

April 30, 2020

## Lumax Industries Limited: Update

### 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	183.00	183.00	[ICRA]A1+; Outstanding
Short-term non-fund based limits	135.00	135.00	[ICRA]A1+; Outstanding
Commercial Paper	50.00	50.00	[ICRA]A1+; Outstanding
Unallocated	1.50	1.50	[ICRA]A+(Stable); Outstanding
<b>Total</b>	<b>450.00</b>	<b>450.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating update on Lumax Industries Limited (LIL) follows the impact of the novel coronavirus outbreak on the Indian auto component industry. The automotive supply chain disruption—largely limited to China during January and February 2020—has snowballed into a demand shock owing to the rapid spread of the pandemic and its adverse impact on the macro-economic environment. To contain the rapid proliferation of the disease, the Government of India imposed a 21-day lockdown from March 24, 2020, which was further extended till May 3, 2020. While the large-scale global lockdown has disrupted production of automobile OEMs and their supply chain during March 2020 onwards, the adverse impact of the pandemic is expected to impact automobile demand in the near term. In ICRA’s view, even after the lockdown restrictions are eased, the demand environment is likely to remain subdued, since automobile purchase is a discretionary spend. Accordingly, auto component companies, including LIL, are likely to witness lower earnings and weakness in credit metrics in the near-term.

Given the environment, the liquidity cushion between cash balances and available lines of credit, and debt servicing requirements remains key. ICRA believes that LIL will have an adequate liquidity position with availability of unutilised working capital limits, fixed deposits (Rs. 30 crore) and undrawn term loans (Rs. 45 crore). ICRA also takes comfort from the fact that most of its manufacturing units are collateral-free and can be pledged to raise long-term funds, thereby supporting its financial flexibility. Against the aforementioned liquidity, the company has minimal debt servicing obligations in Q1 FY2021, in addition to supporting its fixed expenses. Even as the company met its March 2020 obligations in a timely manner, it has opted to seek a moratorium on interest payments for April and May 2020 (under the ‘Covid-19 – Regulatory Package’ announced by the Reserve Bank of India), to further enhance its liquidity position.

Although the company’s liquidity remains comfortable for tiding over the current lockdown, LIL continues to remain exposed to any prolonged weakness in demand in the automobile industry. A higher than expected downturn in automobile demand and a resulting inability to achieve adequate capacity utilisation could lead to a moderation in the company’s return and leverage/debt coverage indicators, and would remain a rating sensitivity. ICRA will continue to monitor the situation as it evolves over the near-term and assess its impact on the credit

profile of LIL and accordingly take a suitable rating action in case of pressure on the liquidity position/credit profile of the company.

## Key rating drivers and their description

### Credit strengths

**Strong position in domestic automotive lighting segment** – The company is a leading supplier of automotive lighting solutions in the domestic market with its product portfolio of 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 passenger vehicle (PV) segment and the third largest in the two-wheeler (2W) segment after FIEM Industries and Minda Industries (including Rinder India).

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

**Access to technology from its collaborator and largest shareholder, Stanley Electric Co. Ltd. (SECL), Japan** – SECL 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 its collaborator 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 across all segments of the automobile industry** – LIL is present across all segments of the automobile industry with 10 plants located in proximity to its key customers. Besides MSIL, the company also enjoys a high share of business with other OEMs such as Hero MotoCorp Limited (HMCL), Honda Motorcycle and Scooter India (HMSI), Honda Cars India Limited (HCIL), Tata Motors Limited (TML) and Mahindra and Mahindra (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 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 have improved during FY2020 aided by the in-house manufacturing of PCBs. Earlier the PCB manufacturing process was undertaken by its Group company, Lumax Auto Technologies Limited (LATL). However, LIL had bought the assets of the 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 risk partially mitigated by ability to access financial markets and strong relationship with suppliers** – The company places high reliance on short-term debt and creditors for funding its business. However, the associated risk of asset liability mismatch is mitigated by its 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; prolonged slowdown in the automobile demand following the COVID-19 outbreak could restrict revenue growth** – While LIL reported a revenue growth of 12.4% in FY2019, the growth is expected to have weakened during FY2020 because of the slowdown in the domestic automotive market. In 9M FY2020, LIL's revenues declined by 14.4% to Rs. 1,214.3 crore on a YoY basis, in line with the slowdown in the industry. Further, with the global pandemic and ensuing nationwide lockdown likely to lead to a relatively prolonged period of curtailed automotive demand, LIL's revenue growth is likely to be impacted in the short-term.

## Liquidity position: Adequate

Despite expectation of moderation in cash flow generation due to the global pandemic and general slowdown in the automotive industry, LIL's liquidity position is **adequate** supported by availability of unutilised working capital limits (average unutilised limit of Rs. 27.6 crore against sanctioned limit of Rs. 80.5 crore during the 12-month period that ended in March 2020), fixed deposits of Rs. 30 crore and undrawn term loans of Rs. 45 crore. ICRA also takes comfort from the fact that most of its manufacturing units are collateral-free and can be pledged to raise long-term funds, thereby supporting its financial flexibility. Against the aforementioned liquidity, the company has minimal debt servicing obligations in Q1 FY2021, in addition to supporting its fixed expenses. Going forward, it is expected to meet its capex requirements and debt obligations over the near-term from a mix of internal accruals, available lines of credit and term loans.

## 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 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 that 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 the financial risk profile with further aggravation of an asset liability mismatch position or weakening of credit metrics. 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
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 of 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, passenger two-wheelers, commercial vehicles, buses, tractors, etc. However, sales of the PV segment remains dominant with ~67% contribution in FY2019. The company is one of the leading suppliers of automotive lightings to MSIL and enjoys a strong share of business with OEMs, such as HMSI and HMCL. 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 that 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 is present in other automotive segments such as gear shifters, moulded parts and oxygen sensors.

### 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 (FY2021)			Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020		FY2019		FY2018	
					30-Apr-2020	14-Feb-2020	25-Nov-2019	7-Dec-2018	19-Sep-2018	21-Mar-2018	6-Oct-2017
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)

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 [click here](#)

### 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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