

October 27, 2022

Lumax Industries Limited: Long-term rating reaffirmed; Short-term rating downgraded to [ICRA]A1; rating withdrawn for CP Programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based Limits	210.00	210.00	[ICRA]A+(Stable); Reaffirmed
Term Loans	80.00	80.00	[ICRA]A+(Stable); Reaffirmed
Unallocated Limits	42.00	42.00	[ICRA]A+(Stable); Reaffirmed
Short-term Fund Based Limits	158.00	158.00	[ICRA]A1; Downgraded from [ICRA]A1+
Non Fund-Based Facilities	110.00	110.00	[ICRA]A1; Downgraded from [ICRA]A1+
Total	600.00	600.00	
Commercial Paper	50.00	50.00	[ICRA]A1; Downgraded from [ICRA]A1+ and withdrawn

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the short-term rating of Lumax Industries Limited (LIL) takes into consideration an expectation that a longer time frame will be required by the company to correct its asset-liability mismatch (ALM) position than earlier envisaged. The company has high reliance on short-term sources of funds for its capital expenditure (capex) requirements, which has resulted in ALM and its total outside liabilities/ total net worth ratio to continue to remain high at 2.1x in FY2022 (2.0x times in FY2021). Further, LIL's debt levels increased to ~Rs. 364 crore (excluding lease liabilities) as on March 31, 2022 from Rs. 301 crore as on March 31, 2021 due to debt-funded capex undertaken during the year, leading to moderation in the gearing ratio (excluding lease) to 0.8x in FY2022 (0.7x in FY2021). ICRA notes that the company is planning to set up a greenfield facility in western India to cater to Mahindra & Mahindra (M&M), Tata Motors Limited (TML), and some electric vehicle (EV) original equipment manufacturers (OEM); accordingly, its debt levels are expected to increase further over the medium term. Nevertheless, ICRA expects the company to gradually address the ALM, going forward, and would 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 long-standing relationship with vendors, low debt repayment obligations and most of its plants being free of any charge, which mitigate the refinancing risk to some extent.

The reaffirmation of the long-term rating takes into consideration the strong market position of 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 with 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 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), M&M and 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 to long-term.

ICRA notes that LIL's revenues remain susceptible to demand slowdowns in the domestic automobile industry. Nevertheless, LIL registered a healthy revenue growth of ~22% in FY2022 aided by recovery in the automotive industry and a low base of

FY2021, which was impacted by the pandemic. However, LIL's operating profit margin had remained subdued at ~8.1% in FY2022 (8.1% in FY2021) due to the steep increase in raw material prices and the adverse impact of the second pandemic wave. Going forward, with underlying demand for the industry continuing to be robust and business wins from several OEMs, LIL is expected to report a healthy earnings growth in FY2023.

The Stable outlook on the long-term rating reflects ICRA's opinion that LIL will continue to maintain a comfortable financial profile aided by 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.

The rating on the Rs. 50.00-crore commercial paper (CP) programme has been downgraded and withdrawn at the request of the company, as there are no obligations outstanding against the rated instrument. This is in line with ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong position in domestic automotive lighting segment - LIL is a leading supplier of automotive lighting solutions in the domestic market with its product portfolio of automotive lighting systems such as head lamps (~64% of revenues in FY2022), 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 65% contribution in FY2022. It is the leading supplier of lighting solutions for the PV segment and the third largest in the 2W segment.

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. LIL is also expanding its product line to include HVAC panels in collaboration with SECL.

Diversified customer base and established relationships with OEMs across automobile segments - LIL is present across all segments of the automobile industry with 11 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 33% of LIL's revenues in 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 lost out on some key models from MSIL such as Baleno, Brezza and new Grand Vitara and 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, as a result of which the margins of lighting companies, including LIL, have remained at moderate levels.

High reliance on short-term borrowings and creditors resulting in refinancing risk; although the same is partially mitigated by LIL's ability to access financial markets and strong relationship with suppliers - The company has high reliance on short-term debt and creditors for funding its business, leading to refinancing risks and asset liability mismatch risk. Accordingly, the company's TOL/TNW continues to remain high at 2.1 times as on March 31, 2022. Nevertheless, the refinancing risk is

mitigated to some extent by its healthy financial flexibility and access to financial markets, healthy relationship with its suppliers, low 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, reflecting its vulnerability to demand slowdowns in the domestic automotive market. The company's revenues had declined by ~10% during FY2021 because of the adverse impact of the pandemic. Nevertheless, LIL registered a healthy revenue growth of ~22% in FY2022 aided by recovery in the automotive industry and a low base of FY2021. With underlying demand for the industry continuing to be robust and business wins from several OEMs, LIL is expected to report a healthy revenue growth even in FY2023.

Environmental and Social Risks

Environmental considerations: Even as LIL is not directly exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with its products being used across different fuel powertrains, its automotive manufacturing customers remain highly exposed to the same. 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 only gradual. The exposure to litigation/penalties arising 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; and 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 pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication, but could 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 underscore its ability to mitigate these risks to an extent. The company's strong technological capabilities, aided by support from Stanley, 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 comfortable cash flows from operations and availability of unutilised working capital limits (average unutilised limit of Rs. 54 crore against sanctioned limit of Rs. 210.0 crore during the 12- month period ending in July 2022). It is expected to meet its capex requirements (~Rs. 150 crore in FY2023) and debt repayments (~Rs. 18 crore in FY2023) 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 diversify its business profile and reduce its revenue concentration on the PV segment, 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 – Ratings could be downgraded in case of worsening of the asset-liability mismatch position or weakening of profitability and return indicators on a sustained basis. Negative pressure on the rating could also arise in case of a larger than expected debt-funded capex, leading to weakening in the credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Policy on Withdrawal of Credit Ratings
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, a subsidiary, Lumax Industries Czech s.r.o, and one 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 ~65% contribution in FY2022. 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 11 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 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	FY2021	FY2022
Operating income	1,439.9	1,758.8
PAT	16.6	34.1
OPBDIT/OI	8.1%	8.1%
PAT/OI	1.2%	1.9%
Total outside liabilities/Tangible net worth (times)	2.0	2.1
Total debt/OPBDIT (times)	2.9	2.8
Interest coverage (times)	4.0	6.6

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

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	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar, 31 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Oct 27, 2022	Oct 22, 2021	Nov 27, 2020	Apr 30, 2020	Feb 14, 2020 Nov 25, 2019
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)
2 Term Loans	Long-term	80.00	75.6	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
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+
5 Short-term non-fund based limits	Short-term	110.00	NA	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 Commercial paper	Short-term	50.0	NA	[ICRA]A1; withdrawn	[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 Limits	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 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: www.icra.in

Annexure I: Instrument details

ISIN	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	May 2021	NA	June 2026	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	CP is not placed			50.00	[ICRA]A1; withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis

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

Source: LIL annual report FY2022, BSE

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

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