November 27, 2020

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 limits	80.50	185.00	[ICRA]A+(Stable); Reaffirmed; Assigned to enhanced amount
Long-term Term Loan	0.00	95.42	[ICRA]A+(Stable); Assigned
Long term Unallocated	1.50	26.58	[ICRA]A+(Stable); Reaffirmed; Assigned to enhanced amount
Short-term fund-based limits	183.00	158.00	[ICRA]A1+; Reaffirmed
Short-term non-fund based limits	135.00	135.00	[ICRA]A1+; Reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; Reaffirmed
Total	**450.00**	**650.00**	

**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 rating notes its diversified customer base with established relationships with original equipment manufacturers (OEMs) across all segments of the automobile industry. 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 the respective segments, despite deriving 75-80% of its sales from the top six customers. 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 and electronic cables in collaboration with SECL, which would aid in diversification of product portfolio over the medium term.

Over the past few years, LIL's operating profit margins have improved considerably to 10.4%[1] in FY2020 compared to 7.1% in FY2016 aided by cost rationalisation measures such as localisation of certain parts including printed circuit boards (PCB), improvement in capacity utilisation at the company's plants and increasing share of LED lamps in the overall revenues of the company.

ICRA notes that LIL's revenues remain susceptible to demand slowdowns in the domestic automobile industry. With the subdued demand environment in the automobile industry, LIL had reported a decline in revenues of 13.6% to Rs. 1,603.4

[1] *Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances*

crore in FY2020. Further, the demand trends in the domestic automobile industry and, consequently, LIL's revenue prospects were significantly impacted by the lockdowns in Q1 FY2021. Even during the lockdowns, LIL remained adequately positioned from a liquidity standpoint with undrawn credit facilities and fixed deposits (Rs. 30 crore as on March 31, 2020). Additionally, the company availed moratorium on interest payments under the 'Covid-19 – Regulatory Package' announced by the Reserve Bank of India (RBI), which aided its liquidity profile and helped it navigate the adverse period.

Despite supply chain disruptions, labour availability issues and sporadic lockdowns, the automobile industry has witnessed a healthy sequential recovery since the relaxation of lockdowns, which has aided a healthy improvement in LIL's cash flows and liquidity position. The company's revenues recovered to Rs. 397.3 crore in Q2 FY2021 (reflecting a decline of 7% on YoY basis) and operating profit margin recovered to 9.2% against a loss of Rs. 34.9 crore in Q1 FY2021 and 9.9% in Q2 FY2020. Going forward, while sequential recovery in the demand is expected to continue, a weaker than expected recovery could lead to a moderation in the company's return and debt coverage indicators, and would remain a rating sensitivity. ICRA expects the company's operating profit margins to be under pressure due to losses incurred during Q1 FY2021 and lower scale of operations.

The company had incurred capex of Rs. 167.4 crore in FY2020 towards setting-up a manufacturing facility for electronic components and maintenance of existing units, besides expansion for select OEMs. The sharper than expected slowdown in the industry in FY2020 led to higher dependence on external borrowings to fund the capex plans and accordingly, the company's debt levels increased to Rs. 318.6 crore as on March 31, 2020 (excluding operating lease liability) compared to Rs. 194.1 crore as on March 31, 2019. Further, the company's short-term borrowings increased to Rs. 310.9 crore as on September 30, 2020 from Rs. 265.6 crore as on March 31, 2020, because of losses incurred during H1 FY2021 as well as lower sales leading to blockage of inventory. Going forward, the company's cash accruals are expected to improve during H2 FY21 with the recovery in demand, which would help reduce the dependence on working capital borrowings. Despite some moderation in the credit metrics, LIL's debt coverage indicators are expected to remain comfortable in FY2021 supported by low debt repayments and lower capex plans (~Rs. 50 crore in FY2021).

The ratings are constrained by the company's high reliance on short-term sources of funds (including creditors) to fund its capital expenditure plans, which has resulted in asset-liability mismatch. Accordingly, the TOL to TNW ratio continued to be high (at 1.9 times and 2.0 times as on March 31, 2020 and September 30, 2020, respectively). However, the refinancing risk is mitigated to an extent by its healthy financial flexibility by virtue of a strong core business, minimal debt repayment obligations and undrawn sanctioned term loans. Nevertheless, ICRA expects the company to gradually address the asset-liability mismatch, going forward, and would continue to monitor the progress in this regard.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite the current industry environment, LIL will continue to maintain its comfortable financial profile aided by minimal debt repayment obligations and capex plans. Moreover, the strong technological and business support from Stanley Electric Co. Ltd. and the company's established relationship with the OEMs would help LIL maintain its market position over the near-term.

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 (65-70% of revenues), tail lamps (~22-26%), sundry and auxiliary lamps. LIL 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 (including Rinder India).

Access to technology from key shareholder, Stanley Electric – 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 planning to expand its product line to include HVAC panels and electronic cables in collaboration with SECL.

Diversified customer base and established relationships with OEMs across all segments of 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 also 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 FY2020 over 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 in revenue growth over the medium term.

Backward integration measures augur well for margin expansion – Over the past few years, LIL's operating profit margins have been consistently improving aided by cost rationalisation measures such as localisation of certain parts, improvement in capacity utilisation at the company's plants and increasing share of LED lamps in the overall revenues of the company. In FY2020, LIL's profitability margins further improved to 10.4% in FY2020 (from 8.7% in FY2019) primarily aided by the in-house manufacturing of PCBs. Earlier, the PCB manufacturing process was undertaken by its Group company, Lumax Auto Technologies Limited (LATL). However, LIL had bought the assets of the PCB manufacturing unit from LATL for a consideration of Rs. 22.45 crore during Q1 FY2020. The PCB division had PBT margins of 10-12%, and the company's expenses declined significantly by acquiring this division, while its overall EBITDA margins improved by more than 100 bps.

Credit challenges

Increasing competition in domestic automotive lighting segment – LIL faces stiff competition from other companies in the automotive lighting industry, such as Minda Industries (PV), Rinder (2W), FIEM (2W), India Japan Lighting (PV) and Magneti Marelli Motherson Automotive Systems (PV), due to which maintaining the overall market share shall remain critical for the company.

High reliance on short-term borrowings and creditors resulting in refinancing risk; although risk partially mitigated by 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 1.9 times and 2.0 times as on March 31, 2020 and September 30, 2020, respectively. However, the associated risk of asset liability mismatch is mitigated 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; prolonged slowdown in automobile demand following the Covid-19 pandemic could restrict revenue growth – With the subdued demand environment in the automobile industry, LIL had reported a revenue decline of 13.6% to Rs. 1,603.4 crore in FY2020. Further, 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 Rs. 397.3 crore in Q2 FY2021 (7% YoY decline) and operating profit margin recovered to 9.2% over 9.9% in Q2 FY2020. ICRA expects the company's operating profit margins to be under pressure due to losses incurred during Q1 FY2021 and lower scale of operations. Despite some moderation in the credit metrics, LIL's debt coverage indicators are expected to remain comfortable in FY2021 supported by low debt repayments and lower capex plans (~Rs. 50 crore in FY2021).

Liquidity position: Adequate

Despite moderation in cash flows from operations, LIL's liquidity position is **adequate** supported by availability of unutilised working capital limits (average unutilised limit of Rs. 24.2 crore during the 9-month period ending in September 2020) and cash balances of Rs. 5.8 crore as on September 30, 2020. In addition, the company has undrawn term loans of Rs. 45 crore, which further provides financial flexibility. Against this, the company has long term debt repayments of Rs. 26 crore and capex requirements of ~Rs. 50 crore in FY2021, which are expected to be met by a mix of internal accruals, available lines of credit and undrawn term loans. ICRA also 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 triggers – Despite being a market leader in the automobile lighting segment, LIL's business profile is characterised by high concentration in 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 triggers – Negative pressure on the rating could arise in case of inability to correct 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 Suppliers
Parent/Group Support	NA
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.

About the company

LIL is positioned as 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, sundry and auxiliary lamps. The company's presence spans all segments of the auto sector, viz., passenger four-wheelers, passenger two-wheelers, commercial vehicles, buses, tractors, etc. However, sales of the PV segment remain dominant with ~66% contribution in FY2020. The company is one of the leading suppliers of automotive lightings to MSIL and enjoys a strong share of business with OEMs such as HMSI and HMCL. 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 that 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., Japan (SECL), that same year. The SECL Group and the Indian promoters (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) – Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	1,855.7	1,603.4
PAT (Rs. crore)	94.6	59.8
OPBDIT/OI (%)	8.7%	10.4%
PAT/OI (%)	5.1%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.9
Total Debt/OPBDIT (times)	1.2	2.1
Interest Coverage (times)	9.9	7.4

Note: Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2020		FY2019		FY2018	
					27-Nov-2020	30-Apr-2020	14-Feb-2020	25-Nov-2019	7-Dec-2018	19-Sep-2018	21-Mar-2018	6-Oct-2017
1	Long-term fund based limits	Long Term	185.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Short-term fund based limits	Short Term	158.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short-term non-fund based limits	Short Term	135.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	50.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long Term	26.58	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Term Loans	Long Term	95.42	51.94	[ICRA]A+ (Stable)	-	-	-	-	[ICRA]A+ (Stable) Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

*Amount in Rs. crore; *As on March 31, 2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based	NA	NA	NA	185.00	[ICRA]A+(Stable)
NA	Short-term fund-based	NA	NA	NA	158.00	[ICRA]A1+
NA	Short-term non-fund based	NA	NA	NA	135.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7- 365 days	50.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	26.58	[ICRA]A+(Stable)
NA	Long-term Term Loan	NA	NA	NA	95.42	[ICRA]A+(Stable)

Source: Lumax Industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SL Lumax Limited	21.28%	Equity Method

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About ICRA Limited:

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