
Short term-Fund based	158.00	148.00	[ICRA]A1; reaffirmed
Short term-Non-Fund based	110.00	108.00	[ICRA]A1; reaffirmed
Total	**756.60**	**1,006.60**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings factor in 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 also favourably factor in the company's strong customer base and established relationships with OEMs across all segments of the automobile industry. Despite deriving 70-75% 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 that have robust market positions 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 it has Maruti Suzuki India Limited (MSIL), Mahindra and Mahindra Limited (M&M) and Tata Motors Limited (TML) as its key clients in the PV segment. Aided by its strong business profile, the company is expected to continue generating healthy earnings, which would help it to maintain a comfortable credit profile.

Over the years, the company had maintained a relatively higher reliance on short-term fund sources for its capital expenditure (capex) requirements, resulting in asset liability mismatch (ALM). The company over the past few years has however undertaken term debt to funds its capex requirements. LIL's debt levels increased to Rs. 381.7 crore (excluding lease liabilities) as on March 31, 2023, and to Rs.558.7 crore as on January 31, 2024, from Rs. 364.0 crore as on March 31, 2022. This increase was driven by debt-funded capex undertaken during the year, leading to a moderation in the gearing ratio (excluding lease) to 0.9x as on March 31, 2023 (0.8x as on March 31, 2022). ICRA notes that the company has set up a new facility in Chakan, Pune, to cater to M&M, TML and some electric vehicle (EV) original equipment manufacturers (OEM). Accordingly, its debt levels are expected to increase further over the medium term as the company plans to invest in the Chakan plant and other existing plants to cater to healthy demand in the PV segment. Even as the increase in debt would lead to an increase in leverage metrics (total debt/OPBDITA expected to remain at ~2.8x-3.0x in FY2024) over the near term, healthy cash accruals from new capacities are likely to help moderate the same over the medium term. The debt coverage metrics are also expected to remain at comfortable levels and report a gradual improvement.

ICRA expects the company to continue to gradually address the ALM going forward, as seen in FY2023, and will continue to monitor the progress in this regard. ICRA also continues to take comfort from the company's healthy financial flexibility and access to financial markets, its established relationship with vendors, moderate debt repayment obligations and most of its plants being free of any charge, which mitigate the refinancing risk to some extent.

ICRA notes that LIL's revenues remain susceptible to demand slowdowns in the domestic automobile industry. Nevertheless, LIL registered a healthy revenue growth of 32.3% in FY2023 and ~10.7% YoY in 9M FY2024, aided by strong demand in the automotive industry. Going forward, with underlying demand for the industry continuing to be robust, and continued business from several OEMs, LIL is expected to report a healthy earnings growth over the medium term.

The Stable outlook on the rating reflects ICRA's expectation that despite the moderation in the credit metrics in the near term on account of the entity's material capex plans to enhance capacity, the metrics are likely to gradually improve over the medium term and revert to levels commensurate to the rating level.

Key rating drivers and their description

Credit strengths

Strong market position in domestic automotive lighting segment – LIL is a leading supplier of automotive lighting solutions in the domestic market with a product portfolio of automotive lighting systems such as headlamps (~66% of revenues in FY2023), tail lamps (~25%), and other sundry auxiliary lamps. The company's presence spans all segments in the automobile sector, viz. PV, 2W, commercial vehicles (CVs), buses, tractors, off-highway vehicles among others. The PV segment is the primary revenue contributor with a 67% contribution in 9M FY2024. It is the leading supplier of lighting solutions for the PV segment and the third largest in the 2W segment, providing comfort to the company's future revenue visibility.

Access to technology from collaborator and largest 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.

Diversified customer base and established relationships with OEMs across automobile segments – LIL has a presence across all segments of the automobile industry with 12 manufacturing plants in proximity to its key customers. The company enjoys a high share of business with MSIL (estimated market leader with ~42% share of the domestic PV market) with its presence across 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 a high share of business in LED models and its technical centre helps LIL with new product developments.

Trend of improving LED penetration in domestic automotive market augurs well for revenue growth – The LED segment drove 36% of LIL's revenues in 9M FY2024 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 Uno Minda Limited (PV and 2W), FIEM Industries Limited (2W), India Japan Lighting (PV) and Marelli Motherson Automotive Lighting India Private Limited (PV). The PV lighting market is highly competitive, which renders the margins of lighting companies, including LIL, to remain at moderate levels.

Capex plans for the new plant led to moderation in credit metrics; gradual improvement expected going forward – The company has substantial capex plans over the next three years towards expanding the capacities for its new plant at Chakan as well as automation and upgradation of the existing plants in Sanand and Bawal. The company's estimated capex of about Rs.200-250 crore per annum over the next two years will be mainly funded through term loans. Additionally, the company will require incremental working capital to fund the workings of enhanced operations. This is expected to moderate the company's capital structure and coverage indicators in the near term. However, with expectations of healthy improvement in the scale of operations and OPBITDA, the financial profile is likely to achieve a gradual boost.

High reliance on short-term borrowings leads to refinancing risk; although LIL's ability to access financial markets and strong relationships with suppliers mitigate the risk – The company has a high reliance on short-term debt and creditors for the funding requirements of its business, leading to refinancing and asset liability mismatch risks. However, the situation has improved to some extent over the past two years. Notwithstanding the improvement, the company's TOL/TNW continues to remain high at 2.2x as on March 31, 2023. Nevertheless, the refinancing risk is mitigated to some extent by its healthy financial flexibility and access to financial markets, healthy relationships with its suppliers, moderate debt repayment obligations and most of its plants being free of any charge.

Susceptible to demand slowdowns in domestic automotive market – LIL supplies automotive lighting solutions to various OEMs in the domestic market, with exports remaining minimal. This reflects its vulnerability to demand slowdowns in the domestic automotive market. The company's revenues improved by ~32% during FY2023 and ~10.7% YoY in 9M FY2024, aided by healthy demand from the automotive industry. With underlying demand for the industry continuing to be robust and business wins from several OEMs and new capacities being set up, LIL is expected to report healthy revenue growth over the medium term.

ESG related comments

Environmental considerations: While LIL is not directly exposed to climate transition risks due to tightening emission control requirements, as its products are used across different fuel powertrains, its automotive manufacturing customers remain highly exposed to such risks. Accordingly, LIL's prospects remain linked to the ability of its customers to meet tightening emission requirements. The company may need to invest materially to develop products in line with the changing trends in the automotive lighting industry and to meet the requirements of EVs, even as a transition towards EVs in the segments catered is likely to be gradual. The exposure to litigation/penalties from issues related to waste and water management for the manufacturers remains relatively low.

Social considerations: LIL, like most automotive component suppliers, has a healthy dependence on human capital. Retaining human capital, maintaining healthy employee relations as well as its supplier ecosystem remain essential for disruption-free operations for the entity. Another social risk that LIL faces is that of product safety and quality, wherein instances of product recall and high warranty costs may lead to financial implications and also harm the reputation and create a more long-lasting adverse impact. In this regard, LIL's strong track record in catering to leading automotive manufacturers underscores its ability to mitigate these risks to an extent. The company's strong technological capabilities, aided by support from SECL, are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

LIL's liquidity position remains adequate, supported by an expectation of healthy cash flows from operations and availability of unutilised working capital limits (average unutilised limit of ~Rs. 42 crore during the 13-month period ending in November 2023). It is expected to meet its capex requirements and debt repayments (~Rs. 20 crore in FY2024 and Rs.30-35 crore in FY2025) over the near term from a mix of internal accruals, available lines of credit and term loans. ICRA takes comfort from the fact that most of the company's manufacturing units are collateral-free and can be pledged to borrow long-term funds, thereby supporting its financial flexibility.

Rating sensitivities

Positive factors – The company's ability to further strengthen its business profile by securing new business from various customers will be considered favourably for a rating improvement. In addition, an improvement in the margin profile, leading to an enhancement in debt coverage metrics and liquidity profile remains critical for a rating upgrade.

Negative factors – The ratings could be downgraded in case of a worsening asset-liability mismatch position or weakening of profitability and return indicators on a sustained basis. Pressure on the ratings could also arise in case of a larger-than-expected debt-funded capex, leading to a weakening in the credit metrics. Specific credit metrics that could lead to a downgrade include a DSCR of less than 2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LIL. As on March 31, 2023, the company had one subsidiary and one associate, which are all enlisted in Annexure-II.

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 headlamps, 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 ~67% contribution in 9M FY2024. The company is one of the leading suppliers of automotive lightings to MSIL and enjoys a healthy share of business with OEMs such as TML, M&M, HMCL and HMSI. At present, it has 12 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 SECL, Japan, in the same year. The SECL Group and the Indian promoters (Mr. D.K. Jain and family) each hold a 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	FY2022	FY2023	9M FY2024*
Operating income (Rs. crore)	1,758.8	2,327.2	1,893.9
PAT (Rs. crore)	34.1	61.4	39.0
OPBDIT/OI	8.1%	9.4%	8.7%
PAT/OI	1.9%	2.6%	2.1%
Total outside liabilities/Tangible net worth (times)	2.1	2.2	-
Total debt/OPBDIT (times)	2.8	2.0	-
Interest coverage (times)	6.6	7.3	4.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Limited audit, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

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 of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Feb 19, 2024	Jan 23, 2023	Oct 27, 2022	Oct 22, 2021	Nov 27, 2020	Apr 30, 2020
1	**Cash credit**	Long term	294.00	--	**[ICRA]A+(Stable)**	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2	**Term loans**	Long term	236.60	159.34	**[ICRA]A+(Stable)**	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
3	**Unallocated**	Long term	220.00	--	**[ICRA]A+(Stable)**	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)
4	**Fund based**	Short term	148.00	--	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	**Non-Fund based**	Short term	108.00	--	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	**Commercial paper**	Short term	--	--	**--**	--	[ICRA]A1; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Cash credit	Simple
Long Term-Fund Based-Term loan	Simple
Long Term-Unallocated	Not applicable
Short Term-Fund Based	Simple
Short Term-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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	May 2021	NA	Jun 2026	80.00	[ICRA]A+(Stable)
NA	Term loan-II	Nov 2022	NA	Dec 2027	156.60	[ICRA]A+(Stable)
NA	Fund based limits	NA	NA	NA	294.00	[ICRA]A+(Stable)
NA	Fund based limits	NA	NA	NA	148.00	[ICRA]A1
NA	Non fund-based limits	NA	NA	NA	108.00	[ICRA]A1
NA	Unallocated	NA	NA	NA	220.00	[ICRA]A+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Lumax Industries Limited	100.00% (rated entity)	Full consolidation
Lumax Industries Czech s.r.o	100.00%	Full consolidation
SL Lumax Limited	21.28%	Equity method

Source: LIL annual report FY2023

Note: ICRA has taken consolidated financials of the parent (LIL), its subsidiary and associate while assigning the ratings.

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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.

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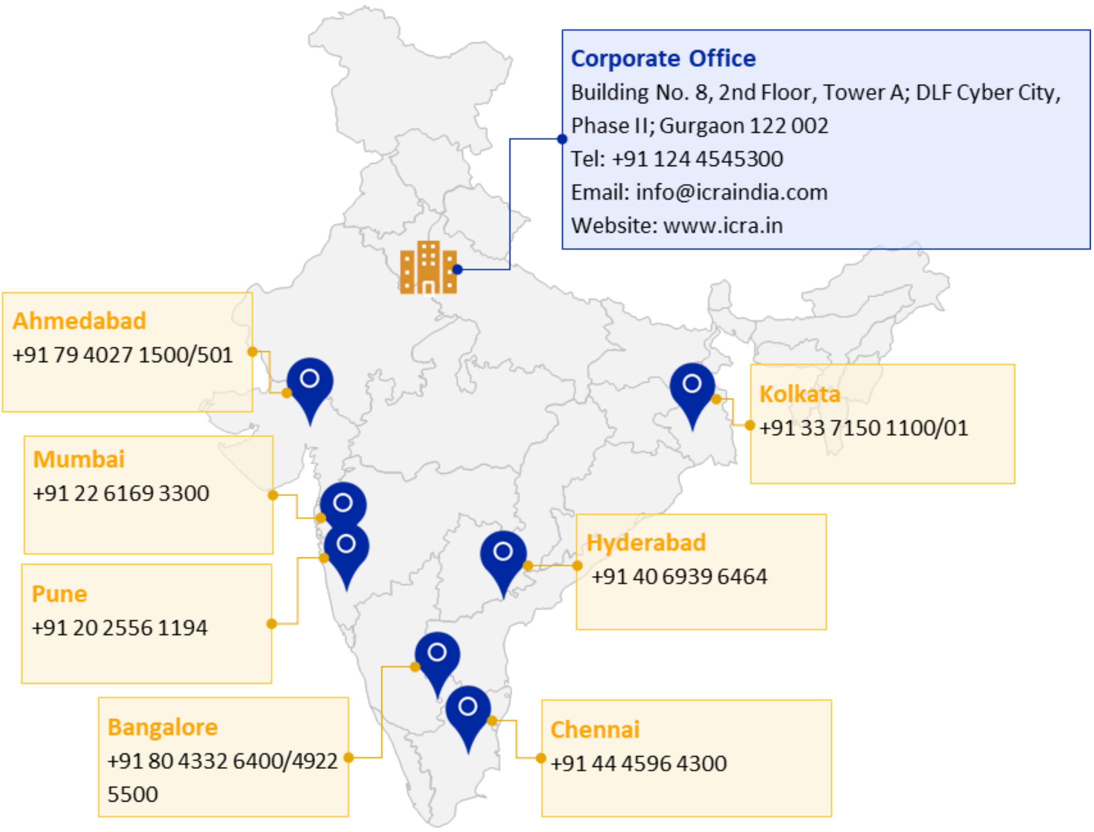

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