February 14, 2020

Lumax Industries Limited: Change in limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	80.50	80.50	[ICRA]A+(Stable); Outstanding
Short-term fund-based limits	172.00	183.00	[ICRA]A1+; Outstanding
Short-term non-fund based limits	144.00	135.00	[ICRA]A1+; Outstanding
Commercial Paper	50.00	50.00	[ICRA]A1+; Outstanding
Unallocated	3.50	1.50	[ICRA]A+(Stable); Outstanding
Total	**450.00**	**450.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to take 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 (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 more than 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.

The rating factors in the improvement in the company's financial profile over the last few years supported by increasing scale of operations and improvement in profitability metrics. In FY2019, its operating income (OI) increased by 12.4% to Rs. 1,855.7 crore driven by a mix of volume growth and improvement in the average realisation due to increasing share of LED-based lighting solutions. In addition, LIL has been able to improve its operating margins over the past few years by reducing raw material costs, aided by localisation of certain parts and improvement in capacity utilisation at its plants. Despite slowdown in sales, the profitability margins are expected to improve further during the current fiscal owing to in-house manufacturing of printed circuit board (PCB, manufacturing set-up acquired from Lumax Auto Technologies Limited (LATL) in April 2019 for a consideration of Rs. 22.5 crore).

LIL's coverage and capitalisation indicators remain comfortable supported by low debt repayments and improving profit margins. The company relies on short-term debt and creditors for funding, as a result of which it has relatively low interest outgo and debt repayments, leading to comfortable coverage indicators. However, its interest outgo increased significantly in FY2019 due to increased reliance on short-term borrowings, as a lower credit period was extended by its suppliers considering the slowdown in the industry. Accordingly, the interest coverage ratio deteriorated to 9.9 times in FY2019 from 17 times in FY2018, though it continues to remain comfortable.

Despite the improvement in its financial profile, the company continues to maintain 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 moderately high (at 1.7 times and 1.9 times as on March 31, 2019 and September 30, 2019 respectively) even as external borrowings have reduced. However, the refinancing risk is mitigated to an extent by its healthy financial flexibility by virtue of a strong core business, negligible debt repayment obligations and availability of unutilised working capital limits.

During the current fiscal, the company's financial performance is likely to remain muted because of the ongoing slowdown in the domestic automotive market, with the domestic PV and 2W industry volumes expected to contract by 14-16% and 12-14%, respectively, in FY2020e as per ICRA's estimates. The company's revenues declined by 14.4% to Rs. 1,214.3 crore during 9M FY2020 on YoY basis in line with the slowdown in the industry. However, the EBITDA margins improved by 160 bps YoY to 10.2% during 9M FY2020 primarily aided by the company's efforts at localisation and in-sourcing of PCB manufacturing. ICRA takes note of the increasing competition in the industry from peers such as India Japan Lighting (IJL), Magneti Marelli Motherson Auto Systems (MMMASL), Minda Industries Limited and FIEM Industries Limited due to which maintaining the overall market share shall remain critical for the company. The company has capex plans of Rs. 135 crore in FY2020 towards setting-up facility to manufacture electronic components, maintenance of existing units besides expansion for select OEMs. This is likely to be funded partly from internal accruals and partly by term loans.

Key rating drivers and their description

Credit strengths

Strong position in domestic automotive lighting segment – The company is the leading suppliers of automotive lighting solutions in the domestic market with its product portfolio comprising automotive lighting systems such as head lamps (~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).

One of the key supplier of lighting systems to MSIL – The company has high share of business with MSIL (market leader with 51% share of the domestic PV market in FY2019) and is present in multiple models, which has supported its business prospects over the years.

Access to technology from its collaborator and largest shareholder viz. Stanley Electric Co. Ltd, Japan – Stanley is one of the leading suppliers of automotive lighting solutions in the world and it developed the first LED high mount stop lamp for the automotive sector. The strong technical support from Electric Co. Ltd. helps LIL stay in line with the evolving trends in the lighting industry such as LED headlamps.

Diversified customer base and established relationships with OEMs in all segments of automobile industry – LIL has presence across all segments of the automobile industry and has ten plants located in proximity to its key customers. Besides MSIL, the company has 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 the LED models and its technical centre helps LIL with new product developments.

Trend of improving LED penetration in domestic automotive market augurs well for LIL's revenue growth – The LED segment contributed 32% to LIL's revenues in 9M FY2020 and 33% in FY2019 compared to 25% in FY2018, indicating the increasing trend in LED adoption by OEMs. 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 – LIL's profitability margins are expected to improve during the current fiscal aided by the in-house manufacturing of PCBs. Earlier the PCB manufacturing process was undertaken by its Group company LATL. However, LIL had bought the assets related to 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 by acquiring this division, the company's expenses are expected to decline significantly and its overall EBITDA margins are likely to improve by more than 100 bps over the medium term.

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). 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 has high reliance on short-term debt and creditors for funding its business, however, the associated risk of asset-liability mismatch is mitigated by access to financial markets, negligible debt repayment obligations, availability of unutilised working capital limits and healthy relationship with its suppliers.

Susceptible to demand slowdowns in domestic automotive market; current slowdown to impact revenue growth and earnings – While LIL reported a revenue growth of 12.4% in FY2019, the growth is expected to weaken during the current fiscal because of the ongoing slowdown in the domestic automotive market. In 9M FY2020, LIL's revenues declined by 14.4% to Rs. 1,214.3 crore on YoY basis, in line with the slowdown in the industry.

Liquidity position: Adequate

LIL's liquidity position is adequate supported by comfortable fund flow from operations and availability of unutilised working capital limits (average unutilised limit of Rs. 31.1 crore against sanctioned limit of Rs. 80.5 crore during the 12- month period that ended in December 2019). It is expected to meet its capex requirements (Rs. 135 crore in FY2020) 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 minimal debt repayments 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 triggers – 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 and aid diversification will be considered favourably for a rating upgrade. In addition, the 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 weakening of financial risk profile with further aggravation of asset-liability mismatch position and credit metrics such as TOL/TNW weakening 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 comprising 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 (4W), passenger 2W, commercial vehicles, buses, tractors, etc. However, sales of the passenger vehicle segment remain dominant with ~67% contribution in FY2019. The company is one of the leading suppliers of automotive lightings to MSIL and enjoy strong share of business with OEMs such as HMSI, HMCL, etc. 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., Japan (SECL), in the 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 has presence in other automotive segments such as gear shifters, moulded parts, oxygen sensors, etc.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,651.3	1,855.7
PAT (Rs. crore)	57.9	94.6
OPBDIT/OI (%)	8.2%	8.7%
RoCE (%)	20.4%	26.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	1.7
Total Debt/OPBDIT (times)	1.2	1.2
Interest Coverage (times)	17.0	9.9
DSCR	6.9	9.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2019		FY2018		FY2017
					14-Feb-2020	25-Nov-2019	7-Dec-2018	19-Sep-2018	21-Mar-2018	6-Oct-2017	17-Aug-2016
1	Long-term fund based limits	Long Term	80.50	NA	[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	183.00	NA	[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+
4	Commercial Paper	Short Term	50.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long Term	1.50	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Term Loans	Long Term	-	-	-	-	-	[ICRA]A+ (Stable) Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

*Amount in Rs. crore; * As on March 31, 2019* *Source: Lumax Industries Limited*

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	80.50	[ICRA]A+(Stable)
NA	Short-term fund-based	NA	NA	NA	183.00	[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	1.50	[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:

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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