Lumax Industries Limited

Instrument	Amount In Crore	Rating Action August 2016
Term loans	31.55 (reduced from Rs. 65.85 crore)	Upgraded form [ICRA]A (Stable) to [ICRA]A+ (Stable)
Cash Credit	60.50 (enhanced from Rs. 40.50 crore)	Upgraded form [ICRA]A (Stable) to [ICRA]A+(Stable)
Working Capital Limits	92.50 (enhanced from Rs. 67.50 crore)	Upgraded form [ICRA]A1 to [ICRA] A1+
Unallocated	55.45 (reduced from Rs. 66.15 crore)	Upgraded form [ICRA]A(Stable) to [ICRA]A+(Stable)
Commercial paper	50.00	[ICRA]A1+ Assigned
Total	**290.00**	

ICRA has upgraded the rating assigned to the Rs. 92.05 crore long-term, fund-based bank facilities of Lumax Industries Limited (LIL) [1] from [ICRA]A (pronounced ICRA A) to [ICRA]A+ (pronounced ICRA A plus).[2] The outlook on the long-term rating is retained at Stable. ICRA has also upgraded the rating for the Rs. 92.50 crore short-term, fund-based and non-fund based bank facilities of the company from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+ (pronounced ICRA A one plus). The rating assigned to the Rs. 55.45 crore unallocated portion has also been upgraded from [ICRA]A+/stable (pronounced ICRA A plus with stable outlook). ICRA has also assigned [ICRA]A1+ (pronounced ICRA A one plus) to the fresh Commercial Paper limit of Rs. 50.00 crore. The total limits rated are Rs. 290.00 crore.

The rating upgrade takes into consideration LIL's steady improvement in its financial profile as reflected by stable revenue growth, margin expansion and improved cash accruals that have supported debt repayments and resulted in overall improvement in credit metrics during FY 2016. While the increase in revenue was driven by enhanced orders from OEMs and overall pick-up in industry sales, the improvement in EBITDA margins during FY 2016 was driven by favorable impact of cost rationalization programs along with lower material costs, favorable realizations negotiated with key OEMs and suppliers and gradual improvement in capacity utilization levels at some of the under-utilized manufacturing facilities.

The rating continues to factor in the strong market position of LIL in the automotive lighting system segment by virtue of it being a major supplier to leading domestic automobile OEMs in the Passenger Vehicle (PV), Two Wheeler and Commercial Vehicle (CV) space and presence in upcoming launches of its existing customers. LIL's business position in the automotive lighting segment is also supported by virtue of its technology association with Stanley Electric Co. (Japan), which also owns 37.55% stake in the company. In line with evolving industry trends, LIL remains focused in expanding its technological capabilities in the areas of LED–based lighting systems as well as expanding its R&D capabilities. As part of its strategy to improving its design capabilities, the company has recently set-up a R&D center in Taiwan besides upgrading its R&D centers in India. From a manufacturing standpoint, LIL has adequate capacities to meet increased demand from its customers given the fact that it set-up fairly large sized manufacturing facilities in Bawal (Haryana) in FY 2012 and Bidadi (Karnataka) in FY 2013. Availability of surplus capacity at these locations shall therefore continue to provide headroom for future growth and limit its cash flows towards capital expenditure requirements over the next 2-3 years.

In light of increasing competition from peers like Fiem Industries Limited, Minda Industries Limited, India Japan Lighting and Magneti Marelli Motherson Auto Systems, maintaining overall market share shall remain a challenge. For instance, over the last 12-18 months, the company was unable to gain business for some of the new models introduced by its key customer. Accordingly, ICRA expects competitive intensity to remain high and company's ability to maintain its market share will remain one of the key rating sensitivities.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

[2] 100 lakh = 1 crore = 10 million

Notwithstanding improvement in EBITDA margins in the past couple of years (i.e. FY 2015-16), the company's profitability indicators continue to remain relatively low in comparison to its peers (despite being a dominant player in the domestic automotive lighting segment). In ICRA's view, this is primarily on account of relatively higher overheads owing to multiple plants and low capacity utilization levels (at new plants) and high dependence of technology partners for new product development, which results in higher royalty and design charges. Further, the company also sources a sizeable proportion of sub-assemblies for lighting systems from third-party vendors (including group companies), which limits scope for margin expansion, otherwise possible through backward integration. Nevertheless, the company's return indicators are expected to improve gradually as the company's profitability strengthens on account of anticipated volume growth, cost reduction, better pricing initiatives and moderate capex plans.

Although the company has dependence on short-term borrowings and credit period extended by creditors, its group companies that form a key part of its supplier base support the same. Further, despite having adequate capacities, the company may have to invest in a Greenfield project in the medium-term in line with existing clients' investment plans in Gujarat, which may require the company to fund the same through external borrowings. Going forward, the ability of the company to improve profitability and reduce reliance on short-term borrowings will be the other key rating sensitivities.

About the Company

LIL was founded as a trading company in 1945 under the aegis of its founder, the Late Mr. 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. SECL group currently holds a 37.5% equity stake in the company while the Indian promoters (D.K. Jain and family) hold 36.07%. Post 2003, the company streamlined its product portfolio to only incorporate automotive lighting. LIL continued to expand its manufacturing presence in last few years and currently has nine plants spread across Maharashtra, Haryana, Uttarakhand and Gujarat. Although a leader in the automotive lighting segment, LIL faces increasing competition from other large players like Fiem Industries Limited, Minda Industries Limited, India Japan Lighting and Magneti Marelli Motherson Auto Systems. Besides being a dominant player in the lighting systems in the automotive segment, LIL also owns 21.82% stake in SL Lumax, a company that is a major supplier of lighting systems, chassis parts and gear shifters with majority of sales to Hyundai Motor India Limited.

Recent Results

As per audited financials, LIL (standalone) recorded an operating income of Rs. 1,255.2 crore with an OPBIDTA of Rs. 88.6 crore and PAT of Rs. 37.4 crore in FY2016 as compared to operating income of Rs. 1,142.6 crore, OPBIDTA of Rs. 59.5 crore and PAT of Rs. 16.6 crore in FY2015.

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