October 06, 2017

Lumax Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loans	7.58 (revised from 31.55)	[ICRA]A+ (Stable); reaffirmed
Long term fund based (CC)	60.50	[ICRA]A+ (Stable); reaffirmed
Short term fund based (WCDL)	20.00	[ICRA]A1+; reaffirmed
Short term non-fund based	110.00 (revised from 100.00)	[ICRA]A1+; reaffirmed
Unallocated	61.92 (revised from 27.95)	[ICRA]A+(Stable); reaffirmed
Commercial Paper	50.00	[ICRA]A1+; reaffirmed
Total	**310.00 (revised from 290.00)**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the ratings outstanding on the various Rs. 260.0 crore bank facilities of Lumax Industries Limited ("LIL" or the company) at [ICRA]A+ (pronounced ICRA A plus) and [ICRA]A1+ (ICRA A one plus). ICRA has also reaffirmed the short term rating outstanding on the Rs. 50 crore Commercial Paper programme at [ICRA]A1+. The outlook on the long term rating is 'Stable'.

Rationale

The rating re-affirmation takes into consideration LIL's strong market position as the leading supplier of automotive lighting systems, especially for the passenger vehicle (PV) segment in India, strong technological and business support from Stanley Electric Co. Ltd., Japan (JV partner with 37.5% equity stake) and stable financial performance over the past one year.

During FY 2017, LIL's revenues grew at relatively modest pace (up 3% on YoY basis) to Rs. 1,299.1 crore primarily on account of limited participation in some of the new model launches of its key customer and under-performance of one of its key customers in the PV segment. However, even as revenue growth remained fairly subdued, the company managed to improve its profitability indicators primarily as benefits of lower raw material costs, localisation efforts and cost-reduction measures supported margin expansion. The repayment of long-term borrowings and lower interest cost led to better coverage and capitalization indicators. Although the company reduced its external borrowings during the year, the company's relatively higher reliance on short-term liabilities (including creditors) exposes it to the risk of asset-liability mismatch. However, this risk is mitigated by healthy refinancing ability by virtue of a strong core business.

In contrast to the previous year, the company had a strong start to FY2018 with revenues growing 15% in Q1 FY2018 to Rs. 350 crore on account of recovery in 2-Wheeler (2W) sales and increasing penetration of high-value LED-based lighting systems in both PV and 2W segment. During Q1 FY2018, approximately 12% of company's revenue growth was driven by supplies to new model launches and change in the product mix, especially from the increase in the sale of LED based lamps to 2W segment. The share of LED lamps has increased from 5% in FY2017 to 15% in Q1 FY2018. The operating margins were however lower than Q1 FY2017 on account of pending actualization of price increase from customers on account of increase in raw material prices.

LIL's business position in the automotive lighting segment is supported by virtue of its technology association with Stanley Electric Co. (Japan), which also owns 37.5% stake in the company. In line with evolving industry trends, the company 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. In addition, LIL is also investing in a Greenfield project in Sanand, Gujarat to cater to Suzuki Motors' new plant. The total capital expenditure for upcoming facility is estimated to be around Rs. 125 crore and would commence production by end of FY2018.

In light of increasing competition from peers like India Japan Lighting, Magneti Marelli Motherson Auto Systems, Minda Industries Limited and Fiem Industries Limited, 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.

Notwithstanding improvement in EBITDA margins in the past couple of years 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 and cost reduction.

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. Going forward, the ability of the company to improve profitability and reduce reliance on short-term borrowings will be the other key rating sensitivities.

Key rating drivers

Credit strengths

- **Strong position in the domestic automotive lighting segment with leading market share in the PV segment -** LIL is one of the leading suppliers of automotive lighting systems and is the market leader in the PV segment.
- **Diversified customer base and established relationships with OEMs -** The company has strong relationship with OEMs across segments. The parentage from Stanley Electric helps the company obtain strong share of business from some of the Japanese OEMs
- **One of the key suppliers of lighting systems to MSIL, a leader in the domestic PV market-** The company has significant share of business with MSIL and is present in multiple models.
- **Access to technology from its collaborator and largest shareholder viz. Stanley Electric Co. Ltd, Japan -** The strong technical support from Stanley Electric helps LIL stay in line with the evolving trends in the lighting industry such as LED lamps

Credit weaknesses

- **High completion in the automotive lighting industry -** Despite the leading market share, the company has lost out on some of the key models from MSIL and faces increasing competition from new entrants such as India Japan Lighting and Magneti Marelli Motherson Auto Technologies
- **Reliance on short-term borrowings -** The company has a relatively high reliance on short-term borrowings for funding its business; however, the associated risk of asset-liability mismatch is mitigated by healthy refinancing ability by virtue of a strong core business
- **Surplus production capacity limits return indicators** – Despite surplus capacity at some plants, the company is in the process of setting up a new manufacturing unit which would exert pressure on the profitability indicators

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Auto Component Manufacturers

About the company:
LIL is positioned as one of the leading players in the domestic automotive lighting industry with product portfolio comprising automotive lighting systems such as Head Lamps, Tail Lamps, Sundry and Auxiliary Lamps. The company's presence spans across all segments in the auto sector viz. passenger four wheeler (4W), passenger two wheeler (2W), commercial vehicle, buses, tractors, etc. However the passenger vehicle segment remained dominant in sales with ~71% contribution in FY2017.

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 36.03%. The company has multiple manufacturing plants located in close proximity of its customers.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1,255.4	1,299.1
PAT (Rs. crore)	37.4	45.2
OPBDIT/ OI (%)	7.1%	7.7%
RoCE (%)	14.7%	18.1%
Total Debt/ TNW (times)	0.9	0.6
Total Debt/ OPBDIT (times)	1.9	1.5
Interest coverage (times)	6.5	8.7
NWC/ OI (%)	-0.8%	0.2%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 year		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Oct 2017	Aug 2016	Aug 2015	Sep 2014
1	Term Loans	Long Term	7.58	NA	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)
2	Long term fund based (CC)	Long Term	60.50	NA	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)
3	Short term fund based	Short Term	20.00	NA	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A2+
4	Short term non-fund based	Short Term	110.00	NA	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A2+
5	Commercial Paper	Short Term	50.00	NA	[ICRA] A1+	[ICRA] A1+	-	-
6	Unallocated	Long Term	61.92	NA	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Stable)	[ICRA] A- (Stable)

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	March, 2013		March, 2018	7.58	[ICRA] A+ (Stable)
Long term fund based (CC)	**NA**			60.50	[ICRA] A+ (Stable)
Short term fund based	**NA**			20.00	[ICRA] A1+
Short term non-fund based	**NA**			110.00	[ICRA] A1+
Commercial Paper	**NA**			50.00	[ICRA] A1+
Unallocated	**NA**			61.92	[ICRA] A+ (Stable)

Source: the company

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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