"Lumax Industries Q3 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Lumax Industries Limited Q3 and Nine-Month FY18 Earnings Conference Call.

This conference may contain forward-looking statements about the company which are based on the beliefs, opinions and expectation of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Deepak Jain – Managing Director of Lumax Industries. Thank you and over to you, sir.

Deepak Jain: Good evening ladies and gentlemen. A very warm welcome to the Q3 and Nine-Months FY18 Earnings Call of Lumax Industries Limited. Along with me on this call, I have Mr. Anmol Jain – Joint Managing Director; Mr. Vineet Sahni – CEO; Mr. Sanjay Mehta – Group CFO; Mr. Shruti Kant – CFO, Mrs. Priyanka Sharma—Head Corporate Communication and SGA, our Investor Relations Advisor.

The results are uploaded on the stock exchange and the company website. I hope everybody has had a chance to look at it. Before we start with the discussion on the financial performance of the company, I would like to share few highlights of the automobile industry.

The auto industry has reported healthy numbers in Q3 FY18 as compared to the corresponding quarter last year. Improvement in rural demand has led a strong growth across the two-wheeler segment; commercial vehicle has witnessed a robust growth led by demand in medium and Heavy-commercial vehicles. Passenger car segment has continued with its current growth. All auto OEMs including two-wheeler, PV and CV has registered around 11.3% growth in nine months FY18 compared to the corresponding period last year. All auto OEMs have produced around 2.14 crores vehicle in this period. Two-wheeler grew by 12.5%, passenger vehicles grew by 5.8% and the commercial vehicle by 3.4% in the same period. This production growth by the OEMs has helped the auto ancillary companies to gain momentum.

Our company is engaged in production and delivery of automotive lighting solutions to two-wheeler, passenger vehicle, farm equipment and commercial vehicle segment. We are the preferred supplier to OEMs in India and continue to be the market leaders. We are a manufacturer of automotive lighting system and bulbs is a standard bought out component. Lighting as a product has been transformed from functional product to go styling products for all the vehicles and automobiles. Aesthetic remain the key characteristics for OEMs for their product differentiation to appeal to the customers. Being technically competent with our in-house R&D, design center and manufacturing capabilities we have continued to serve our customers well. Our major clients include Maruti Suzuki, Mahindra & Mahindra, Honda Cars India, HMSI, Hero MotoCorp, Tata Motors and our major segments are PV, CV, FES, two-wheelers and three wheelers.

The company has commenced production at the state of the art lighting manufacturing facility at Sanand, Gujarat with effect from January 10, 2018. This facility has been set up with a capacity of about 300,000 car sets annually. The plant has started supply of new age LED headlamps and rear-lamps for the new generation Maruti Suzuki Swift platform. The company has launched new lamps for Hero MotoCorp for its Passion Pro, XPro and Super Splendor models during the quarter. The company has also added a new customer Morris Garages Motors India or MG Motors and received the order for supply of headlamps and tail lamps for its SUV, the SOP of which is expected in April 2019.

The Bawal plant of the company won JIPM award for TPM excellence being the second plant of the company after Pantnagar plant received this prestigious award. With increased focus on safety norms all new 2-wheelers are sold with the AHO feature and all PV are sold with the DRL. At the same time the focus on lesser energy consumption and improved aesthetics is driving the demand for LED lamps from OEMs. Currently LED forms 25% of the sales and we expect to see an exponential growth in the demand in the coming years. The evident shift to LEDs has been a major growth driver; LEDs are preferred over halogen bulbs as they are energy efficient and have a better life expectancy. The shift to BSVI norms will induce the usage of LEDs further.

On operational front as an organization, we continue to focus on cost control programs and enhance operational efficiencies. We continue to believe that the premiumization of the products would be the key growth drivers of our business. So overall Indian component sector is placed at a sweet spot as macroeconomic factors and consumer sentiments continue to remain strong. With a strong order book we are confident of growth in the coming quarters as well.

Now I would like to hand over the line to Mr. Sanjay Mehta-Group CFO to update on the financial performance of the company.

Sanjay Mehta: Good evening everyone. Let me take you through the financial performance for the company. Q3 FY18 performance, just to clarify due to applicability of Indian Accounting Standards Ind-AS with effect from April 17, the result for Q3 has been prepared in compliance with Ind-AS and accordingly corresponding results have been restated to make them comparable.

The net revenues stood at Rs. 371 crores for Quarter 3 FY18 as against 295 crores (net of excise duty) in Q3 FY17 recording the growth of 25% on year-on-year basis. The increase is due to volume increase and value addition of modern technology lighting components. The company reported consolidated EBITDA of Rs. 35 crores in Q3 FY18 as against Rs. 27 crores in Quarter 3 FY17 recording the growth of 28% year-on-year in value terms. EBITDA margin stands at 9.4% for Q3 FY18 against last year at 9.2% on quarterly basis. The expansion in margin is on account of optimization of fixed overheads due to increased sales

During the quarter the company has received Rs. 6.5 crores as price increase from customer which has resulted in expansion of EBITDA margin by 120 basis points in Q3 18 from Q2 18. However, for nine months EBITDA margin is at 8.5% against 8.8% in 9M FY17. The same is due to lower mould profitability which is down by almost Rs. 3.5 crores, 30% approximately as a result of less sales which is down by almost 20% in nine months FY18 in comparison to 9M FY17. If we compare the EBITDA margin on manufacturing sales, it is at 8.2% in 9M FY18 against 7.8% in 9M FY17, up by 40 basis points.

The consolidated PAT for Q3 FY18 is 18 crores against 16.50 crores in Q3 FY17, PAT margin after share of associates is at 4.9% in Q3 FY18 against 5.6% in Q3 FY17. The contraction in margin is on account of cost reduction to a customer in associate company.

Now we open the call for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: You mentioned that you received 6.5 crores from customer in the current quarter, is that a one-off thing the price increase that we got?

Sanjay Mehta: We got 6.5 crores price increase which is pending from the previous quarter in this quarter.

Ashutosh Tiwari: The 6.5 is the one-off for this quarter, 2/3rd of that will be one-off in this quarter or how we should look at it?

Sanjay Mehta: It is Q1, Q2, Q3 one-time one-off, price increase from the customer.

Ashutosh Tiwari: That we got in this current quarter?

Sanjay Mehta: Yes.

Ashutosh Tiwari: So roughly 2/3rd of the 6.5 is for first three quarters so roughly 4 crores would be one-off in this quarter, right?

Deepak Jain: If we divide by 3, it is around 2 Cr. for current quarter.

Ashutosh Tiwari: If we look at the contribution from two-wheeler segment to our sales, in first quarter we have reported that 31% had come from two-wheelers and the second quarter reported in the first half we had around 28% contribution in this quarter we had reported 26% contribution in the nine months. But if I look at revenue contribution from Hero MotoCorp and HMSI that is more or less similar only all the three quarters, so have we seen a big reduction in some other customer sales that two-wheeler contribution is coming down?

Sanjay Mehta: There is increase in two-wheeler contribution.

Ashutosh Tiwari: If we look at the first quarter presentation there we mentioned 31% of sales came from two-wheelers, second quarter we mentioned in the first of 28% of sales came from two-wheelers and this quarter we are saying 26% in nine months that means that continuously two-wheelers over the first to third quarters the contribution of two-wheelers is coming down, so is there some mismatch over there or how it is basically?

Deepak Jain: It is a percentage wise increase but because Maruti sales has increased so total percentage comes to the 26% of the total.

Ashutosh Tiwari: No, if we look at the Maruti contribution also if we just calculate for third quarter even Maruti contribution is 29%, so I think there is some mismatch over there because if I look at quarter wise then probably in this quarter others two-wheelers this would have been negative. I think there is something missing over there.

Ankit Thakral: It's like that only. Our two-wheeler sale on amount terms is same as the previous quarter, only the sale of the Maruti Suzuki in passenger car vehicles has increased from Quarter 1 to the current quarter and that's why if we consider the whole pie then the passenger vehicle pie has increased as compared to the two-wheelers. But on rupee to rupee terms two-wheeler sale is more or less same as in the first quarter.

Ashutosh Tiwari: I will drop you a mail separately for there is definitely some mismatch over there because I just calculated for all the three quarters based on numbers that you provided in PPT.

Deepak Jain: My suggestion would be if there is anything specifically we can just take it off-line and we can discuss it.

Ashutosh Tiwari: On the Hero MotoCorp, the new models that you mentioned XPro and Passion Pro and Super Splendor, so is it something new that we got which was not there earlier or how it is?

Vineet Sahni: This is for the new model which we have developed for them.

Ashutosh Tiwari: We were not there previously for these models?

Vineet Sahni: Yes.

Ashutosh Tiwari: On the other expense part, there is a good increase of 27% YOY in this quarter. So is there any reason behind that?

Vineet Sahni: Two reasons, one is the volume growth which is around 11.3% in the industry and second is due to the technology, the pricing of the product has also changed which is contributing into the balance increase in revenue.

Ashutosh Tiwari: No, I'm talking about other expenses. They have gone up from almost 27%.

Sanjay Mehta: Percentage to the sales, the other expenditure is the same.

Ashutosh Tiwari: It is up, last time it was 14.7%, this time it is 15.2%, other expenses I'm talking about.

Ankit Thakral: Other expenses in last Q3 16-17, it was 16.3% for Quarter 3, 17 and for nine months it was 16.6% and for the nine-month current year it is 15.5%. So as a percentage to sales it has reduced from Q3 also and from nine months also.

Ashutosh Tiwari: This SL Lumax profits were lower you said that there is some cost reduction from the customer. So is the nine-month number normalized number roughly 15.50 for quarter.

Sanjay Mehta: No, For SL Lumax consider on yearly basis. There is only one customer Hyundai, so price increase and decrease, they keep on discussing and accordingly they are putting into financial. In Q1 they have put price increase of 15 crores from Hyundai and in this quarter, they have taken a price reduction of 30 crores, so on yearly basis the PBT level will remain on that basis. I mean we should see on the yearly basis the percentage, on YTD basis.

Ashutosh Tiwari: That nine months number is normal, right?

Sanjay Mehta: Yes.

Moderator: We take the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: I want to know what is the share of LED in our total business that is in Quarter 3 and in a sequential quarter and also what it would be nine months this year and nine months last year?

Deepak Jain: Q3 this year is actually still 75-25, 75 in conventional, 25 being actually the LED; 2016-17 full-year was 92% as conventional, 8% as LED. The Q1 shifted from basically 92-8 to 80-20 that means 80% conventional, 20% LED and in Q2 and Q3 actually kind of made it to about 75-25. So that's basically the trend. As I mentioned before earlier in the con calls that we expect that next year it should actually go almost equivalent as 50-50.

Pritesh Chheda: Is there any deterioration in profitability of the base business which is your non-LED business because considering the shift in LED this year from 7% to 25% already, the corresponding change in EBITDA margin is not visible, so if you could highlight the reason for it? Is there a deterioration in your non-LED business or the reasons are otherwise?

Deepak Jain: I don't think there is any deterioration per se I think as I said I'm still not sure what is your expectation on the LEDs point?

Pritesh Chheda: So I will put it this way, 7% share of LED goes to 25% in nine months the change in margin is 30 basis points vis-à-vis 1/4th of your business changing but at the EBITDA margin level it's just 30 basis points addition.

Sanjay Mehta: It is in fact because of the mould sale, in last year the mould sale is higher, there is a reduction for almost 72% in the mould sale in Q3 FY18 that is the main reason of reduction in EBITDA which we are expecting because of the deferment of mould sale. But if you compare the manufacturing EBITDA it is increased by 40 basis points as I mentioned in my opening speech, the manufacturing EBITDA which was increased by 40 basis points from 7.8% to 8.2%.

Pritesh Chheda: But this 40 basis points is less for a 1/4th change in business mix.

Vineet Sahni: We are expecting that the profitability of the new technology is extremely high. It is not really so. We have to work out because the RM content, the bill of material content for high-technology product is higher as compared to the conventional. So going forward we have to take the route of localization efforts to bring the profitability up.

Pritesh Chheda: I will put it otherwise; you guys have an out and out target of 100 basis points expansion in EBITDA margin every year or let's say double-digit margin is your aspiration. When the first one 1/4th change in revenue mix comes I don't see that 100-basis points expansion.

Vineet Sahni: Yes but that doesn't actually happen immediately also. We need to work towards it which is in the plan.

Pritesh Chheda: So when does that come?

Vineet Sahni: We can share that separately as per our plan.

Pritesh Chheda: My second question is on SL Lumax, a quarterly basis obviously there is a lot of variation in the JV numbers, so what should happen with SL Lumax, the profitability should grow in line with the volume growth of Hyundai or there are other driver's profitability or profit growth for SL Lumax?

Vineet Sahni: Profitability should grow with volumes for sure and if you see the PAT is also higher on YTD basis. However, since they are mostly dependent on single customer so that is a pricing pattern which will continue like this.

Pritesh Chheda: So, let's say Hyundai has grown at about 7% in volumes in first nine months, I don't see a similar rise in your profit and loss of associate that number growing at 7%.

Vineet Sahni: So, we will have to see at the year end because now there is an adjustment of pricing. If you see there is around 15 crores adjustment on negative on a nine-month basis. So, this also depends on the negotiation with the customer, which will remain like that actually.

Pritesh Chheda: Would you grow over last year eventually and would you grow faster than the 7% volume?

Vineet Sahni: That is the anticipation.

Pritesh Chheda: I just want to know the update of your Sanand unit and when does the Swift production start and how does it affect your numbers?

Vineet Sahni: As mentioned in opening speech we have commenced with the production on January 10, 2018. The plant is currently in production and supplying to SMG Gujarat and the vehicles are also being produced.

Pritesh Chheda: And what is the size of this capacity?

Vineet Sahni: 300,000 vehicle sets.

Pritesh Chheda: And both headlight as well as tail-light?

Vineet Sahni: Yes.

Pritesh Chheda: And both LED?

Vineet Sahni: Tail-light is LED, headlight from Gujarat is not LED.

Pritesh Chheda: So which means that so far in Maruti it is Dzire's headlight which has got converted into LED?

Vineet Sahni: Right, but Swift will also have part of the some of the percentage as LED but the supply will continue from our Bawal plant.

Pritesh Chheda: For the headlamp?

Vineet Sahni: Yes.

Moderator: We take the next question from the line of Akash Manghani from BOI AXA Investments Managers. Please go ahead.

Akash Manghani: You explain something on the SL Lumax profitability actually I was not able to understand really what happened this quarter and what could be the normalized profit for FY 19 could you just help me understand?

Sanjay Mehta: In SL Lumax in this quarter they have taken the hit of 30 crores price reduction from Hyundai and as consolidate on nine-month basis they have taken the hit of 15 crores because they have taken the increase of 15 crores in Q1. So, if I see the nine-month profitability they are at PBT level of 12.3% and we are expecting the same level at the year-end.

Akash Manghani: So, this nine-month FY18 you reported profit from associates of 14.5 crores, you will finish FY18 with the same numbers is that what you are saying?

Sanjay Mehta: SL Lumax percentage of PBT will be at around 12% at year end and I will consolidate around 21.28% of my holding in my accounts.

Akash Manghani: You've reported 14.5 crores profit from associates in nine-month FY18, so you expect to finish the year with what number?

Sanjay Mehta: 14.5 divided by 9 X 12 so it is almost 18 crores.

Akash Manghani: And how about FY19, what could you guide for FY19?

Sanjay Mehta: We have yet to get the figure but that depends as Hyundai is the customer so they are still making their business plan.

Vineet Sahni: We normally get the production numbers by March and that's where we finalize our budgets to know what would be the 2019 like.

Akash Manghani: But let's assume that Hyundai is able to grow at in the range of 5%-6%-7% in that range, mid to high single-digit.

Deepak Jain: I think more appropriate would be that we would be looking at sustaining these numbers and probably be getting it from our associate company. Our associate company as of now has not confirmed about Hyundai's plans but they are single sourced on it. Hence a 7% volume growth may lead to a 7% volume growth for them, not necessarily on a price growth because again as I said it's a 100% Hyundai customer. So, all its sales with this and hence every quarter they do keep on having a price variation which is actually a Hyundai policy with their close suppliers.

Akash Manghani: Coming back to the standalone business; in the opening remarks you mentioned that you expect to see exponential growth in the LED business. So what sort of growth rate in the LED business you are expecting in FY19 and FY20 based on the order books that you have on your hand?

Deepak Jain: I think I had put it in a different way I'd mentioned before as well. I think the mix which is going from a 75-25 which has gone two years back about 92-8 then it's going 75-25, going forward we expected actually to go around to 50-50 or so. So that's why we see a lot of the new LEDs, it's not that we have completely done away with conventional but almost about 70% of our order books which are coming-in, in the pass-cars and even now so in two-wheelers we are actually seeing that LED applications happening. So that's how we see that the product mix going to be changing.

Akash Manghani: Because of this mix change that you had in the current year versus last year, the EBITDA margins still are so flattish YOY.

Deepak Jain: Because primarily it's actually the new volume business and that's what we had repeated earlier. So, I will just repeat it again for your sake that the new volume is actually on the new order books which are coming in which actually sometimes lead to a higher import content for us. So the margin expansion may not be up to your expectation because we will probably take over the year or so to start localizing it as well and specifically on the electronics. So that's basically what the company is working towards to actually once we get these orders on LEDs we actually start putting investments and also doing localization efforts which actually later on goes and increase. But you need about at least 12 months lag once you start producing this.

Akash Manghani: So, we are talking of localizing which components exactly?

Deepak Jain: Electronic components.

Akash Manghani: So, what could the localization amount content be eventually next year or two?

Deepak Jain: As of now if you see, let's talk about the total raw material content first. It's actually moving up to almost about 64%-65%, we want it back to about at least 62%-61%.

Akash Manghani: And on the two-wheelers business on the LED's share what sort of traction are you witnessing and going forward what sort of expectation is there?

Deepak Jain: The recent ones which we have been launched, rear lighting was already LEDs, now you will start seeing that in the front lighting as well. The Grazia which we just launched that was LED. I think we have certain order books in the new models which is coming in we will see more and more LEDs now applicable. I would not be able to tell you which models because until this launch we would not be at the liberty to speak.

Akash Manghani: What will be your market share in the two-wheeler related business?

Deepak Jain: In the two-wheeler LED business specifically?

Akash Manghani: Which is about the country as a whole or two-wheeler lighting?

Deepak Jain: Specifically, only two-wheeler lighting?

Sanjay Mehta: It's 25%.

Moderator: We take the next question from the line of Deepak Jain from Shubhkam Ventures. Please go ahead.

Deepak Jain (Shubkam): 6.5 crores price increase which you have got is reflected under which heads in this quarter? Is it in revenues or it is reduced from raw material?

Sanjay Mehta: In revenue.

Deepak Jain (Shubkam): So, if we reduce out of proportion of that which is pertaining to the first half and then what is our value and volume growth for the quarter? Maybe 4.5 because some of that proportion will be for this quarter also. Then what would be the volume and value growth?

Sanjay Mehta: If we take the nine months together, around 62% of total increase is the volume growth and if take from Q3 last year to Q3 this year, around 50% of total increase is from the volume growth.

Deepak Jain (Shubkam): You are saying 50 that's what you're saying?

Sanjay Mehta: Yes around 50.

Deepak Jain (Shubkam): Given this kind of a growth rate which we have experienced in the last two quarters, you expect 18%-20% revenue growth for Q4 given last Q4 has a high base also, so you see on a trending basis higher double-digit growth?

Anmol Jain: I think the growth will continue if we look at--answering to your previous question, if you see Q3 to Q3 on a year-on-year basis even if you take out the price increase we are still looking at a 30% growth only on Q3-to-Q3 basis which we take out 4 crores out of the price increase. And if you see a nine-months we are looking at a 24% growth currently, going forward we do expect that on year-on-year basis we will expect to see a high double-digit growth.

Deepak Jain (Shubkam): You indicated that the mould sales were lower by some 60%-70% this year, so what was that quantum?

Anmol Jain: In Q3 standalone basis the mould sales on year-on-year basis were down by 72% but that not necessarily mean that we lost in the order. It's just timing of the launch of the vehicle, so some of these launches have been possibly postponed and you could possibly see some of these effects coming in the Q4 of this financial year as well.

Deepak Jain (Shubkam): On the localization program you think that it your normal CAPEX of 40-50 crores will take care of that or you have to do some extra localization for the electronics which you indicated?

Deepak Jain: No, from CAPEX point of view it should be enough.

Moderator: We take the next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: I would like to know these headlamps which costs around , 10,000+correct me if I am wrong, what is the cost of the bulb in that and what is our import content of that whole set?

Vineet Sahni: This headlamp obvious price, it is only one that we are talking that is of Swift headlamp which is a fully LED headlamp because LED headlamps also are two types – one is a full LED, other is some LED feature, other is conventional. This particular price is for a full LED headlamp and here we are not using a bulb. The LED source is being used as a projector, it is called by-LED projector. So the single projector acts as a light source and it also has a daytime running light that is called DRL which is also a LED feature.

Sanjay Shah: What is the import content in that because why I am asking is we want to localize it, so what is the scope of localizing, how much percentage we can localize?

Vineet Sahni: It would depend on our plan which is still under discussion. We would prefer to localize as much as possible. However, it is always a phased plan and discussed with the customer because first we need to establish the quality levels and then get into the localization plan. So currently we are round Rs. 4000 is getting imported which we will have to work on the localization with our partners and other suppliers.

Sanjay Shah: Right now we are importing from our partner.

Vineet Sahni: Partly from our partner, Stanley and partly also from other suppliers that LED is also coming from other source.

Sanjay Shah: Can you identify which region it is coming from?

Vineet Sahni: It is coming from Asia region only.

Deepak Jain: Southeast Asia.

Sanjay Shah: My second question is regarding Maruti has guided volume growth for next for 2020 they are targeting 20 lakh volume and they are also planning a plan for 2.5 lakh capacity addition. So what is our plan, can you throw light on that, are we planning to go ahead with that to satisfy our customer's demand going ahead?

Deepak Jain: Maruti, we continue to be one of their first preferred suppliers for lighting equipment. We also have the largest market share as a wallet size among all the other manufacturers in lighting. Hence, we are very much engaged with Maruti Suzuki. The opening of Sanand plant, we are also the first auto-lighting manufacturer of Maruti supplier base to go into Gujarat. So definitely we are pretty much aligned with Maruti's 2 million target and we should see more volumes coming up in the Gujarat area.

Sanjay Shah: So that Sanand will satisfy that or we require to put new facilities for that?

Deepak Jain: We probably will require to put new facilities because their volume escalation is quite significant. As I had mentioned before, that Sanand capacity is about 300,000 and that would probably cater primarily to Swift. Swift volumes itself is about close to 225,000 so another platform coming in we will timely then put up new facilities in that area.

Sanjay Shah: Have we planned anything to guide us?

Deepak Jain: As of now I will not be able to share because we are again under NDA, so we need to first discuss with Maruti Suzuki and then we can probably announce it.

Moderator: We take the next question from the line of Ajit Motwani from Bharti AXA. Please go ahead.

Ajit Motwani: This Sanand plant has just started, right and the utilization there would be lower and the fact that it produces for Swift which might not have a similar localization content, so would the margins be lower on the Sanand plant initially or on a full ramp-up basis first of all?

Vineet Sahni: We will be working at the capacity that we have put the plant that means around 65% to 70% capacity starting March.

Deepak Jain: The Swift ramp-up is extremely-extremely fast, from January it was almost close to about only 2000 vehicles. We are actually going into March April to almost 20,000 vehicles, there is steep ramp up. Hence, we don't see an issue on capacity utilization on the Sanand capacity utilization. So we are expecting that in the next to next year, we are probably going to be on a saturation on the capacities and hence, maybe would not mind to invest further in that region to meet Maruti Suzuki's demand. Regarding the issue of localization as Vineet had mentioned before we are working with the program with the customer as well to see how the localization comes in. I don't see any negative impact on the current margin per se because of Sanand facility.

Ajit Motwani: On the RM cost or localization, what's the difference between the import content in LED and in conventional business that you do today because your aggregate RM content is about 64-65, so what's the difference in the content in LED and conventional business? Firstly, RM consumption in LED and conventional and then the import content

Deepak Jain: Basically, the RM import content is at 10% and likely to go upto 15% in future.

Ajit Motwani: That's what your total business?

Deepak Jain: Yes, that's for my total business because my total business would include conventional as well as LED. Now this would include a mix of conventional as well as current LEDs as of now. However, going forward we expect that from 10% import we maybe actually going on about 15% or so to this so that would be our increase and enhancement on the import content. So that's the current trend which looks like it. However, as I said that we would be basically having discussions with our customers because most of the current imports are actually then discussed and tried to basically need a localization plan, hopefully we should do it about in a year, two years to get basically back into the reduction of the imports.

Ajit Motwani: So initially the import content will go up and then it will come down maybe over 12-13 months' period?

Deepak Jain: Yes.

Ajit Motwani: The last question is on the pricing, this 6.5 crores price, the balance increase that you had got how much of it was related to the first half and how much is related to this quarter?

Sanjay Mehta: It is in fact one-time if I bifurcate in three quarters then around 4 crores is relating to Q1-Q2 and 2 crores is relating to Q3. It is a one-time.

Ajit Motwani: If I remove that then your underlying margins are about 7.8% you are saying?

Deepak Jain: No it is 8.30%.

Ajit Motwani: Which is what basically are down 50 or maybe 80 bps year-on-year despite the fact that our manufacturing margin you are saying have gone up?

Sanjay Mehta: Basically relating to this year only, the 6.5 crore is relating to Q1-Q2-Q3 only.

Ajit Motwani: I am removing that so if I just add this quarter's margin is 7.8 versus 8.5 last year December quarter so which is a 60 to 70 bps decline in margins and this is despite the fact that you are saying your underlying manufacturing margin in this quarter has improved by 70-80 bps.

Sanjay Mehta: Yes. If I remove price increase, total margins are down by 90 basis points on Q to Q base which is mainly because of lower mould sale.

Moderator: Next question is from the line of Sangam Iyer from Shubhkam Ventures. Please go ahead.

Sangam Iyer: For Swift the LED headlight will be supplied from our Bawal facility is that what you indicated earlier?

Anmol Jain: Yes, Swift has two variants – one is a normal conventional lamp and one is a LED headlamp. The LED headlamp is being catered to from our Bawal facility and the conventional lamp is being produced at Sanand.

Sangam Iyer: Both the LED requirements for Swift as on date would actually be catered from Bawal only?

Anmol Jain: For the headlamp, yes. However, for the taillamp of the Swift which is in LED, the 100% volume is being produced at Sanand.

Sangam Iyer: Other than Swift as on date, Swift and Dzire and S-Cross, are we also present in any other models for Maruti for LED?

Vineet Sahni: We are developing for other models already and certain model will have LED features and certain model will have full LED. We are already into the process of development.

Sangam Iyer: On the growth aspects going forward since you said that next year we should see this ratio of LED contribution moving towards 50-50 LED and conventional, were you eluding to the volume or to the net value contribution to revenue?

Vineet Sahni: This is net value contribution to revenue.

Sangam Iyer: So that is going to be average for the year or as an exit rate for the year?

Vineet Sahni: That will be at the year-end if we calculate because this keeps on increasing as the models get launched, so at the end of the next year.

Sangam Iyer: In Q4 we should be reaching at that kind of a 50-50 run-rate that's the way to look at it.

Vineet Sahni: I would say not only Q4 but in March.

Sangam Iyer: On an average if I look at it then growth for the next financial year should also be greater than 20%-25% because that's the only way keeping your conventional as constant assuming that they are constant in value terms we will be achieve this kind of a mix of 50-50?

Vineet Sahni: We all wish that happens.

Sangam Iyer: On the margin front when we talk about the margin expansion, is there a particular threshold beyond which when the mix changes the contribution to the EBITDA margins increases in a much faster pace, maybe by 200 basis points or so. Is there any particular threshold point that one should be looking at?

Vineet Sahni: No, there is no threshold point like that.

Sangam Iyer: So it will be on a 100 basis points year over year what you're looking at?

Vineet Sahni: Yes. Auto business will remain steady that is what it is. There won't be any threshold point because we need to pass on the gains to the customer as well even when we localize we share it. So there is a process to it and it will remain steady.

Sangam Iyer: What could be the peak in terms of the auto business 11%-12%, where would you see that beyond which even the passing to the customer has to happen?

Vineet Sahni: Very difficult to answer, we don't know because it would depend on the product mix which model does well which product so it's very difficult. It's a very futuristic thinking but at this moment we are not able to answer this question.

Sangam Iyer: As you said for FY20 since the ramp-up in Sanand would happen at a very aggressive pace we need an extra capacity, in order to set up a similar capacity that we have currently which is 3 lakh units, what would be the kind of incremental CAPEX that would be required for it?

Deepak Jain: We still have not firmed up our plans, whether it's going to be incremental Sanand facility expansion or it's going to be a new Greenfield site, as I said, it all depends on the volume expansion of what Maruti is coming in and of course our model allocation in Gujarat. But we do expect that next year we will be announcing our further plans in Gujarat.

Sangam Iyer: But would Sanand have enough space to expand or do we need a Greenfield?

Deepak Jain: Most likely we would be needing a Greenfield.

Sangam Iyer: So the CAPEX should be similar to Sanand?

Anmol Jain: We won't know that presently but till FY20 we would be having enough space and capacities to service our clients from Sanand plant. Beyond FY20 we would perhaps be looking at the Greenfield site. However, currently it's too premature to estimate the CAPEX plan.

Sangam Iyer: And our double-digit EBITDA margins for the year, we are still sticking to that guidance?

Deepak Jain: Yes we are still sticking to that guidance.

Moderator: We take the next question from the line of HR Gala from Finvest Advisors. Please go ahead.

H.R. Gala: Just wanted to know this 125 crores CAPEX that we have incurred at Sanand, everything will be capitalized in Q4?

Sanjay Mehta: 100 crores will be capitalized in Q4.

H.R. Gala: So as a result of which our interest cost and depreciation will increase in Q4 substantially, is it not?

Sanjay Mehta: Actually the depreciation cost will increase; we are funding this through internal accruals only, so interest cost will not increase.

H.R. Gala: In fact it has come down substantially in the nine months' period from 8.5 to 3.5 crores. I was wondering that you must have capitalized the interest during this construction period.

Sanjay Mehta: No, we have not, only a small portion has been capitalized and we have not taken any long-term borrowing to fund this project of Sanand. Rather our long-term loan has been repaid and we will be almost debt-free in March, so far long-term loan is concerned.

H.R. Gala: So depreciation will only increase?

Sanjay Mehta: Yes.

H.R. Gala: What is the basis for this large price variation that happened in SL Lumax, what is the basis for that 15 crores increase, 30 crores reduction?

Deepak Jain: The basis of it is one customer 100% dependence. As I mentioned in the last conference it is actually controlled more from Hyundai Korea to SL Korea. So we really don't get to know also and that's why I had said that the true measure of the performance of that company would be not Q1-Q2-Q3 basis but it would be on the whole year basis. That we should see it in that tandem rather than just going Q1 why15, why20 that's how it basically goes because shipping decisions and pricing decisions are not just India specific, it's actually for their global account.

H.R. Gala: How much net incremental sales will come from Sanand in this fiscal?

Vineet Sahni: You're talking about this current fiscal?

H.R. Gala: Yes because we have started in January end.

Deepak Jain: 25 to 30 crores.

Vineet Sahni: It's around 7 to 8 crores the month starting January, about 25 crores for the year

H.R. Gala: And next year could be how much for full year?

Vineet Sahni: 115 is what we are estimating.

H.R. Gala: It will be the net incremental?

Vineet Sahni: Yes, about 100 crores.

H.R. Gala: What kind of EBITDA margin we should look at Sanand general?

Vineet Sahni: At this moment we want to see this will be the first month of production, so let's see. It's premature.

H.R. Gala: I'm talking about 100 and 115 crores when we reach next year.

Vineet Sahni: Similar levels as current.

H.R. Gala: Maybe around 8%-9%?

Vineet Sahni: Yes similar levels.

H.R. Gala: Any guidance for the CAPEX next year?

Vineet Sahni: Not yet because we are still firming our budgets for the next year.

H.R. Gala: But that for the 50 crores type of CAPEX will continue?

Vineet Sahni: I would still say, we have to go through the business plan then we will have to see how much is the investment but yes it should be within manageable conditions.

Moderator: We take the next question from the line of Bharati Mudra from CD Equisearch. Please go ahead.

Bharati Mudra: If you could throw some light on the delay in the commencement of operations in Gujarat unit, why did that happen?

Deepak Jain: There was no delay absolutely on the commencement of Gujarat. Rather we have preponed it. Actually if you were to see our press releases I think it happened on 2nd November where Ayukawa San, the Managing Director of Maruti Suzuki himself went in and inaugurated our plant. This was actually three months prior to a SOP, we just said in this thing that SOP was done on 10th of January which was absolutely as per schedule of Maruti Suzuki.

Bharati Mudra: So the SOP was in schedule to start from November?

Deepak Jain: No, the inauguration was done in November. We did the inauguration two months before so that we could do our own internal improvements and ramp it up because most importantly the Swift platform it goes from a 2000 per month base to almost 20,000 which is the one of the steepest ramp up in India automotive history.

Bharati Mudra: Any other order flows apart from Maruti Suzuki Swift be stated by the Sanand unit at the moment?

Deepak Jain: Not as of now. All our efforts are to streamline with Swift because that's a big platform for us.

Bharati Mudra: The settlement of the price negotiation that you are having in Quarter 1, have they been like settled?

Deepak Jain: This is what I think the 6.5 crores they were all talking about Q1 as well as Q2 which is actually now been realized in Q3.

Bharati Mudra: That has been realized in Quarter 3?

Deepak Jain: Correct which is what I had mentioned last time.

Bharati Mudra: What are the gains that you expecting from the enforcement of Bharat Stage-VI norms by 2020?

Deepak Jain: The gains are primarily we have already started seeing it because BSVI is applicable to all segments and hence the shift in LEDs. Primarily that's for Lumax Industries which is a lighting company I think that would be the main play. And BSVI has actually helped to have faster adoptions of LEDs in all kind of vehicles including two-wheelers.

Bharati Mudra: But this doesn't have a direct impact on the adoption of LED lights, right?

Deepak Jain: It's not mandated but as I said because of the safety as well as the energy-saving standard because BSVI means that vehicle will need a lot more electronics for being compliant on safety and emissions and not necessarily just comfort and because of that whatever the current systems are and lighting is a system which does basically consume a lot of wattage. They want to reduce that and the only way to reduce that is actually to faster adopt LEDs and that's what all the customers are doing including two-wheelers, including Agri vehciles, including CVs as well as pass-cars.

Bharati Mudra: Do we have an expansion plans in FY19?

Deepak Jain: We will be obviously expanding on ground field, no Greenfield as of now. So we have just set up the Greenfield but as I said we have right now currently discussing not in 19, maybe in 20-21 we will be having further expansion plans on Greenfield side.

Moderator: Thank you. There are no further questions, I would now hand the floor over to Mr. Deepak Jain for his closing comments.

Deepak Jain: I would like to thank everyone for joining on the call. I hope that we have been able to respond to your queries adequately. For any further information, I will request you to kindly get in touch with SGA, our Investment Relation Advisor. Thank you once again.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Lumax Industries Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.