

Lumax Industries Limited

September 19, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-----------------------------------|----------------------------------|------------------------------|
| Term Loans | 7.58 | 0.00 | [ICRA]A+(Stable): withdrawn |
| Long-term fund-based limits | 70.50 | 70.50 | [ICRA]A+(Stable); Reaffirmed |
| Fund based Limits | 20.00 | 138.50 | [ICRA]A1+; Reaffirmed |
| Short-term non-fund based limits | 110.00 | 110.00 | [ICRA]A1+; Reaffirmed |
| Commercial Paper | 50.00 | 50.00 | [ICRA]A1+; Reaffirmed |
| Unallocated | 51.92 | 0.00 | |
| Total | 310.00 | 369.00 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 70.50 crore long-term fund-based limits for Lumax Industries Limited. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 138.50-crore short-term fund-based bank facilities, Rs. 110.00-crore non-fund based bank facilities and Rs. 50.00-crore commercial paper programme of Lumax Industries Limited (LIL)¹. ICRA has also withdrawn its rating on the term loans of LIL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings take into consideration LIL's strong market position as the leading supplier of automotive lighting systems, especially for the passenger vehicle (PV) segment in India, its strong technological and business support from Stanley Electric Co. Ltd., Japan (JV partner with 37.5% equity stake), and strong traction in business over the past six quarters aided by strong performance of the domestic automotive sector and increasing penetration of LED-based lighting systems. However, the ratings are constrained by relatively higher reliance on short-term funding sources to fund long-term assets, which has resulted in asset liability mismatch and relatively high total outstanding liabilities (TOL) to total net worth (TNW) ratio. That apart, the company has relatively high dependence on imports (both direct & indirect), which exposes the company to sharp fluctuation in foreign exchange risk. Although the same is covered through pass-through agreements with OEMs but with a lag of at least a quarter.

During FY2018 the company's operating income grew by 30% to Rs. 1,651.8 crore driven by a mix of volume growth and improvement in the average realization due to increasing share of LED-based lighting solutions. The company's share of revenues from the two-wheeler (2W) segment witnessed strong growth supported by higher share of business from its key clients in the segment, Hero Motocorp (HMCL) and Honda Motorcycle & Scooter (HMSI), and increased penetration of LED headlamps. Revenues from the passenger vehicle (PV) segment also witnessed significant growth, supported by new model launches, strong growth in the PV sales and higher share of LED sales. Although the LED sales increased in both 2W and PV segment, the penetration of LED was higher in the 2W segment because of the Auto Headlamp On (AHO) regulation. As per the AHO regulation, the the headlight will get switched on as soon as the engine starts, even during daytime. As a result, the OEMs have opted for LED headlamps because they are more energy efficient. The strong revenue growth continued in FY2019 and the company reported a 45% growth in its operating income to Rs. 496.6 crore.

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

The company enjoys strong share of business with several customers and has high share of business, especially with Maruti Suzuki India (MSIL). LIL's business position is supported by 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 an R&D centre in Taiwan, besides upgrading its R&D centres in India. In addition, LIL started production at its new plant in Sanand, Gujarat, to cater to Suzuki Motors' new plant. The company now plans to invest in another greenfield plant in Vithlapur, Gujarat to expand its capacity in line with Suzuki Motor's plans to expand its capacity in its Gujarat plant.

Considering the increasing competition from peers like India Japan Lighting (IJL), Magneti Marelli Motherson Auto Systems (MMMASL), 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.

The rating action also takes into consideration the improvement in the company's financial profile over the last few years supported by rising scale of operations, improvement in profitability and low reliance on external debt. The company has been able to improve its margins in the past few years by reducing raw material costs aided by localization of certain parts and improvement in capacity utilization at its plants. However, its profitability continues to be below some of its peers in the automotive lighting space.

Despite of the improvement in financial profile, the company's ratings also factor in high reliance on short-term borrowings (including creditors) to fund its capital expenditure plans. LIL's share of short-term debt has gradually increased over the past few years because of management's decision to fund its capital expenditure using cost-effective short-term debt and higher payable cycle. Accordingly, the company's TOL to TNW ratio continues to be high even as external borrowings have reduced. This limits the company's liquidity position. However, this risk is mitigated by its healthy refinancing ability by virtue of a strong core business, almost negligible debt repayment obligations and undrawn sanctioned term loans.

Outlook: Stable

ICRA believes LIL will continue to maintain its financial profile and market share in the near-term. The outlook may be revised to Positive if there is a substantial improvement in liquidity profile because of lower asset liability mismatch. The outlook may be revised to 'Negative' if the liquidity profile of the company weakens or if there is a significant loss in market share.

Key rating drivers

Credit strengths

Strong position in the domestic automotive lighting segment with leading market share in the PV segment - The company is the largest supplier of automotive lighting solutions and is the leader in the PV segment. LIL along with its associate company SL Lumax Limited and Lumax Auto Technologies Limited (LATL) has close to 50% market share in the domestic automotive lighting market in India.

One of the key suppliers of lighting systems to Maruti Suzuki India Limited (MSIL), a leader in the domestic PV market - The company has high share of business with MSIL and is present in multiple models. The company has set up its new plant in Sanand Gujarat to cater to MSIL's capacity expansion and it will take up a new greenfield project in Vithlapur, Gujarat in line with the MSIL's future capacity expansion plans in Gujarat.

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 headlamps. Stanley is one of the leading supplier of automotive lighting solutions in the world and it developed the first LED high mount stop lamp for the automotive sector.

Diversified customer base and established relationships with OEMs in all segments of the automobile industry; presence in new product development of some of key upcoming models - Besides MSIL, the company also has a high share of business with other OEMs like HMCL, HMSI, Honda Cars (HCIL), Tata Motor (TML) and Mahindra & Mahindra (M&M). The company has gained high share of business in the LED models and its technical centre helps it with new product development.

Improvement in financial risk profile over the last four years supported by improvement in profitability indicators and credit indicators - The company's profitability margins have improved significantly over the last four years because of strong revenue growth and benefits of operating leverage. The credit profile has benefited from better profitability and low dependence on external debt.

Recently commissioned plants to provide headroom for growth over the medium-term - The company's new plant at Sanand, Gujarat will provide significant capacity to cater to the expansion plans of its key client MSIL.

Credit challenges

Despite the leading market share, the company has lost out on some of the key models from MSIL and faces increasing competitive intensity in the domestic automotive lighting segment from relatively new entrants - The company has lost out on key models from MSIL because of competition from other players like IJL and MMMASL. However, the company continues to have a high share of business with MSIL and is present in models like the new Swift and Dzire.

High reliance on short-term borrowings (including creditors) creates liquidity risk; Although the same is partially mitigated by company's ability to access financial markets and relationship with its suppliers - The reliance on short-term debt and creditors to fund its capital expenditure plans creates liquidity risk, but it is mitigated by access to financial markets, sanctioned term loans and healthy relationship with its suppliers.

The company is in the process of setting up a new manufacturing unit, which would exert pressure on profitability indicators - The company will undertake significant capital expenditure between FY2020 and FY2022 to set up a new plant at Vithlapur, Gujarat. The ramp-up period associated with setting up of a plant could put pressure on LIL's profit margins.

Company's profitability indicators lag its peers despite its dominant market position - The LIL's profit indicators are below some of its key competitors such as Minda Industries and MMMASL because of royalty payments to Stanley Electric and higher share of sales from the PV segment, which faces significant competitive pressure.

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 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 two-wheelers (2W), commercial vehicles, buses, tractors, etc. However, sales of the passenger vehicle segment continue to remain dominant with ~65% contribution in FY2018. The company is one of the leading suppliers of automotive lightings to Maruti Suzuki India Limited 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, Uttar Pradesh, Karnataka and Gujarat.

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. The SECL Group currently holds a 37.5% equity stake in the company, while the Indian promoters (D.K. Jain and family) hold 36.03%. Through other entities, the group also has presence in other automotive segments such as gear shifters, moulded parts, oxygen sensors, etc.

Key financial indicators (audited)

| | FY2017 | FY2018 |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 1,270.2 | 1,651.8 |
| PAT (Rs. crore) | 46.1 | 63.2 |
| OPBDIT/OI (%) | 7.9% | 8.2% |
| RoCE (%) | 18.6% | 25.0% |
| Total Debt/TNW (times) | 0.5 | 0.6 |
| Total Debt/OPBDIT (times) | 1.2 | 1.2 |
| Interest coverage (times) | 9.0 | 17.0 |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Current Rating (FY2019) | | | | | Chronology of Rating History for the Past 3 Years | | | |
|------------------------------------|------------|--------------------------|--------------------------------|--------------------------------|---|-------------------------|-------------------------|--|
| Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 | |
| | | | | Sep 2018 | Oct 2017 | Sep 2017 | Aug 2015 | |
| 1 Term Loans | Long Term | 0.0 | 0.0 | [ICRA]A+ (Stable) Withdrawn | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Stable) | |
| 2 Long-term fund-based limits | Long Term | 70.50 | NA | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Stable) | |
| 3 Short-term fund-based | Short Term | 138.50 | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1 | |
| 4 Short-term non-fund based limits | Long Term | 110.00 | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1 | |
| 5 Commercial Paper | Long Term | 50.00 | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1 | |

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 No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-------------------------------------|--------------------------------|-------------|------------------|--------------------------------|-------------------------------|
| NA | Commercial Paper | NA | NA | NA | 50.00 | [ICRA]A1+ |
| NA | Long-term fund-based | NA | NA | NA | 70.50 | [ICRA]A+(Stable) |
| NA | Short-term fund-based | NA | NA | NA | 138.50 | [ICRA]A1+ |
| NA | Short-term non-fund based limits | NA | NA | NA | 110.00 | [ICRA]A1+ |

Source: Lumax Industries Limited

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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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