"Lumax Industries Limited Q4 And Full Year Ended FY2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 and full year ended FY2017 earnings call of Lumax Industries Limited. 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 phone. Please note that this conference is being recorded. This conference may contain forward-looking statement 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 very much. Good morning ladies and gentlemen. A very warm welcome to the Q4 and FY2017 earning calls of Lumax Industries Limited. Along with me on this call, I have Anmol Jain, Joint Managing Director, Mr. Vineet Sahni, CEO, Mr. Naval Khanna, Executive Director of Lumax Management Services, Mr. Sanjay Mehta, Group CFO, Mr. Shrutikant Rustagi, Lumax Industries Limited, CFO, Ms. Priyanka Sharma, Head Corporate Communications and SGA, our Investor Relation Advisors. I believe the results are uploaded on the stock exchange and Company website and I hope everybody has had a chance to look at it. I will just start with a very brief update on Lumax Industries.

Lumax Industries started its operation in 1945 as a trading concern and today it has led into a leading automotive lighting manufacture. The Company's introduction and delivery of automotive lighting solutions and our business operations are spread across all segments two wheelers, Pass cars, commercial vehicles and farm equipment space. The Company's longstanding collaboration with Japanese Auto Lighting Manufactures, Stanley Electric and Company has helped us enhanced brand visibility and create a strong foothold among the global OEMs in India.

Our product portfolio comprises of complete Lighting Systems and Solutions, which include Headlamps, Tail lamps, Sundry and Auxiliary lamps and all product related to lighting accessories. Company has 10 manufacturing facilities, strategic located at key automotive hubs in the country close to the customer. Our major customers include Maruti Suzuki, Mahindra & Mahindra, Honda Cars India, HMSI, Hero MotorCorp, Tatas and other major segments are PV, CV, farm equipment, two wheelers and three wheelers.

Over the years, lighting as a product, has obviously gone through a complete revamp, in terms of design and aesthetics, complementing a technology competent manufacturing facilities and two R&D centers. One in Gurugram & one in Pune and a design centre in Taiwan, helping us to stay ahead in the curve of design trends.

On the operational front over the years, we have focused on cost control programs and enhanced operational efficiencies. This has helped us to increase the profitability of the Company. In FY2017, the new models, which we have launched in Lumax Industries, are the following: At

Tata Motors, we have Tiago, Tigor Sedan and Hexa and at Honda Cars, we have Honda City, new one and WRV. Toyota, we have the Innova Crysta and Fortuner, Maruti Suzuki is Alto 800 and Ignis and Audi, we have the Audi Q2. Two wheelers, we have Hero Achiever and Glamour refresh. At Honda Motorcycles & Scooters, we have Shine and Activa 125 and at Mahindra & Mahindra K102, Piaggio Motard and Yamaha's B81 New Ray.

Recently, we had undertaken a capex to expand the facility at Sanand with the capital outlay of Rs.100 Crores and we expect to commence operations in November 2017. We have also received the order for headlamps and rear lamps for the new generation Maruti Suzuki Swift, which would be productionized at Gujarat. Going forward this facility will also cater to the needs of Honda Motorcycles & Scooters India, Tata and other players in that region.

The much-awaited GST will have a positive impact on the performance of the Company. Our board has recommended a dividend of Rs.14.5 per share and to conclude we believe that the new age products such as LEDs, projector headlamps and also the increasing demand for aesthetics would be the key growth drivers for the business. Our technology competency, in-house design centre, the partnership with Stanley and relationship with OEMs along with continuous focus to enhance operational efficiencies, help us to meet these demands.

Now I hand over the line to Mr. Sanjay Mehta, the Group CFO to update on the financial performance of the Company.

Sanjay Mehta: Good morning to everyone. Let me take you through this financial performance of the Company. First, Q4 FY2017, the consolidated revenue stood at Rs.386 Crores as against Rs.323 Crores in Q4 last year recording a growth of 20% year-on-year mainly led by growth in volume and value addition of new technology product. The Company reported consolidated EBITDA of Rs.25.42 Crores, a growth of 18% from the last year and EBITDA margin for Q4 stands at 6.6% against the last year of 6.7%.

PAT on standalone basis is up by 3% year-on-year to Rs.10.68 Crores against last year of Rs.10.34 Crores. PAT margins are at 2.8%; however, PAT margins on consolidated basis i.e., after share of associate, SL Lumax where Lumax Industries is holding 21.28% of equity is down by 41% and spends at 1.8% against.3.8% in last year due to poor performance reported by their associate company in Q4.

For FY2017 performance, the consolidated revenue stood at Rs.1300 Crores against the last year of Rs.1255 Crores recording a growth of 3.5% year-on-year basis. We have reported consolidated EBITDA of Rs.99.81 Crores, a growth of 13% on year-on-year basis against Rs.88.55 Crores in the last year.

The margin has improved by 70-basis points to 7.7% mainly due to operational efficiency. PAT on standalone basis has increased by 21% from Rs.36.88 Crores to Rs.44.69 Crores. The standalone PAT margin has increased from 2.9% to 3.4%. PAT margins after share of associate has increased to 4.2% from 4.1% last year.

EPS for the Company on consolidated basis stood at Rs.59.07 per share as compared to Rs.55.66 per share last year. Return on networth on consolidated basis for FY2017 is at 17% against 19% last year. On a standalone basis, it is 18% what was earlier in the last year same as FY2016. It is less by 1% due to change in accounting of dividend as per accounting standard-4 in FY2017.

Long-term debt to equity ratio stands at 0.05% compared to 0.21 in the last year. ROCE for current year is 26 same as of the last year. It is also affected by AS-4 by almost 1%. As a percentage of net profit, the recommended dividend of Rs.14.50 per share amounts to a total layout of 36.10%. FY2017, we incurred a total capex of Rs.66 Crores, which was funded through internal accruals. The capex planned for FY2018 is Rs.127 Crores. So 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 will take the first question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good morning Sir. My request is we have still not received any presentation and result is updated very late actually, so we are not able to prepare ourself. So henceforth we request you to send us in with advance so that we can prepare ourself, this is our humble request.

Nawal Khanna: The results for the financial year were finalized and announced on Saturday. So, as you know Saturday's stock exchanges are not working and today also we have been actively in touch with the stock exchanges to upload it in time. I think by the time the call progresses they will be getting uploaded. However, point is well taken, it is only from the perspective that the board meeting took place on Saturday and which is not a working day for the stock exchanges, no other purpose.

Sanjay Shah: Fine. We appreciate your liberal distribution policy. Continuing my question Sir can you explain us a detail of the loss of Associate Company? What was the reason we have incurred this loss? Was there any one-off or there was any operational issues?

Nawal Khanna: There was no operational issue. It was only that during the last financial year while computing the last financial year results, there was some reclassification and because of that the overall results had come.

Sanjay Shah: That is actually not impacting any financial figures in our balance sheet that has already been taken if I understand?

Deepak Jain: This is Deepak Jain. I will just rephrase that question. Basically I think your question is pertaining to the Associate Company's loss in the quarter four. Is my understanding correct?

Sanjay Shah: Correct.

Deepak Jain: Okay, the reason primarily is that Hyundai, which is their key customer about 98% of the revenues, come from them itself. They actually had a price negotiation in the last quarter and took an annual impact/hit, which they had to take it in Q4. So it was Hyundai's one-off annual cost down and that is what the company had to basically take a hit. We expect that it would be a one-off and not to continue going forward. It is nothing to do with the operational efficiency of the company.

Sanjay Shah: Got it Sir, clarified. Number two, we have in Q4 our margins of our business is also bit stretched, what would you like to attribute to?

Sanjay Mehta: Actually in Q4, sale is higher but profitability i.e. PAT is down due to higher taxation.

Vineet Sahni: I am Vineet Sahni. I am the CEO, Lumax. The margins if you see have been consistently increasing in last four years and if I compare with peer group companies, the product margins are similar when you benchmark. So we plan to grow consistently that is through internal efficiencies or change in technology.

Sanjay Shah: Do we see any shift in our customer profile? Anyone vertical wise that is passenger vehicle and two wheelers and all?

Vineet Sahni: We do not see any shift in customer profile because we are currently supplying to most of the customers in India and our major customers who are Maruti Suzuki, Honda Motorcycles and Scooters, Mahindra, they are the top customers in India in any case and Hero.

Sanjay Shah: If I have any questions I will come back in the queue Sir.

Moderator: Thank you. We will take the next question from the line of Sachit Motwani from Param Capital. Please go ahead.

Sachit Motwani: I just had a followup question on that margin only. Is it possible that you can give some colour on the sharp jump in the raw material cost in this quarter?

Vineet Sahni: See the raw material cost is composed of two parts, one is the manufacturing and one is the tooling. Right so, what you see as the change is only because of the tooling because when we invoice tooling that is the variable that is not from operations and therefore the net impact you see a higher raw material cost.

Sachit Motwani: Sir from a trend perspective do you expect this to continue going forward as well?

Vineet Sahni: No tooling is a one-timer. It depends when you invoice the tool to the customer so they would come separately. They are not from regular operations.

Sachit Motwani: Okay Sir if this impact if I remove then what would be your margin if I like to know this would not have happened this tooling impact?

Vineet Sahni: If you see at PBT level margin is better when we include the tooling even though the raw material cost is higher. So in FY2015-FY2016 from 2.7% of Q4 we have gone to 3.6% if we take the pure manufacturing the margin moved from 2.2% to 2.5%.

Sachit Motwani: Understood. Thank you so much.

Moderator: Thank you. We take the next question from the line of Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Thank you very much Sir. My hearty congratulations Deepak Jain, Vineet and Khanna Ji for starting this call and explaining well. Sir My broad question is our objective is to increase year-on-year EBITDA margin and improve our efficiency through cost reduction and productivity announcement so are we on track to those and over two or three period should we expect 9%-10% EBITDA margins or would you like to comment on this?

Deepak Jain: Deepak here. First & foremost thank you very much I hope that this conference call is regular feature henceforth. I think it is a very pertinent question. There is going to be a technology shift, which we are already witnessing in the industry. As I mentioned in my opening address that the key technology driver would actually be that the dimensional to LEDs. Obviously there is going to be incremental margin, a volume increase as well and we are fortunate that currently Maruti Suzuki who has actually gained market share within the industry happens to be one of our leading customers and we also happen to be their leading supplier as well from that perspective in the Passenger cars business and because of the Gujarat outlay we expect that there should be margin expansion in the next three to four years we expect at least to get into the double-digit figure. So that is the essence and of course operational efficiency will keep on improving. A pertinent thing also to do is that two wheelers is also now adopting the LED technology and also would drive the revenue growth forward because the LED technology in lighting has a multiple ex-factor on revenue because the conventional changes into LED.

Sunil Kothari: Sir second question is regarding our associates SL Lumax. You said that there was price revision, so that was a price reduction or what? Second thing, I would like to know is this new Hyundai associates Kia Motors what I understand is they are entering India so what is the scope for SL Lumax to do business with Kia Motors and any forward-looking, not numbers but possibility of the business development with Kia?

Deepak Jain: I will take that. First of course this is when at a price revision is cost down it is a very common practice in our automotive industry, there is year-on-year cost down I think they had some annual negotiations and that is where the impact you see in Q4 on the Associate Company. As you know that our understanding with SL Lumax in India to cater to the Korean manufactures, which are global manufactures for them in Korea and we do the non-Koreans. Obviously Kia Motors being a subsidiary of Hyundai they do get an advantage and there are in negotiation with Kia Motors as and when we will get finalized understanding of their scope with Kia, we will inform the market.

Sunil Kothari: Great Sir and last question very promising revenue growth in this last quarter which is 20% I mean any specific reason for this or you will this type of may not be number but this quantity good growth is possible during 2017-2018 if you would like to say something on the volume type of growth because Q4 number looks very promising in terms of topline?

Vineet Sahni: I am Vineet Sahni, CEO. I will take this question. The reason of revenue growth are two, one we have change our technology from conventional to LED in some products, which have been recently launched if you see the new HMSI Scooter they have indicator which have made of LED and this is supplied by us 100% and the pricing is different because of technology which contributes to revenue and second reason is we saw a better growth in the market in terms of volumes also and that has contributed to revenue increase.

Sunil Kothari: Sir would you like to talk anything on 2017-2018 just the indication how things seems to be?

Anmol Jain: This is Anmol Jain. I will just add towards Vineet just mentioned. So if you look at the Q4 growth of 20%, it is because of tooling invoiced. There was some new launches because of which the tooling sales in Q4 were quite aggressive. If you actually remove the tooling, which Vineet mentioned earlier, are one-time kind of based on project launch timeline the manufacturing sales actually grew by 6% so just the clarification going forward we expect a better year, current year we should be growing between 8% and 12% or something around that mark.

Sunil Kothari: Thank you Sir. Thanks a lot and wish you a good luck.

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

Basudeb Banerjee: What percentage of your revenue came from Bajaj Auto this quarter?

Deepak Jain: So this is Lumax Industries per se.. There is Lumax Auto Technologies, which is another group company that basically does the business so I think we can address that more whenever we do the concall of Lumax Auto Technologies.

Basudeb Banerjee: Maruti?

Deepak Jain: Maruti Suzuki you are talking about the total of 36% is Maruti Suzuki.

Basudeb Banerjee: Sir if you can highlight like as you rightly said in Activa LED is coming up so overall in the two-wheelers space which all models are now accepting LEDs per se and if you can explain that shift if you can explain me in better way?

Deepak Jain: Again, I will address it to a little different way. Currently if you see we have businesses 70% passenger cars and we have about 25% in two-wheelers and 5% is CV and agro. This is the current structure of the segmentation in the Company. Your question is more pertaining to which specific models. I think it will be difficult to share right now.

Basudeb Banerjee: On an overall holistic basis how the shift from halogens to LEDs happening both in two-wheelers and cars if you can explain that?

Deepak Jain: I will give you again broad based figure. Currently of the revenue we generate 95% would be conventional and 5% would be LED. In 2020, 2021 let us say from four years from henceforth we expect this shift to go as dramatic as 60:40; 60% conventional and 40% LED.

Basudeb Banerjee: For the same vehicle what is the difference in value addiction between a conventional and LED?

Deepak Jain: Well in terms of revenue, it is quite diverse because the range goes from 4X to you could say 8X that is the range again depending on the passenger car and two-wheeler but I am giving to you broad-based range. On the LED margin, I think there is an expansion of about 200-350 BPS.

Basudeb Banerjee: At present juncture or on a futuristic basis?

Deepak Jain: I am talking about from the present to the futuristic, if we export it.

Basudeb Banerjee: Basically, whenever this new technology gain scale typically the pricing also starts coming down and so to the margins?

Deepak Jain: So that the point is that this thing if it is more still relatively not coming to India so if I were to look at and I will book orders to date for the next three years and the conventional technology has been there for about 15 years as almost like commoditized so hence the expansion comes through. Same logic as you are saying.

Basudeb Banerjee: Thank you.

Moderator: Thank you. We take the next question from the line of Prayesh Jain from IIFL. Please go ahead.

Prayesh Jain: Good morning Sir. Sir just further enhancing on the point that we were discussing in the previous question could you highlight something on content per vehicle of our outdoor lighting or outside lighting? What has changed over the past five years and how do you see that increasing or changing in the next four to five years?

Vineet Sahni: I am Vineet Sahni this side. On an average in a four-wheeler the content per vehicle outside is approximately Rs.3000 per vehicle, which with the changed technology could go from Rs.10000 till Rs.20000 depending on the technology being used in the passenger cars.

Prayesh Jain: Is it similar for two-wheelers?

Vineet Sahni: In two-wheelers, the content is approximately Rs.350 for two-wheeler, which could change to Rs.1500 to Rs.2500 again based on technology.

Prayesh Jain: That is an alarming increase that we are looking so the revenue growth could be really exponential for us?

Vineet Sahni: Yes could be.

Prayesh Jain: Sir on this two-wheeler part again, the new technology which is mandatory that is OHD anytime on headlight on that add anything to the value?

Vineet Sahni: No this is AHO actually or Automatic Headlamp On Technologies. It does not change anything from lighting basic perspective except one thing that the movement to LED becomes more prominent because this is based on throughout so customer prefers low power consumption device and therefore the movement towards LED is preferred because the headlamp remains on throughout when the vehicle is running and this is primarily for safety.

Prayesh Jain: In terms of LED just last question in terms of LED how are we integrated in the sense of sourcing of raw materials and stuff?

Deepak Jain: Actually as you aware that we have 34-year- old relationships of Stanley Electric Japan; Stanley is the only auto lighting company in the world, which also manufactures its own LED, hence we have good insight on the electric technology and the sourcing patterns. Obviously, the India markets affordability, price sensitivity is very different and very competitive hence we also source it all over the world using this knowledge. As I had mentioned that last year we started an office in Taiwan to build our skill set in this LED technology framework and also to optimize purchasing efficiencies because lot of imports happen from this region.

Prayesh Jain: Thank you so much Sir.

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

Srinath M: Good morning to the whole team. My first question is can you share the mix between OEM replacement and what has been the trend and how do you see it going forward?

Anmol Jain: As a revenue share almost close to 5% would be after the market replacement revenue almost 95% would be coming from the OEM space and again after market as a business division actually rests in the other company. So, the more details in the after market we could share on when we have a call of that company.

Srinath M: Which Company is this?

Anmol Jain: That is Lumax Auto Technology, which directly engages with after market.

Deepak Jain: I will just put it this way. Lumax Industries continue to be the OEM and going forward we will keep on focusing more and more on the OEM revenue because contractually we are binded to actually get in into our own business. So that is our key focus in this. Obviously, the replacement market, we would actually partner with our customer to enhance the spares, which has gone through the genuine part of the network within the country. If I book that revenue it is almost close to 12% or so, but that would be considered as our OEM sales because that is a direct customer to it. Direct into the market is about as Anmol said 5% or so.

Srinath M: Now this is an incidental question because of this discussion. Is there a very clear rationale for having these two companies?

Deepak Jain: Basically, this company is in lighting and in lighting we have, just to give you the background we started of as with a partnership relationship with Stanley, which was done in basically 34 years ago. As a group, we always keep on exploring multiple opportunities in different product lines and that is what is being served by Lumax Auto Technologies, which is another company and in that there are multiple partners and of course the multiple partners based on entities, which we have bifurcated on the product lines.

Srinath M: There may be logic to consolidating at least the lighting business in one company, right?

Deepak Jain: Well, I mean to say apart from Bajaj Auto the lighting business, which is also understanding with our partners because Bajaj has been a key account for the group as well as it is not just lighting, it is many other products, which we go to Bajaj; actually if you at the consolidated basis Bajaj Auto happens to be our No.2 customer; hence we keep the lighting of Bajaj OEM and that separate entity, which is an understanding with our partners.

Srinath M: My second question is if you could share some light on the competitive landscape for both conventional and the LED?

Deepak Jain: I think we do not have currently an apple-to-apple comparison competition because Lumax Industries being a market leader and serving all the segments there is not one apple-to-apple comparison because if you look at certain other companies they are more competing based on a specific segment say for example FIEM would be more on, there would be two-wheeler players, there would be four-wheeler players; so, it depends on segmentation and that some of them do have technology partnerships, some of them do not have technology partnership. So it is a mixed landscape. It is a very competitive landscape. This ourselves by saying that we leverage is that we have and also our relationship with customers, I think we are the only company, which actually is serving all segments into basically the lighting.

Srinath M: Sir, one way to look at this is on average, what would be our market share with our OEMs?

Deepak Jain: To say that if you look at as a total market, when I say total market, PV and the two-wheelers we are close to about 50%. In this I do take SL Lumax market share as well because that is an Associate Company. If I look at just PV space, we actually are 60% and if I take just two-wheeler space that is close to about 25%.

Srinath M: Okay, so we are stronger in the PV space than in the two-wheeler?

Deepak Jain: Two-wheeler space is not because we are still a market leader but it is just because the two-wheeler space is such large enough that a mature market leader would be about 25% to 30% and

Bajaj Auto, we do it in the other companies if you look at again now Bajaj also it has come up from 25% to almost close to 40%.

Srinath M: Thanks. If I have any questions, I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Mr. K. Karthik from B&K Securities. Please go ahead.

K. Karthik: Good morning everyone and thanks for taking my question. So, as we understand that mix is around 5% currently, can you just let me know if this 5% for the entire year or like how has it been in Q4 FY2017? We just want to understand how has the growth been?

Deepak Jain: 5% is 2016–2017, so that is the total full year as well. If I look at Q4 that also something ranging same because we are starting it; it would be similar. It is not that Q4 would be 20% and consolidated year is 5% if that is question.

K. Karthik: I would like to know, given that we would be moving towards LED in the long run would there be a change in the royalty rate or would the royalty rate increase?

Deepak Jain: There is no discussion as of now for that.

K. Karthik: About that SL Lumax one-off the expenses are with the negotiation with Hyundai, would you be able to quantify the number?

Deepak Jain: About Rs.27 Crores was the annual reduction, which basically they took a hit in Q4.

K. Karthik: I would like to also know how the volume growth has been now? You mentioned that the revenue growth has been through volume growth and mix moving towards LED. Can you just let me know how was the volume growth being?

Deepak Jain: I think if you know the market is pretty flattish, so the volume growth has been as I said, if you look at the manufacturing per se you are looking at Q4?

K. Karthik: Yes.

Deepak Jain: It has been about 6% and in that I would say the total growth per se, I would say 40% would be because of the shift to LED and 60% would be based on the incremental, but as incremental growth in the volume itself and new models.

K. Karthik: Lastly, I would like to know about the revenue mix on for the OEMs, say you had mentioned about Maruti Suzuki?

Deepak Jain: Okay I will give you my top five customers if that would be okay?

K. Karthik: Yes.

Deepak Jain: So Maruti is about 35% for the year. Mahindra & Mahindra would be about 11%, Honda Cars would be 9%, Hero Motors would be 9% and Honda Motor Scooters would be 9%. So these are the top five, the 6th customer the Tata Motors at 6%.

K. Karthik: My last question towards Mr. Vineet Sahni; the EBITDA margin in 2015 was around 4.5% and currently it is around 6.6%; can you let me know what are the steps, which we have taken for towards the operational efficiencies?

Vineet Sahni: Thank you for your question. We have taken several measures and one of the major initiatives is on the cost down activity. That is prevalent in our organization, which if you see year-on-year we have been saving cost to increase the EBITDA margin. That is one. Second, we have also localized certain imported parts, which are contributing to the increase in margin. Third is correction of pricing that is also helped and fourth is the interest costs have reduced through better negotiation with the banks, which has contributed to the increase in the margins.

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

Ajit Motwani: Good morning. I just wanted to understand this Rs.27 Crores hit that we have taken on the revenues, so when you say Rs.27 Crores all that hit was taken in the P&L in Q4; so this profit from associate Rs.3.5 Crores let us say if we were to normalize it for the Q4, how much that number would be? If we were to apportion it for the quarter as they come, so what would have been the fourth quarter number? Will there be a profit?

Deepak Jain: That would have to be profit, right. So I mean to say if I would take that Rs.3.5 Crores, they would add up obviously to the profit.

Ajit Motwani: So, are you saying that Rs.27 Crores is the hit on the profit itself?

Deepak Jain: Yes, let me tell you; based on associate accounting there is no hit on the revenue; it obviously is the hit on the PAT levels because that is what we would account in terms of our interest in SL Lumax. Hence, the Lumax Industry standalone profit for Q4 was about Rs.10.68 Crores. I mean took a hit about Rs.3.5 Crores of which was the share of LIL profit at SL Lumax and hence reported at about 7.11 Crores at broad PAT level. So I were to remove that Rs.3.57, it would be 10.68.

Ajit Motwani: Last year this tax of write back of about Rs.84 odd lakhs that was related to what?

Sanjay Mehta: Due to investment allowance.

Ajit Motwani: Investment allowance, okay and one last question is on this press release that you had put on the new order from Swift, so you do not have order for the Desire in the sense since it is a similar platform?

Vineet Sahni: When we say Swift, we have order for both Desire and Hatchback. Desire is called notchback and the smaller Swift we call that is called Hatchback. So we are doing for both the programs.

Ajit Motwani: So for the press release that it said it is for Maruti Suzuki Swift had commensurate later this year so you are saying even for the Desire you have supplied?

Vineet Sahni: Yes, because Swift platform has two models. The platform is called Swift and in that the notchback is called Desire and hatchback is called Swift.

Deepak Jain: I think the more pertinent here and I would just like to clarify to your question, I think Gujarat becomes future strategy of the Company and investment. After a long time almost seven years, we are actually putting up well this is a Brownfield site because Sanand infrastructure was already there but going forward we would put in Greenfield sites into Gujarat and as you all know that that is becoming the most relevant automotive hub and all the capacity expansions of our key customers I had just mentioned in the top five will be happening in that area and we are looking to be quite active in that area itself.

Ajit Motwani: Since you already have that plan and in this Rs.120 Crores is the Brownfield cost of the capex?

Deepak Jain: Rs.100 Crores is the Brownfield.

Vineet Sahni: So the building was up, but the Rs.100 Crores capex, which was planned is mostly towards the machinery and the equipment to cater to Maruti Suzuki coming in November 2017 and answering to your previous question, yes we are on both the Desire and the Swift platforms in fact the front lighting of both is common between the Swift and the Desire platforms.

Ajit Motwani: The Tigor and HSMI supply is currently on from the Sanand Plant?

Vineet Sahni: No. Currently those platforms have been catered to by our chakan facility. However, once the facility in Sanand is up in running, we do have clients to move in a phased manner for both HSMI and Tata Motors to the Sanand facility as well.

Ajit Motwani: Got it, thanks a lot Sir.

Moderator: Thank you. We take the next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity. I just have couple of questions. One is you know when we talk about increasing LED penetration in outdoor lighting say in a four-wheeler or a three-wheeler, which parts of the outdoor lighting you are seeing the maximum penetration? Is it tail lights, indicator or is it more in the headlamp side? Sir, if you can just provide where exactly we are seeing that shift? Second question was that for us as a manufacturer; how are we equipped into the supply chain capability; so currently the model we operate is more over is a mix of captive and outsourcing for convention, so when we look at LED you talked about setting different sourcing offices. For example, one in Taiwan; so what is the model we are looking at and how does that effect the overall cost proposition to OEM?

Deepak Jain: I will take the first question. I think you are talking about the migration of the lighting in a vehicle. It actually started a few years back. The first vehicle in the Passenger cars to get inverse on the HMSLs, what we call the high mount stop lamps that had actually gone into LEDs, it then migrated to two-wheeler tail lamp, which went into LEDs, then went into four-wheeler LEDs and now we are seeing, which will be the game changer on forward lighting both in head lamp as well as tail lamp. Head lamp has already started in the Passenger cars on some mandatory regulations like the DRLs coming through and you will very soon see a two-wheeler head lamps also LEDs focusing on.

So they are safety regulated norms, there are certain mandatory regulations and of course there is a static styling and the huge concern of also less consumption of energy as more and more electrification or electronification comes into vehicles you would need lot lesser consumption and lighting in a conventional mode we used to obviously have more consumption of power and hence the LED trend keeps on continuing and goes more. So that is the first part of it.

The second part, I think your question was more pertaining to the supply chain and sourcing. As far as Lumax Industries is concerned, we do everything in-house, in terms of in-house, we are three major processes; we have injection, we have surface treatment and we have assembly so three broad bases. All plants are equipped to actually do all this in-house. However, in the electronic part of it what will change is two things. A lot of the or what we called surface mounted technology comes in and hence from a regular plastic you would need a lot of electronic fundamentals and that the company is now investing into SMT lines to actually formulate and get that technology and I have mentioned before the technology is very, very much available and also matured because of our relations with Stanley. You have to understand that this technology is although new for India, this trend is changing new to India from a global point of view it is almost about 5 to 6 years lag.

Also, the Taiwan office is mainly for procuring certain electronic parts because currently India is not having so much of deep localization on electronic parts per se, but the assembly of electronic parts or sub-assembly of electronic parts, which would get into the final assembly that would be made at Lumax Industries and also wiring will have certain change. This is also being controlled by one of the group ancillary companies and that we are again equipped to actually do that. So the issue of upgradation of skills as well as the manufacturing processes I think the company is pretty well equipped and has outlay to do that or getting up in this technology.

Viraj Kacharia: Just one question. You know you talked about the shift and DRL kind of leading that shift at the moment LED and forward lighting. Now typically what we understand from OE perspective another challenge is for it opting to LED especially when it comes to head lamps either in a four-wheeler or a two-wheeler has been the cost proposition being currently very high and therefore despite all the benefits symptoms of energy efficiency or in terms of aesthetics and design, the cost element being too high and therefore OEs usually preferring a conventional or conventional with the Xenon or a projector headlamps kind of lighting system instead of pure LED; so has that caused dynamic change in last one year or one and a half years, which is driving the shift?

Deepak Jain: Globally, there is obviously a reduction on the overall value addition on LEDs. I am just giving analogy. If you see it now on not automotive lighting; for general purpose LEDs there is definitely huge incremental reductions However, I mean to say it is automotive lighting will not go through that kind of a dramatic trend. We are in the business of doing Passenger cars and going based on customer requests. I think you will see and there is a visible trend of seeing LEDs coming in. I think there used to be a barrier about two to three years, but if you look at the overall package of styling of customer expectation or end user expectation, more and more people are opting for LEDs. We have launched or we will soon launch a tractor light, which is going to be full LEDs. So, you know the whole shift of the consumer behavior is changing of course accelerated by regulations and I do not think the cost always remains an automotive challenge and that we keep on discussing with the customers how to best give them the value proposition.

Viraj Kacharia: Because you know we will be seeing a cumulative impact of a lot of regulations, not just on lighting, but we have ABS, CBS, and two-wheelers, which cumulatively the cost impact may be pretty much significant from.

Deepak Jain: Well absolutely as you know that BS-IV to BS-VI going in 2020, LEDs will become more as I said before because of the safety norms also and also lot electrification, customers will have to keep on reducing the voltage consumption per vehicle per kilowatt and that actually LED is an opportunity for that.

Viraj Kacharia: That is all. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will take the last question. We take the question from the line of Pramod Pandey from Reliance Industries. Please go ahead.

Pramod Pandey: Sir, just three questions. Overall if you can help me with the Honda two-wheeler entire requirement for LED or conventional lighting? What percentage you cater to? That was first. Second was that you mentioned that the revenue mix is 95% conventional and 5% is LED as of now. I want to have the same ratio for two-wheeler revenues that you have? Third was in line with the previous question as such to understand that so when you say that the drive for LED will be largely related because of lower voltage requirement when you shift to Euro-VI then how much is the benefit on that front that we see? That is one. Number two is that what besides this will drive the need for LED requirement? Is it as of now driven by voltage consumption only and is largely driven by OEM requirement or you think it will be largely driven eventually by customer asking for such sort of lighting?

Deepak Jain: I will take your last question first, and then I think Anmol you can pitch in on to the numbers if specifically on the two-wheelers. As I said before, I think LED change is multiple factors. It is not just regulation, but it is also a shift in the behavioral pattern of consumers. So, we have seen more and more walk-ins, this is what at least we get from our customers that the more and more walk-in. Lighting is one of the first look product, which you see when you see a vehicle and it is relevant because all the minor changes also happen is especially Pass car and even two-wheelers the lighting keeps on changing not the full model. Hence, I think it is a derivate of customer regulations. It is also behavior patterns, which are changing and the need to also enhance the aesthetics of it. So, this is a global trend. It will come. Our production based on our order book is this 60:40, but it can get accelerated as well. So that is the key shift, which comes out into the lighting and it will continue to happen and it will be more and more pertinent and visible in the next one to two years' per se.

Anmol Jain: This is Anmol Jain. I will just add to what Deepak mentioned. I think lighting if you see is also apart from our functional product becoming more and more of a styling product for all the vehicles and automobiles. Also based on the change in the styling of the vehicle itself and the aerodynamics and the body curvature, the lighting packaging is becoming more and more tougher and that is also another reason why the preference is going or moving towards LEDs. So, that just wanted to add that.

Coming to your first question on specifically Honda Motorcycle Scooter India, we are currently at a share of close to 55% to 60% of their total requirement. This would include all their requirements of the conventional lamps as well as their LED lamps and most importantly we are the preferred partners by choice for all the future engagements for their LED projects. So the engineering teams are actively engaged with Honda to work aggressively on all the LED requirements for their future generation model and I will let the team add anything if there is. You need any further clarification on that specific.

Pramod Pandey: No Sir, that is fine; just the two-wheeler mix up between conventional LED.

Deepak Jain: I think you are talking about overall market?

Pramod Pandey: No Sir, for you in terms of your revenue from two-wheelers, what is the mix between conventional LED?

Deepak Jain: So, as I mentioned before, the two-wheeler is about 25%, which is coming out and of that I would say that close to about currently about 5% would be primarily LED and this is again LEDs, which would be primarily on the rear lighting and you will see automatic shift happening in the next two years because of two-wheeler lighting adopting LEDs in the front lamps and not just rear lamps.

Pramod Pandey: Basically the mix is same across PV and two-wheelers?

Deepak Jain: Today it is same. Today it is relatively same, the penetration level, but if you see the order book let me say it is very healthy on the LED side and more and more designing coming in is coming from the LEDs.

Pramod Pandey: Thanks Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Deepak Jain for closing comments.

Deepak Jain: First and foremost, I would like to thank everyone for participation. I think the performance of the current year seemed encouraging, which is mainly led by the greater emphasis of the team towards enhancing the operational efficiencies. We are also pretty encouraged by the improving macroeconomic factors and I believe that the momentum in the sector would continue and being the first mover in technology, we expect to maintain our present leadership going way forward. We are pretty focused on creating value for all stakeholders. Thank you once again for your time and for your valuable comments.

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