"Lumax Industries Limited Q1 FY2018 Earnings Conference Call"

July 25, 2017

MANAGEMENT: **MR. DEEPAK JAIN – MANAGING DIRECTOR – LUMAX INDUSTRIES LIMITED**
MR. ANMOL JAIN – JOINT MANAGING DIRECTOR – LUMAX INDUSTRIES LIMITED
MR. VINEET SAHNI - CHIEF EXECUTIVE OFFICER - LUMAX INDUSTRIES LIMITED
MR. NAVAL KHANNA - EXECUTIVE DIRECTOR– LUMAX MANAGEMENT SERVICES
MR. SANJAY MEHTA – GROUP CHIEF FINANCIAL OFFICER - LUMAX INDUSTRIES LIMITED
MR. SHRUTIKANT RUSTAGI - CHIEF FINANCIAL OFFICER - LUMAX INDUSTRIES LIMITED
MS. PRIYANKA SHARMA – HEAD CORPORATE COMMUNICATIONS - LUMAX INDUSTRIES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Lumax Industries Limited Q1 FY2018 earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. This conference call may contain forward-looking statements about the company, which is based on the beliefs opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Deepak Jain – Managing Director of Lumax Industries Limited. Thank you and over to you Sir!

Deepak Jain: Thank you. Good evening ladies and gentlemen, a very warm welcome to the Q1 FY2018 earnings call of Lumax Industries Limited. Along with me on this call from Lumax team, I have Mr. Anmol Jain – Joint Managing Director, Mr. Vineet Sahni – CEO, Lumax Industries, Mr. Shrutikant Rustagi – CFO, Lumax Industries, Mr. Sanjay Mehta – Group CFO, Mr. Naval Khanna – Director of Lumax Management Services and also Ms. Priyanka Sharma – Corporate Communications, Head. The results have been uploaded on the Stock Exchange and the Company's Website I hope everybody had a chance to look at it.

Let me just give a brief update for the quarter. Industry performance: The passenger vehicles has continued the growth for the month of April and May 2017 starting the financial year FY2018 on a promising note. Most of the PV manufacturers have reported a double-digit growth on the back of new product launches and a large chunk of sales comes from utility vehicles, which are used both for transporting the goods and passengers in rural areas.

Domestic sales in the month of June 2017 were bogged down by liquidation of stocks at the dealer's end and OEMs, withholding inventory due to the GST regime of July 1, 2017. However, car manufacturers are bullish of witnessing positive sentiments in the market starting July that will see the industry notching a double-digit growth during 2017-2018 on the back of price reductions post GST.

In the commercial vehicle, market the medium and HCV segment has started reflecting signs of recovery as the after effects of the pre-buying due to the enforcement of the BS-IV emission norms from April 1, started wearing off. LCVs have continued their growth trajectory but OEMs experience both hits and misses in the overall CV category sales due to the impact of the future GST.

In the two-wheeler segment, OEMs continue their growth part and with the slash in prices based on engine displacements, two-wheeler sales have begun to capitalize on the new BS-IV equipped scooters and bike variants and the robust growth within the segment is led by scooters. The tractor segment has posted a strong growth of 18% in FY2017. Tailwinds such as reduction in GST for tractor parts and fertilizers, global monsoons, farm loans waiver and boost in the rural economy would further drive the growth in the segment.

Now I am going to highlight the company performance. Our company is engaged in the production and delivery of automotive lighting solutions for two-wheeler, passenger vehicle, farm equipment space and commercial vehicles segment. We are the preferred supplier to the OEMs in India and continue to be the market leader. Lighting is one of the first product to look at in a vehicle and it is relevant because all the minor changes also happen with it.

In PVs and two-wheeler products, the lighting keeps on changing not on the full model. Lighting products have been transformed from functional product to a styling product for all the vehicles and automobiles. Design and styling of the automotive lighting solution are still the key characteristics to OEM for the product differentiation to appeal to the customers. Being technically competent with our in-house R&D, design center and manufacturing capability, we continue to serve our customers well.

Our major clients include Maruti Suzuki, Mahindra & Mahindra, Honda Cars India, HMSI, Hero MotorCorp, Tata Motors and our major segments are PV, CV, farm equipment, two-wheeler and three-wheeler as well.

In Q1 FY2018, following new models have been launched which consists of Lumax Lighting. In the Passenger cars segment Maruti Suzuki, Swift Dzire head lamp, rare fog lamp and roof lamps were with us and Mahindra & Mahindra commercial vehicle space Jivo head lamps was with us and in the tractor space TAFE’s H515 series head lamps and John Deer’s UNX3036 head lamps and combination lamps are with us.

To increase and meet international safety standards, the government has mandated that all two-wheelers being sold with automatic headlamp On (AHO) feature. This is similar to the daytime running lamps on cars. Manufacturers have already started rolling out vehicles with this feature. We expect this measure to put two-wheeler manufacturers to focus on LED headlamps with less energy consumption and styling appearance. The overall expectation of style from customers or end users are opting for more LED. Most companies were destocking inventory in the Q1 of the current fiscal ahead of implementation and then planning to restock, once the GST impact is fully understood.

The impact on the overall market will be less as it has taken awareness that the fall is not because of any cyclical factor but also an outcome of the regulatory changes.

For the Company, Gujarat is the part of the future strategy as it is becoming the new automotive hub. Our key customers expanding capacities in this region, our new Sanand plant in Gujarat is expected to commence from November 2017 and fulfill the order of the new generation Maruti Suzuki Swift.

Going forward, the facility will also cater to the needs of Tata as well as HMSI’s existing model at Gujarat.

On the operation front our team has continued to focus on cost control programmes and enhanced operational efficiencies. We continue to believe the new generation products would be the key growth drivers for our business, growth prospect and customers sentiments continue to remain strong and with the strong order book we are confident to grow in the coming quarters.

Now I would like to handover the line to Mr. Sanjay Mehta – Group CFO to update you on the financial performance of the Company.

Sanjay Mehta: Good evening everyone. Let me take you through the financial performance for the Company. Due to applicability of Indian Accounting Standard with effect from April 1, 2017 the results for Q1 have been prepared in compliance with IND AS and accordingly corresponding figures has been restated to make them comparative.

The gross revenue including excise duty stood at Rs.390 Crores against Rs.339 Crores in Q1 last year recording a growth of 15% year-on-year. The net revenue after excise duty stood at Rs.348 Crore for Q1 this year against Rs.304 Crores last year Q1 recording a similar growth of 15% year-on-year basis. The increase is due to volume increase and value addition of modern technology lighting component.

The Company reported a consolidated EBITDA of Rs.26.42 Crores against Rs.24.64 Crores in last year recording a growth of 7% year-on-year in value terms. EBITDA margin stands at 7.55% against last year of 8.14%, the reason for decline of 56 basis point in EBITDA is due to delay in actualization of price increase from the customer amounting to approximately Rs.6.5 Crores.

PBT on standalone basis is increased by 22% year-on-year to Rs.13.96 Crores against 11.41 Crores in the last year, the PBT margin stands at 4.01% against 3.77% last year. The reason of increase is due to reduction in finance cost.

The standalone PAT stands at Rs.9.29 Crores at 2.7% against Rs.9.83 Crores 3.3% last year. The increase in tax of Rs.3.09 Crores approximately is due to nonavailability of certain tax incentives in financial year 2018 and Ind-AS adjustment. PAT margins after share of associates is at 4.4% against 4.3% in Q12017. The consolidated PAT for Q1FY2018 is at Rs.15.16 Crores against 12.87 Crores in Q1 FY2017.

Now we will open the call for questions.

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

Ashutosh Tiwari: Congratulations on good set of numbers. Sir firstly you talked about the shift to LED lighting in cars as well as two-wheelers so currently what is content per car and it should change after the lights are shift to LED right now?

Deepak Jain: Will you just repeat the question was not very clear?

Ashutosh Tiwari: I am asking that the shift to LED based lights in the automotive cars and all so how the content per car lights will change after we shift to this LED lights?

Deepak Jain: I think I will just give you a range that currently if you see the four-wheeler the content per vehicle externally is about Rs.3000 per vehicle and with this LED shift coming in it should probably be some 10000-20000 depending on the technology what is being used by passenger cars. In the two-wheeler also, the content would be about Rs.350 for two-wheeler, which can actually change from about Rs.1500 to Rs.2500 again based on the technology.

Ashutosh Tiwari: This Rs.350 you talked about only the headlamp?

Deepak Jain: I am talking about content of the vehicle it would be head, tail, per se.

Ashutosh Tiwari: I thought it is somewhere about Rs.1000 for two-wheeler as of now.

Deepak Jain: Sorry…

Ashutosh Tiwari: I thought the overall light put together headlamp, tail lamps Rs.1000 for two-wheeler.

Deepak Jain: Rs.350 would be for headlights, which would go on to about Rs.1500 to Rs.2500 for the two-wheelers.

Ashutosh Tiwari: Okay. And Rs.3000 is also for only headlamp or this is for all put together?

Deepak Jain: Headlamp. So, I mean average the shift from conventional LED can see anywhere price up from 3x to 10x based on the technology.

Ashutosh Tiwari: And are we seeing willingness among the OEMs shift to this because this is a big cost increase for them?

Deepak Jain: Yes it is. Actually, there is a willingness to shift. I think the last time also I have said that, , our conventional to LED ratio was about 95 to 5. if you see today in 2017-2018 we are projecting a conventional to LED is about 75 to 25 and probably by 2020 we are probably thinking about doing almost about 60:40 or 50:50 range. So, there is a huge shift and also if you see on the LED front, there are two more place and that is on regulation, if you believe in 2020 BS-VI is coming in which is April 2020, now it is not a direct impact that lighting needs to change into LED. However, there is a collateral effect of implementation of BS-VI 2020, which is that the vehicle would need more safety and emission and more electronification, because the more sensors have to be rapid hence on the current products they will have this, the customers will have to do light waiting and more energy efficiency and lighting becomes one of the key things where after adopting to LEDs they would get a much more energy efficient product and that energy what they save they can actually put in to the other sensors which they need to use for their safety emissions and other standards. There is a natural regulatory adoption for LED, so we see this trend continuing and the customer would be accepting that.

Ashutosh Tiwari: Is there a very strong value growth for lighting companies over next three four years?

Deepak Jain: Sorry.

Ashutosh Tiwari: There will be very strong value growth for lighting suppliers over next three four years?

Deepak Jain: Yes, we hope so and that is why your Company is looking at enhancing the skill and investing in the right kind of technology and we are fortunate that Stanley a lighting player is there for us who also has the distinction in the world to be the only automotive lighting player who also manufactures own LED so it does give us a technological advantage.

Ashutosh Tiwari: In terms of energy saving how much thing would come from when you shift to LED I mean broadly a number anything?

Deepak Jain: You are talking about energy saving in terms of automotive lighting consumption?

Ashutosh Tiwari: Yes.

Deepak Jain: If you broadly place a doubt, it usually be close to about usually about one-fifth that is what is, so if it consumes let say 100 it would come to about 20, that is the average fall passed.

Ashutosh Tiwari: Secondly if I look at the revenue breakup HMSI used to be 9% in FY2017 and this was around 12% in Q1 FY2018 so have we got a big order from HMSI that is why a strong growth or this is just a seasonal variation?

Vineet Sahni: We have started on LED products for HMSI and that is contributing to growth for the new models when you see the LED blinkers that is supplied by your Company so that is contributing the growth to HMSI.

Ashutosh Tiwari: Sir, this is for which model? Can you share?

Vineet Sahni: This is for Activa model, 4G. I do not recall the market name but Activa model 4G.

Ashutosh Tiwari: Also, you talked about that in the current quarter there was some the price negotiation for which the customers got delayed and there was an impact of 6.5 Crores if I add back that number to EBITDA the margin would be north of 9% so is that a kind of margin that we can go up to say next quarter?

Vineet Sahni: It is difficult to say for next quarter, I do not know, it is not easy to predict what happens is normally it takes time to negotiate with the customers; however, we have already given the price increase to the suppliers and during the course of the year we will be settling it, some customers would settle in Q2 some would go to Q3 and some would also go to Q4.

Ashutosh Tiwari: Thank you.

Moderator: We will take the next question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: Thanks for taking my question. Few questions, on a year-on-year basis can you break the revenue growth into value growth and volume growth though the volume growth has so many different products but still year-on-year basis what has been the realization change on a blended basis on volume growth?

Deepak Jain: If I can understand correctly what you were trying to say is that what is the growth in terms of the volume and what is the growth in terms of any new products is that your question?

Bhaskar Banerjee: No Sir. Your total blended growth says 14.5%, how much, so it is combination of volume growth and value growth so how much is each of those components?

Deepak Jain: So there is two things there is volume growth as well as there is value growth and the value growth in terms of new products as well as in terms of the technology shift.

Basudeb Banerjee: Yes, it can be the commodity inflation also.

Deepak Jain: I think the volume growth is just about 3% and the balance, which is the 12% growth, is absolutely coming from the value growth, which is on the new products currently.

Basudeb Banerjee: And as you were discussing the LED mix shifting so this is just in a very nascent stage so down the line when volume growth comes down to a normalize double-digit level so one can expect this kind of value growth to sustain?

Deepak Jain: Absolutely. See as I said if you look at my 2016-2017 numbers it is just from the conventional lighting and LED lighting it was about a split of about 92% was conventional and 8% was LED. In 2018, I mean it has growing at faster 75-25 is what this the trend which is coming in which I explained.

Basudeb Banerjee: You said 8% is FY2016?

Deepak Jain: Yes, for 2016-2017.

Basudeb Banerjee: A few basic questions, one in the consolidated numbers profit from associates seems to be very much on the higher side so is it a Hyundai business and how much it is sustainable?

Vineet Sahni: Actually, SL Lumax is supplying to Hyundai and in this Q1 they have got 15 Crores of the price increase that is the reason of increases their profit.

Basudeb Banerjee: So how much of that will, this is the retrospective adjustment you mean?

Vineet Sahni: 2 to 3 Crores.

Basudeb Banerjee: 2 to 3 Crores will be a sustainable number?

Vineet Sahni: Yes.

Basudeb Banerjee: Two things one is tax rate as you said that 3.1 Crores tax due to nonavailability of benefits and industries, so how to look at that down the line what kind of tax rate we should look at and one thing I missed out is why there was a major reduction in interest outgo? Those are the last two questions?

Vineet Sahni: In fact, our tax is around 20% to 22% way forward. The reduction in interest is due to repayment of loan, and we are getting debt-free at the year end.

Basudeb Banerjee: So, this is a sustainable reduction in interest?

Vineet Sahni: Yes.

Basudeb Banerjee: Tax rate you said is 22-odd% one should look at?

Vineet Sahni: Yes.

Basudeb Banerjee: Thanks.

Moderator: Thank you. We will take the next question from the line of Ajith Motwani from Bharati Axa Life. Please go ahead.

Ajith Motwani: Sir just wanted to know some of the new order, apart from the new Swift that you have highlighted, so which are the new ones which you are let say currently working on?

Deepak Jain: Swift we said is primarily because it has been SOP'd until unless the vehicle is SOP'd or it is a mass production in the market we are not able to tell you what are the products we can basically or specific models which we are working on.

Ajith Motwani: Got it. You had alluded to this opportunity in the automatics headlamp on for the two-wheeler can you explain the opportunity and will it necessarily be LED on the in the two-wheeler?

Deepak Jain: I mean if you do the automatic headlamp on basically that is, we are talking about what is the technology for us it really does not change anything.

Ajith Motwani: Okay. So, will it be LED only or it can be conventional also?

Vineet Sahni: I am Vineet this side. Just to answer your question mostly customers would go for LED because of the life because earlier the bulb was on for some time only for the evening now when it remains on for throughout the ride even in the day time then the preference of customer is shift to LED.

Ajith Motwani: Okay because of the life of the light?

Vineet Sahni: Power consumption of the LED.

Ajith Motwani: Got it. When is the mandatory date for this?

Vineet Sahni: All customers already wanted to be implemented and it is under implementation already.

Ajith Motwani: And one last thing, so you highlighted that because of the delayed price negotiation with OEMs there was an impact of about 6.5 Crores on the EBITDA so that means for the quarter your margins would be around 8.7 Crores if you add back that 6.5 Crores to revenue as well as sales right, 8.7% would have be an EBITDA margin?

Deepak Jain: This is correct. If it is 200 BPS up if we would have got this but as Vineet had explained before that this is something which happens with practice in the automotive industry that we keep on having negotiations with customer so this time it was bit delayed. We had certain contracts but I am hoping that we would get it now and normalize in next quarter.

Ajith Motwani: Okay and this negotiation with the vendors should be completed this quarter or it will take two or three more quarters?

Vineet Sahni: Customer it can take up to three quarters. Certain customers do it in Q2. Certain will be in Q3 and some would also go to Q4. This is an ongoing process and this is normal in our industry.

Ajith Motwani: Got it. And during the quarter what would be the LED revenue as a percentage of total?

Deepak Jain: 15%.

Ajith Motwani: Thank you.

Moderator: Thank you. A next question is from the line of Pritesh Chedda from Lucky Investment. Please go ahead.

Pritesh Chedda: Just picking up from the last question looking at the mix I was going to ask you the mix which is running now, so looking at the mix at 12% vis-à-vis 8% what was last year, these ideally should have been the normalized margin right about 8%-8.5% should actually be the normalized margin for us considering the value mix progression which is showing for the company?

Deepak Jain: You are correct.

Pritesh Chedda: So, for the full year ideally, we should start looking at these higher margins?

Deepak Jain: Yes, correct.

Pritesh Chedda: My second question is when we look at the passenger vehicle growth volume growth rate and the two-wheeler volume growth rate is much higher industry growth rate much higher vis-à-vis the 3% volume growth rate that we have, can you highlight where are we lagging and second is there a scope to match the industry volume growth rate in the forthcoming quarters?

Deepak Jain: If you see the 15% that is actually the growth rate what we have reported right, it is not 3%.

Pritesh Chedda: No volume is 3%.

Deepak Jain: No let me explain, because I think your question is that where are we lagging as such. Now the company has a very high market share already with the various customers and if you look at now in depth where the volume growth has come in it has actually come in from two models of Maruti Suzuki in which your company has not got the order as of now. So, we have it on the other orders but it is not, for example on the Brezza we are not there and Baleno we are not there. So, we are hopeful that in the new orders, we continue to have that market share with certain customers and once we get that we should be able to get that orders. Same thing happens in HMSI, or in Hero so there are certain players, which we are basically there, but the market share is high. However in certain models, which we have, has basically not worked for us.

Pritesh Chedda: So, can we be also an alternative supplier in Brezza, Baleno in the future or generally vehicle goes to a particular vendor?

Deepak Jain: Maruti has a single vendor policy for a single product. For Brezza and Baleno, if there is a minor change and when it is open for business we can basically look at looking at orders. For example, I had mentioned before Swift, so we are 100% on Swift. There is no other competition so it is a cycle which comes in and once we have the Gujarat site production on, you will see whatever Maruti's growth is and it is riding on Swift it is one of the premium models, we will actually get all that growth coming in.

Pritesh Chedda: When is that plant supposed to get operational the Gujarat plant?

Deepak Jain: November 2017.

Pritesh Chedda: Thank you very much and all the best to you Sir.

Moderator: Thank you. Our next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thank you very much Sir and congratulations for a very good volume growth. Sir your confidence seems to be achieving 25% revenue from LED in current year and Q1 also we reached 15% so can you just explain the reason of so fast growth in LED acceptance from current year onwards because we are targeting 40% revenue from LED by 2020 so little bit clarity on this thing?

Deepak Jain: So, this is a trend. First of all thank you for your compliment, this is a trend which is the industry wide trend. The adoption of LEDs in two-wheelers is now coming as at a faster pace than what it is coming in four-wheelers. Since two-wheeler's adoption is coming through, I think we are pretty much hopeful and HMSI and certain other leading two-wheeler manufacturers all the new developments what they are doing is majority is LEDs. As I had mentioned before the tail lamp in two-wheelers always used to be LEDs but now we are getting forward lighting also in LED and that is going to give us bit of a shift. Even if you see our revenue breakup or the passenger vehicle to the two-wheeler segment in 2016-2017, we were at 70% in passenger vehicle and 24% in two-wheeler. However in Q1, passenger vehicle is at 64% and two-wheeler is at 31% others an agro is 5%, which is consistent. So, this is the trend, which I am talking about and there is as a ramp up of two-wheelers is lot faster the volumes are bigger as soon as they start adopting the LEDs and forward lighting you see a bigger impact.

Sunil Kothari: Sir second question is just purely volume, we see 3% volume growth we have achieved in Q1. Normally, I think this would be in the range of over another three-four quarters this should be between 8% and 12% normal you try to achieve and you talk about a volume growth?

Deepak Jain: Yes, I agree with you and it should. basically, going forward you see that happen. If you see volume growth also got little bit down because this quarter June sales were down because of the GST, anyway so I think in the normalized quarter it should basically come up into the industry average volume growth.

Sunil Kothari: Sir this share of profit of associates, which is normally around 3-3.5 Crores every quarter now it is 7 Crores because of this one-time item. So you expect would you like to talk anything on that particular JV or that corporation or how they are developing new products any growth return on investment happening at SL Lumax?

Deepak Jain: I think SL Lumax is clear that it is a strategic investment with our partner of Korea for Hyundai and other Korean manufacturers who may come in future in India. The Hyundai management is very closely associated and hence we do not interfere in the day-to-day work management. However as an associate company, we have a strategic relationship with them and we actually maintain market shares.

Sunil Kothari: Great Sir and wish you good luck. Thank you very much.

Moderator: Thank you. We will take the next question from the line of Jignesh Gandhi from Motilal Oswal. Please go ahead.

Jignesh Gandhi: My question pertains to the LED business. How would be the profitability of LED versus a normal business in terms of EBITDA margins and capital efficiency?

Deepak Jain: You are talking about the LED margins per se?

Jignesh Gandhi: Yes.

Deepak Jain: As of now as I said it is a mix but there is an improvement and you say the LED margins would be better about close to 2% to 3% when we get move into LED.

Jignesh Gandhi: In terms of capex intensity would LED be higher than the current system or would be more or less similar?

Deepak Jain: Because what happens is capex point of view, there is a need to invest in certain electronic infrastructure. However, if you see from an electronic infrastructure perspective, the company has already started to invest. The intensity would probably remain same, just because the initial investment on LEDs would be higher for us because of the infrastructure. However, the intensity over the years will remain the same because as soon as we start doing the value of LED sale is lot more it is again about 2x to 3x more.

Jignesh Gandhi: Right that is a fair point and the Gujarat plant which are putting up would that plant be fungible in terms of normal versus LED or how it works?

Deepak Jain: The Gujarat plant, yes, when you say all this facilities would actually have that flexibility that people would like to be depending on the product range would like to put LED in it.

Jignesh Gandhi: I will come back in queue. Thanks.

Moderator: Thank you. Our next question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah: Sir good evening and congratulations for good numbers. Sir my question is regarding our capex done at Sanand, now after that what are the company plans? do you have any major capex lined up in future?

Deepak Jain: So currently, we are talking about 120 Crores for Sanand facility in this fiscal. As of now, we do not envisage any Greenfield investment at least for the next couple of years. However, there would continue to be a certain Brownfield investment and certain investments towards R&D which have not been quantified currently but those would be a very easily manageable from the company’s internal resources.

Sanjay Shah: There is a future of OLED which we are hearing that is of Soham Lighting do we see any future for Indian markets and are we planning to go there?

Deepak Jain: As I said before the OLEDs is there and is available in a luxury cars. Currently, we do not see a requirement in the near term future but again I would like to reemphasize that our partners which is Stanley Electric of Japan, they are the only manufacture who is auto-lighting manufacturer and manufactures own LEDs other manufacturers do not manufacture own LED they source a from LED makers. Hence, the technology is easily available and the time to market becomes reduced for us. So currently, we do not see this trend happening but in future it does, we would be having that technology to play with it.

Sanjay Shah: Sir my last question is, how successful we are into any more localization into our manufacturing?

Deepak Jain: Currently if you see our import is just 10% of our total purchase right. So, if you see from that point of view, out of 60% to 65% purchase intent only 6%-6.5% is import content . So that means, we have achieved about 90% plus localization.

Sanjay Vishal: Great Sir. Thanks for answering my question and good luck to you Sir.

Moderator: Thank you. The next question is from the line of Arun Subramaniam from Ampersand Capital. Please go ahead.

Arun Subramaniam: Congratulations once again on good set of results. Is it possible for you to give the breakdown of the growth of how much sales growth was to passenger vehicles and how much to two-wheelers on a year-on-year basis?

Anmol Jain: I will take this question. This is Anmol Jain. So, in 2016-2017, the company's revenue were broadly 70% in Pass cars, 25% in two-wheelers and the rest 5% in commercial vehicles and agro. As of Q1 for the current fiscal, we see that two-wheelers have gone up from 25 to 31 and passenger cars are at about 64%. So clearly the majority of the growth of 15% by value majority of it had come from two-wheelers I do not have an exact data as to how much car and how much two-wheelers that I would say close to 10% to 12% of that 15% would come from two-wheelers.

Arun Subramaniam: Thanks a lot Sir. Can I just ask one more question that is this stronger growth in two-wheeler because of the market share gain or because of this LED norms?

Anmol Jain: That is a combination of both, as I said we have got a new order from HMSI as well as we have I mean say a trend which is shifting out to LEDs so it is actually both.

Arun Subramaniam: Okay. I was just trying to ask this how much it is because of this LED-fication like that is how much it is because of the technology change was I was trying to ask?

Anmol Jain: I mean if you see the two-wheeler the motorcycle had only grown at about only 5% Q1 as an industry so we are in line with that as an industry growth by a volume and of course since technology has had an important role to play so lot of a two-wheeler growth has been driven by technology specifically LED.

Arun Subramaniam: Thanks a lot Sir.

Moderator: Thank you. Our next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir my question is if you can give us a segment wise market share across both four-wheeler and two-wheeler currently for LED and also for conventional?

Deepak Jain: Sorry you said the market share for customer wise?

Rajesh Kothari: Not customer segment wise the four-wheeler and two-wheelers?

Deepak Jain: The four-wheeler and two-wheeler as a total market size of Lumax Industries?

Rajesh Kothari: Yes, the market size and market share of the different players.

Deepak Jain: I am still not clear what is your question.

Vineet Sahni: He was asking for Lumax industry market share in the Pascars and for other players is what our competitors?

Deepak Jain: I think I can talk about myself. So, if you look at market size of the Lumax Industries for the PV & CV business if I look at the four-wheelers and you are talking about almost about 40% which is having about size of 2500 Crores and on the two-wheeler we are talking about close to 25% with the market size of about 1500 to 1700 Crores.

Rajesh Kothari: This market size is LED or the total?

Deepak Jain: Total market size in the OEM space.

Rajesh Kothari: As you rightly mentioned minimum 3x to 10x because the realization the current margin of commercialized even the blended margins even if you assume is around 8% normal that is not very high am I right? so as you move towards LED, can we see over a period of three year significantly higher double digit margin?

Deepak Jain: I had mentioned this before, that I mean if you are actually go into the LEDs there should be a margin expansion of about 200 to 350 BPS as the potential and obviously you are talking about the range of LEDs from conventional to LEDs it can go up to 4x 2x. It is again depending on the Pass cars or two-wheelers and also depending on the technological. So I think the market itself will expand and if you actually even maintain the same kind of thing market share here there is an opportunity to gain market share and the reason is because in the country there are almost close to 14 lighting manufactures which play in different segments. Lumax is the only company, which actually competes in all segments and has probably market leadership in all segments as well. Hence, I think there is an opportunity when the technology shift from because of Stanley advantage because of a high dominance of Japanese makers on the Indian market, we probably get a natural first mover advantage and probably also can gain market share the market expands to the new technology.

Rajesh Kothari: Just a last question from my side, since the realization is going to be significantly higher therefore on the higher revenue ticket you will then further get higher margins. So actually in that case the operating profit growth can be much larger, correct me if I am wrong?

Deepak Jain: Well, I mean so you also understand normalization of technology because today if you just do it in a very natural way it is fine but I mean as the technology matures there is also the LED pricing will come down and hence we have kept an average. You were talking about three to four years right you were talking 2020 so as the market trend changes the valuation, if you see today it is actually a lot more higher multiple and a lot more higher margin but as it normalizes it will normalize as well. Hence my range is about 200-350 BPS will definitely be easier and this is also more if we have benchmark with the global trend and the other lighting manufactures globally it should come in. Currently because India is only conventional it is also very price sensitive market. It has not got the new technology then there is a lag in technology inviting in the developed and in India, there is a lag in the pricing and the margin as well. However, going forward, we feel it will adopt pretty much sooner as more and more global models come in, the technology comes in, the regulatory framework of BS-VI comes in and then it will be normalized as per the international standards.

Rajesh Kothari: Great. Thank you. I will take more questions offline. Thank you very much.

Moderator: The next question is from the line of Apurva Mehta from KSA Shares and Securities. Please go ahead.

Apurva Mehta: Sir just wanted to know you have mentioned, 2020 target is 40%-50% revenue coming from LED so what kind of, it would be volume numbers or it will be value numbers, because as we are going through this change very fast so do you see that the volume will be around 40% to 50% in LED?

Deepak Jain: No, I am talking about right now if you see, when I said 75:25 it was most a revenue number. I did not talk about the volume number, the volume can probably remain the same and it could be replaceable. so for example when I say a Swift platform is the same and it changes to 250000 to 300000 and the volume gets incremental 5% and it goes up to 400000 but as soon as when it comes into LEDs there also becomes a lot more value.

Apurva Mehta: So by 2020 it would be what it would be like if you say today 40% would be volume or value?

Deepak Jain: No am again saying value.

Apurva Mehta: Okay, so that means the volume will be 10% kind of thing?

Deepak Jain: Possible. I am going with the order book what we have in hand and what the models which we have and as we see I mean say more and more models but it does not mean that we also have the current models which we are servicing, so that is what it is and you are talking about 10% it is probably more relevant to passenger cars, two-wheelers for adopt higher and as I said it is a development cycle for us in passenger cars is longer than two-wheelers and it may change and currently what I am saying is again based on our order book estimate based on what the customers said, customers decides to adopt faster this ratio may change.

Apurva Mehta: But the main customer is currently we are tracking is Maruti, so you must have the sense that how they shifting faster than the things what you have thought?

Deepak Jain: I speak Maruti because that 50% of the Indian market, then Hyundai is actually captured by the associate company which is another 17% so I am talking about 67% market. When I talk about two-wheelers as you know Hero MotorCorp and HMSI so HMSI is a 12% of a revenue this quarter Hero MotorCorp is 10% of the revenue and that I think is going to grow little bit faster as also Maruti.

Apurva Mehta: Thanks.

Moderator: Thank you. Our next question is from the line of HR Gala from Pranav Advisors. Please go ahead.

HR Gala: Congratulations for good set of numbers. Sir just seeking on clarification on this SL Lumax we said that at this Rs.15 Crores claim which they got in the first quarter that is why I think they are 100% PAT would have been something around 33 Crores but now going ahead I think we should exclude that and then calculate what our share will be, am I right?

Deepak Jain: Yes.

HR Gala: Okay so that is what you said two, three I think it comes to around three to four?

Deepak Jain: This is one time they have getting Rs 15 Crores price increase.

HR Gala: Sir we have been talking about this two to three major clients like Maruti, HMSI, Hero MotorCorp etc., in the past you used to say that Mahindra & Mahindra and Tata also do well, it will be high positive for us so what kind of signals do you get from them?

Deepak Jain: Good question Sir. See Mahindra still remains in our top three customer base and Tata has fallen down and it is not because of the market share penetration. It is because of the volume, which has gone down. So if I look at it if Tata comes in as my No.6 customer at 7% of my revenue and I still maintain my statement that if Mahindra & Mahindra and Tata they do well it will be added bonus to Lumax because we still enjoy a higher market share with them and if their growth comes in we actually would encash. It has been unfortunate that the last probably a year or so that it may be true for Tata, they have not been performing as what the market has been growing and hence our let us say revenue distribution with MSIL has actually becomes stronger because of the market change. We have to understand that the Lumax Industries is just having a high market share with many customers and hence it becomes a little bit reflective of the industry per se. As I said technology changes like this happens once in decade, once in 15 years and once, these kind of things happens it gives the company opportunity to gain more market share and actually expand on the value contribution done for the customer. I can just add here because you said something historic, about 15 years back if you say 1996 to 2002 that is again a historical period when the company actually went from a sheet metals glass lighting manufacturing to plastics manufacturing and it is now almost 15 years hence or rather 20 year hence now that we are seeing this whole shift happening and company is now focused on getting this skill right from just a plastic manufacturing into plastic plus electrical and electronics manufacturing. This is what we are coming and this will be the transition.

HR Gala: That is a great transition. Sir my second question pertains to there has been a lot of talk which is we are hearing that Toyota and Suzuki they might be working on some joint programmes so is there any concrete progress on that part and how can it translate to our benefit as well in India as well?

Deepak Jain: You are giving very difficult question, okay let me put it from a Lumax perspective of what is our strategy on this. I do not know how Toyota and Suzuki will play out this cooperation. What we understand is, also from the news and the media, that Suzuki and Toyota looking at a global cooperation for technology, any cooperation is a give and take, we can hence assume that there will be significant impact of this cooperation in the India market. This is what Toyota is not having as of now in the global kitty, which is India market. In our perspective, I think what we are doing we are very closely following as a preferred supplier to both the customers. As you know for Maruti including SMG, we are the leading lighting suppliers for them and we enjoy a very good rapport and Toyota we are their strategic supplier. I myself am on the board of Toyota Supplier club, as the Vice Chairman so we do keep on having a good relationship with them and I am hoping that whenever this cooperation materializes, we would be able to let say capitalize on both the relationships with Suzuki and Toyota and become both their leading suppliers. I hope I have answered your question?

HR Gala: Yes, you have answered the question. Thank you very much Sir.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Deepak Jain for closing comments.

Deepak Jain: Thank you very much for your active participation. Performance of the current quarter seems encouraging which is mainly led by greater emphasis of the team towards enhancing operating efficiencies. We believe that the growth momentum in the sector would continue. Being first mover in technology, we also expect to maintain a leadership in the future and we are committed to enhance our stakeholder value. Thank you once again.

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