“Lumax Industries Limited
Q4 FY2018 Earnings Conference Call”

May 30, 2018

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Moderator: Good morning, ladies and gentlemen. Welcome to the Lumax Industries Limited Q4 and FY2018 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on 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. 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Jain – Chairman and Managing Director of Lumax Industries Limited. Thank you and over to you Sir!

Deepak Jain: Thank you. Good morning ladies and gentlemen. A very warm welcome to the Q4 and 12 months FY2018 earnings call of Lumax Industries Limited. Along with me on this call, I have Mr. Anmol Jain – Joint Managing Director, Mr. Vineet Sahni – CEO and Senior Executive Director, Mr. Naval Khanna – Executive Director – Lumax Management Services, Mr. Sanjay Mehta – Group CFO, Mr. Shruti Kant Rustagi – Lumax Industries CFO, and SGA, our Investor relationship advisor. The results are uploaded on the Stock Exchange and the Company's Website, I hope everybody had a chance to look at it.

Before we start the discussion on the financial performance of the company, I would like to share a few highlights of the automobile industry. FY2018 witnessed a strong growth despite certain challenges like BSIV adoption and GST implication. The Indian automotive industry has registered almost double-digit growth compared to the last fiscal in production as well as on sales. India also over-took Germany as a fourth largest global automotive market and now falls behind China, USA and Japan.

India manufactured 29 million vehicles across all segments of which 25 million were sold domestically and rest 4 million vehicles were exported. Domestic market grew 14% whereas the export market grew 16% compared to last year. In the domestic market, India's two-wheeler segment registered a growth of 15% with a sale of over 20 million vehicles, sale of the commercial vehicle segment grew by 20% with 0.85 million vehicles. The continuous spending on infra, housing and other major projects are bound to create a good demand for CVs, which will help to keep up this growth momentum go ahead.

The three-wheeler segment also saw a growth of 24% with 0.63 million vehicles. Passenger vehicles segments saw a growth of 8% with 3.3 million vehicles. Despite teething troubles like GST and moving from BSIV to BSVI, the auto industry recorded a milestone in FY2018, past shadowing low base of FY2017. Over the last decade, the Indian auto component industry has scaled and had grown faster. The growth of global OEM sourcing from India and increased indigenization is turning the country into a preferable designing and manufacturing base.

Now I will come to the company performance. Our company is engaged in the production and delivery of automotive lighting solutions for two-wheelers, passenger vehicles, farm equipment space and commercial vehicles segment. We are the preferred supplier to the OEMs in India and continue to be the market leader. We are manufacturer of automotive lighting systems and lighting products has been really transformed from just functional to a styling performance, safety and technology aspects for all vehicles and automobiles. Aesthetics remains the key characteristic for OEMs for the product differentiation to appeal to their customers and hence the lighting products keep on getting chance to refresh on the minor model changes.

We have technical competence with our in-house R&D design center and have manufacturing footprints all over India. Our top six clients include Maruti Suzuki, HMSI, Hero MotoCorp, Mahindra & Mahindra, Honda Cars, and Tata Motors. In Q4 FY2018, the new models launched to which Lumax Industries has catered, are the following: -

In the passenger vehicle segment, Toyota Yaris has the LED tail lamps and fog lamps. In the two-wheeler segment for Honda Motor Scooter India we have the Activa 5G and X-blade, both LED head lamps. In the commercial vehicles, we have Isuzu motors D-Max rear combination lamp, Tafe’s magna headlamp, SML Isuzu headlamp and front turn lamp.

The company also inaugurated LED lamp zone in Dharuhera and Bengaluru facility in order to cater to the needs of upcoming LED models for the customers. With increased focus on safety norms, all new two-wheelers are sold with AHO features and all passenger vehicles are sold with DRLs. At the same the focus on lesser energy consumption and improved aesthetics is driving the demand for LED from the OEMs. Currently, LED forms now 25% of our sales and we expect an exponential in its demand in the coming years. BSVI adoption in 2020 will also help this LED transitioning faster including the two-wheeler space.

The LED shift also does have challenges like localization as well as electronic skill development which the company is taking actions for the same. Our Sanand plant in Gujarat has commenced its productions from January 10, 2018 to supply headlamps and rear lamps to Suzuki Motors Gujarat. The facility has been setup to produce 300,000 vehicle sets annually. we have already achieved 80% to 85% capacity utilization. Phase II Sanand expansion will commence this fiscal year as well. The company for this financial year 2018 has also received the following awards: -

On February 21, 2018 Honda Motorcycle Scooter India awarded the company with the best supplier for new development.

In the recent concluded Maruti Suzuki supplier conference in Abu Dhabi on May 4, 2018, the company received three awards, the first was for localization support in Gujarat, second was on tier-2 upgradation and we also received the overall performance shield from Maruti Suzuki. Going forward, we believe that the automotive industry will continue to do well in FY2019 and the company will focus on growth, on LED adoption and on competitive manufacturing practices to keep on putting our margins and growth revenue in check. Now, I will hand over the line to Mr. Sanjay Mehta, Group CFO to update you on the financial performance of the company.

Sanjay Mehta: Good morning to everyone. Let me take you through the financial performance of the company. Due to applicability of Indian Accounting Standards with effect from April 1, 2017, the results have been prepared in compliance with Indian Accounting Standards and accordingly corresponding figures have been restated to make them comparable. The net quarterly revenue after excise duty stood at Rs.559 Crores against Rs.385 Crores last year recording a growth of 45% year-on-year basis. The increase is due to volume increase and value addition of technologically advanced lighting component. The 12 months net revenue up by 30% from Rs. 1271 Crore to Rs. 1650 Crores in current financial year.

The company reported a consolidated EBITDA of Rs.48 Crores in Q4 2018 against Rs.28 Crores last year recording a growth of 71% year-on-year basis. And with respect to 12 months, it is up by 31% from Rs. 106 Crores to Rs. 140 Crores in FY18. EBITDA margin stands at 8.5% both for Q4 and FY2018 up by 130 basis points with respect to quarter and 10 basis points with respect to 12 months last year. The expansion in margin is on account of optimization of fixed overhead due to increased sales. The margins has not increased in the current quarter in spite of increase in sales due to price increase given to suppliers on an account of increase in prices of raw material particularly the PC amounting to Rs.10 Crores. Out of 10 Crores, 3 Crores belongs to current quarter and Rs.7 Crores for the previous quarters of the current year.

Considering this, margin in Q4 would have been 10.3% and for annual it would be 9.3%. PAT margins after share of associates is at 3.2% in Q4FY18 against 2.1% Q4FY17. The consolidated PAT for Q4 this year is Rs. 18 Crores against Rs. 8 Crores Q4 of the last year and 12 months margin is same as FY2017 at 4.3% due to increased tax expense in this current year on account of Sanand capitalization and no benefit of investment allowance. Now, we open the call for questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Capital Limited. Please go ahead.

Ashutosh Tiwari: Sir, congratulations on very good set of numbers especially the kind of business that we have got over last two quarters. Sir firstly in the model that we got last quarter, Q3, XPro, Pro, and Super Splendor from Hero MotorCorp are you supplying only the headlamp or all the lamps basically over there?

Deepak Jain: No. At this moment, headlamps only.

Ashutosh Tiwari: What would be your share over there roughly?

Deepak Jain: Hero share we are at around 50% vis a viz our competition.

Ashutosh Tiwari: In these three models?

Deepak Jain: No, overall.

Ashutosh Tiwari: But in these three models what be your share roughly?

Deepak Jain: Model wise we are single source.

Anmol Jain: Usually Customers actually have for model a single source policy, so when I say model, so let us say if we are headlamp supplier or tail lamp supplier usually the customers would have a single source on a headlamp or a tail lamp and in a total obviously from the their buying we actually would have a certain percentage are located depending on the supplier and the customer relationship.

Ashutosh Tiwari: These models were not there earlier with us, these three models?

Deepak Jain: Yes, they were not there.

Ashutosh Tiwari: So, I think the full year impact will come through in FY2019 only, only one quarter impact we have seen in this quarter right?

Deepak Jain: Yes.

Ashutosh Tiwari: And in Activa 5G and X-blade what would be your share in these two models roughly?

Deepak Jain: Activa we are at around 62% or so because certain plants we are supplying 100% and some plants we are supplying 50% for example 1F and 2F plants, we are supplying 100% and in third factory and fourth factory we are supplying 50%, so on an average it works out to around 62% as our share.

Ashutosh Tiwari: Okay and X-blade?

Deepak Jain: Both are the same.

Ashutosh Tiwari: Got it and Sir, if I look at the customer wise contribution in sales I think Hero and Honda both were around 9%, Hero and HMSI, so roughly 18% last year versus this year if you look at this 12% and 11% so it is going to be 23% it is almost like 5% increase in the share of these two players versus last year right?

Deepak Jain: That is correct as I had mentioned before in my previous last three quarters meetings that the company is focused on actually now getting more share of business from two-wheelers, order books look healthy and also the shift in LEDs from basically a conventional lamp in the two-wheeler space is also helping the company to gain more market share.

Ashutosh Tiwari: But if I look at the yearly numbers in terms of two-wheeler share it was 24% last year and 26% this year only 2% increase while actually in Hero and Honda we have around 5% increase, so is there some difference over there, I mean is that figure not correct for two-wheeler overall contribution in this year?

Deepak Jain: Four-wheeler also has grown, this is you talking about the total basket right as a segment, so you just do not have to look at the percentage wise, what you have to see is that year-on-year growth in the two-wheeler space have been 40%.

Ashutosh Tiwari: I got that front, but what I am saying that if we look at in the total revenue FY2018, Hero plus Honda put together is almost 23% in the number that you have provided and total share of two-wheeler 26% in this year versus last year the Hero plus Honda 13% and total two-wheeler was 24%, so is the numbers correct or I think the two-wheeler numbers are higher actually in this year or there is something else I am missing out?

Deepak Jain: We will check and we will get back to you on this.

Ashutosh Tiwari: And lastly Sir on the Swift and Dzire what would be the top variant share where we have the LED headlamp and DRL in the total sales?

Deepak Jain: Sorry, can you repeat your question please?

Ashutosh Tiwari: In the Swift and Dzire top variant we have the LED headlamp with DRL so in the total sales of Swift and Dzire what would be the top variant percentage roughly?

Deepak Jain: Top variant is around 16%, 17% of our total sales that we supply and goes to around 20%.

Ashutosh Tiwari: Sir, we are almost on Rs. 559 Crores sales in the Q4 and I think the more or less the volumes for whatever two-wheeler or four-wheeler companies have done in the Q4 would we actually higher or may be similar to what it was in Q4 for full year FY2019, so are we looking at say Rs. 2200 Crores plus kind of sales in FY2019?

Deepak Jain: We cannot multiply directly by four that is a wrong figure to do, normally the first quarters go a little slow and then the sales pickup during Diwali time and last quarters are better. That is the trend, so we should not multiply, that will be an error, if we multiply, but yes it will be better than the current year for sure.

Ashutosh Tiwari: This will be far better than current year right, better would be an understatement I think right?

Deepak Jain: We hope so.

Ashutosh Tiwari: And Sir lastly you said that there is Rs. 7 Crores one-off in the current quarter related to the compensation related to previous quarter right so that number should be added to EBITDA number?

Deepak Jain: Yes, because this is the price increase we have given to supplier due to increase in raw material cost, which will get compensated in the current year, we are negotiating with customer; however, the compensation takes place on an average price, so it is very difficult to say that same amount gets compensated it could be less than that, which will depend on the negotiation with the customer.

Ashutosh Tiwari: But in general 8.5% margin delivered in FY2018, how would that look like in FY2019?

Deepak Jain: We are trying to better it.

Ashutosh Tiwari: Okay Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Sir, congratulations for great set of number and thank you for the opportunity. Just from the earlier participant wanted to reconfirm you said Activa 5G there is a 60% plus market share. Now if I look at your FY2017 revenue we did about Rs. 80 Crores revenue from HMSI, now then does this mean that in past we had probably only 30%, 40% market share in Honda which has now moved up to about 62% for the new models, is that assumption correct?

Deepak Jain: No, that assumption is not correct because we had a similar share in the Honda; however, we have got one or two additional model for sure, but what has happened is that in Activa and other models the revenue per lamp has changed because of LED and these shares are calculated on value basis, so therefore you see the change.

Kashyap Jhaveri: Right, but still if I look at FY2017 the total revenue that we did was about Rs. 120 Crores and in the Q4 of this year, the revenue I am just trying to reduce from full number minus 9M numbers that number comes to almost about Rs. 80 Crores in this quarter itself, so there has to be a meaningful change in the market share versus old and new models?

Deepak Jain: That is because the Activa shifted to LED in the last quarter, so it has that impact and that is why in the last quarter you see higher revenue.

Sanjay Mehta: Just to recast the number I think what you are saying Honda two-wheelers last year 2016 – 2017 12 months was Rs. 108 Crores, this year sales 12 months figure is Rs. 176 Crores so Honda two-wheeler in the Q4 itself if you are just talking about that was Rs. 29 Crores and that has actually gone to rs. 58 Crores in Q4 so just to give that numbers in the right perspective.

Kashyap Jhaveri: So, Q4 Honda was Rs. 58 Crores?

Deepak Jain: Correct.

Kashyap Jhaveri: Because you have given this chart in the presentation where you show this is on slide #18, customer wise sales out of Rs. 1650 Crores and if I look at the same number in Q3 presentation on the same slide and you know sort of minus M9 from the 12-month number somehow, I am getting Rs. 78 Crores, but you are saying it is about 58 Crores?

Deepak Jain: Correct for the whole, so anyway we can clarify it offline.

Kashyap Jhaveri: Sure, second question is on your EBITDA margins, we had a quarter-on-quarter sharp 50% increase in topline, but our margins have actually declined because of the gross margin level number change, so in terms of localization or other factor why such dramatic change in the gross margin and when do we expect the EBITDA margins to actually go to a double digit number, which is our earlier aspiration?

Deepak Jain: So, in this quarter if you would have seen in fact last six months Q3, Q4 there was a substantial increase in the raw material prices. I am sure you are aware about polycarbonate is the main material that we use in headlamps and the prices went up to 60% from their current level, so therefore the EBITDA numbers of last quarter are down by around Rs. 10 Crores impact and this is now under negotiation with our customers because they have their policies of settlement in six months average, so it is under discussion with almost all customers. This is very difficult in the auto industry even when the prices come down the negotiations do happen in six months and also when prices go up. So there is a lead and lag that happens.

Kashyap Jhaveri: And what is the change in localization in LED now versus let us say Q2, Q3, and Q4?

Deepak Jain: We plan to take localization programmes, this also needs quality validation from the customer and it is a little long drawn process, so already certain projects are on to localize because our import contents have also gone up due to import of electronics and raw material cost will also go up due to electronics, so this is also in our focus area to localize electronics step-by-step along with our customer because we need customer approvals because of quality.

Kashyap Jhaveri: Sure, and one last question on SL Lumax this quarter there was loss of about Rs. 1 Crores to 1.5 Rs. Crores, so what is happening over there?

Deepak Jain: I think I mentioned before that I think you cannot take SL Lumax in quarter-on-quarter, it is a one customer base where Korea SL as well Hyundai Korea actually dictates the policy, so actually you should look at it as a whole year per se, so if you see they actually grown their PAT levels from basically 5.2% to 5.8%. We having a minority share, our PAT levels have increased. Something, which basically is important to us and hence I think with the total full year growth of about 12% or so, EBITDA margin is about 12.7% and PAT level is about 5.8% I think that what is important, so last year they did PAT level of Rs. 49 Crores, this year they are doing about Rs. 63 Crores, which we have actually put it in our minority share.

Kashyap Jhaveri: Sir, you said EBITDA margin?

Deepak Jain: EBITDA margin is about 12.7%, the revenue is 1084 Crores, 137 crores is basically PBDIT and PAT level at about Rs. 63 Crores.

Kashyap Jhaveri: Thank you very much Sir.

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

Sunil Kothari: Thank you very much. Congratulations for very good set of number. Sir, my broad question is our expectation to reach double digit margin maybe over some year, which are challenges we suppose to work upon and which are the levers to increase this margin?

Deepak Jain: Thank you for this question. I think it is pretty pertinent. I had mentioned that we would like to strive for this double digit and we continue to do that, that target is the same which we have set in. Now, I think there are three, four challenges for the company for going forward. We feel that there is tremendous opportunity for growth in this space. Obviously the idea would be to have financial prudence while we are doing that thing in new capacities be it in Brownfield or Greenfield, hence the company's balance sheet that is we are not leveraging or over leveraging we are actually trying to use our internal accruals to put that because we feel that, that will also give us impetus on margin growth and idea is whenever the capacities that you invested in it gets quickly utilized. Number two I think more important is with the shift of LEDs coming through. There is challenge because the import content because of the electronic ecosystem not being so robust in India. The challenge remains is the imports going on. Now as you know recently the rupee has taken a dive, obviously, there is certain duties also which have actually been placed on the electronic components. So hence the localization drive comes very strongly for us, but when I say localization drive, we need to work on quality plans, we need to work with our customer, so I think we will be investing in localization in the next one year or so to ensure that we actually do certain key localization, which will bring down the price of the LED assembly not so just only LED as such so that is second. Third I think of course we need to keep on continuously do our operation cost balances out and manufacturing efficiencies, I think one key factor here will be to keep investing into technology and R&D, which will help us to have more self-reliance on the technology platforms, which will also lower our overall cost of development, so I think these were three main programmes what we are actually looking at. So one is the electronic localization, number two is basically for the investment where we are investing actually we are sure about our customers growth plan so that the investments are not idle and third on the technology self-reliance. These are three programs and I am hopeful that within about a year with all these investments, which we do in phase wise manner, we should be by at least 2020 be able to reach the double digit plus margins.

Sunil Kothari: Great and one more thing is we are exiting this year with 25% of LED revenue, what should be your objective by this year end 2018-2019 LED proportion in the revenue?

Deepak Jain: I think if you see the trend it is going to keep on increasing. We expect that this number should be somewhere another 10% increase, so I would say about 25% should be basically coming forward, I think I had said in my previous things that about 2021 and 2022, we expect that to be about 60:40 that means, 60 conventional 40 LED, we see faster adoption taking place and I think the next year we should be at about 35% above.

Sunil Kothari: Sir, what type of investment we will be doing this year for further expansion at Sanand and what capacity we are increasing?

Deepak Jain: You are talking about Sanand especially?

Sunil Kothari: Yes.

Deepak Jain: For Sanand, so let me talk from Gujarat perspective, I think we will be in Sanand investing close to around about Rs. 25 Crores or so, this would be actually additional, we already have 300,000 vehicle set capacity there. I think we want to increase it to next 100,000 further more for the passenger car, but also we will be increasing the two-wheeler because Honda is telling us to actually shift out there, they have also come and visited our plants and validated them, so we will actually be expanding it to put in about close to 700,000 vehicle sets for two-wheelers and additional 100000 taking capacity to 400000 and that 100000 we already have got orders for MG Motors, for TATA motors that what it is and always it is good to have a buffer when your client is Suzuki motors, so that is what we are doing and also we will be taking further land so that we will have a Greenfield site post this expansion or Brownfield site in 2021, 2022 we will start that, so I think Gujarat remains the key investment state for us and mostly our investments would be focused on that.

Sunil Kothari: Great and my hearty congratulations to your finance team also for such a superb ROCE and ROE numbers also. Thanks a lot.

Moderator: Thank you. The next question is from the line of Akash Manghani from BOI AXA Investment. Please go ahead.

Akash Manghani: Thanks for taking my question. The first question is on the value versus volume breakup for this quarter as well as FY2018 could you help me with that, how much would the revenue growth be in terms of value?

Deepak Jain: You are talking about FY2018, the volume growth is around 60% and value growth on account of new technology around 40% on checking on the annual basis last year versus this year.

Akash Manghani: So, 60% of the growth, which is 30% of the growth?

Deepak Jain: Yes.

Akash Manghani: 60% of that is because of value you are saying?

Deepak Jain: Yes, our sale has grown by 30% from Rs. 1271 Crores to 1650 Crores out of that volume is 60%, 40% is because of technological segment.

Akash Manghani: Volume is 60%, technology was at 40%?

Deepak Jain: Technology has come in the middle of the year, if I will go for the Q4 specifically last year versus this year, the volume growth is the 43% and the technology growth is 57%, I mean the reverse 40%, 60% in Q4.

Akash Manghani: And what will be the LED revenue share in Q4?

Sanjay Mehta: 25% of Q4 sales which is Rs. 450 crores.

Akash Manghani: Could you break it up into how much would be in two-wheelers and how much would be in four wheelers LED revenue shares this year versus last year?

Sanjay Mehta: You are talking about proportion in case of PVs or conventional versus new LED it is around 75:25 this year. Last year it was 90:10 and in two wheelers this year it is 80:20. Last year it was 94:6, so penetration of LED is more and faster in two-wheelers.

Akash Manghani: So, 20% versus 6% and 25% versus 10% in PVs?

Sanjay Mehta: Yes.

Akash Manghani: This year the revenue share from two - wheelers has gone up from 24% to 26% and from the looks of it, it will go up even further in FY2019 and FY2020 because adoption seems to be faster over there because of AHO and my understanding is that two-wheelers is a lower margin business right, so given and is a high ROCE business, so given that fact do you think that EBITDA margin expansion over the course of the next one to two years to double digit is seriously possible or this revenue shift towards two-wheelers will sort of offset the localization plans that you have in terms and all the other plans?

Deepak Jain: No, you also have to see in terms of gross. You also have to see in terms of investment. Two-wheeler investments a relatively low compared to passenger cars, so as I said we still maintain a double-digit target going forward, so we do not see that just shifting on two-wheelers would basically erode margins. We actually think will help consolidate because currently we are also doing business of two-wheelers. From there if we actually go into LED zone I think that will help us to improve margins rather erode margins.

Akash Manghani: Within two-wheelers is 20% LED share where do you see this in the next one to two years?

Deepak Jain: I think I have told you I think just previously answered I think we see a faster adoption coming in and given a 2021 someone had answered for that what it will happen in 2021, my estimate is that

60:40 we had said before 60 conventional and 40 this. Currently we already at 25%, so it will range somewhere between that. Next year we hope that it should be about 35%.

Akash Manghani: What will be the tooling revenue in FY2018 versus what was in FY2017?

Sanjay Mehta: FY2018 the revenue is around Rs.142 Crores and last year it was Rs.100 Crores around that.

Akash Manghani: What are the margins in this?

Sanjay Mehta: It is all the same margin.

Moderator: Sorry to interrupt Mr. Manghani. Sir may we request that you return to the question queue. There are participant waiting for their turn. Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Congratulations for good set of numbers. My question is if I look at Maruti sales mix in terms of the value in FY2017 based on your presentation you did Rs.477 Crores and in FY2018 you did Rs.530 Crores net of excise duty that is about 11% growth? Can you give what is the Q4 number and also in HSMI your numbers what you stated Rs.108 Crores and Rs.176 Crores, but actually as per the recent presentation it comes out to Rs.119 Crores and Rs.198 Crores, so why is there a discrepancy between the presentation and the stated numbers?

Sanjay Mehta: Actually I will just clarify. Maruti Suzuki sale for QIV current year is Rs.151 Crores. Last year QIV, it was Rs.105 Crores. Annual Maruti Suzuki sale is Rs.483 Crores against the last year of Rs.416 Crores. Actually for Q4 if you see the sale comparison of Q4, Honda two wheeler HMSI sale has increased from Rs.29 Crores to Rs.58 Crores, but if you see the 12 month number, Honda two wheeler sales have increased from Rs.108 Crores to Rs.176 Crores.

Rajesh Kothari: Just a minute please. If you look at your total revenue FY2018 and if you multiply by the presentation mix what you have given it is a 12% for HMSI?

Sanjay Mehta: The percentage mix is on the basis of manufacturing sales. Out of Rs.1650 Crores this year, Rs.142 Crores pertains to mould sales. If you see the percentage share of Rs. 1507 Crores, 12% comes out as Rs.176 Crores and last year, out of Rs.1270 Crores, Rs.105 Crores is the mould sales and if you see the 9% of Rs.1165 Crores, it comes out at Rs.108 Crores.

Rajesh Kothari: Just a minute Sir. What are the mould sales in FY2018?

Sanjay Mehta: FY2018, Rs.141 Crores and for FY2017 it is Rs.105 Crores.

Rajesh Kothari: What is in Q4 mould sales?

Sanjay Mehta: Q4 FY18 mould sales is Rs.109 Crores in comparison to Rs.64 Crores in preceding Q4 FY17.

Rajesh Kothari: Oh, I see, one needs to adjust this mould sales numbers from the overall reported numbers?

Sanjay Mehta: Yes, exactly.

Rajesh Kothari: Therefore, your Maruti in FY2018 sorry for this repeat question in FY2019 how much is Maruti net of this mould number?

Sanjay Mehta: Rs.151 Crores.

Rajesh Kothari: No for full year FY2018?

Sanjay Mehta: For full year, it is Rs.483 Crores.

Rajesh Kothari: Compared to last year?

Sanjay Mehta: Rs.416 Crores.

Rajesh Kothari: So Maruti has reported good double digit that is what I was wondering because your plant just started. The second question is the total capital expenditure what you mentioned Rs.25 Crores that includes both car as well as 7 lakh for two wheeler?

Deepak Jain: It is for both two wheeler and four wheeler.

Rajesh Kothari: By when this will commence and what kind of revenue you are looking from this new capacity?

Deepak Jain: We are working, there is certain start of production dates of OEMs that is not yet decided, but by the end of this year we will finish the expansion and revenue will start flowing in starting next year.

Rajesh Kothari: Understood. In FY2020 once the plants are full on stream what kind of a potential level you are looking from this new capacity?

Deepak Jain: Currently this plant is doing around Rs.200 Crores annual and this will go up to around Rs.275 Crores to Rs.300 Crores on the peak capacity.

Rajesh Kothari: Rs.275 Crores to Rs.300 Crores, so basically you are saying that see 3 lakh capacity gives you Rs.200 Crores annual revenue then 1 lakh itself gives you additional about Rs.60 Crores to Rs.70 Crores? Then 7 lakh two wheelers will give you only Rs.20 Crores to Rs.25 Crores of additional revenue is it?

Deepak Jain: Because the pricing of two-wheeler is very different from four wheeler.

Rajesh Kothari: Understood, so in FY2019 and FY2020 is it in terms of considering the significant increase of LED and overall volume growth what kind of revenue growth you are looking for in FY2019 and FY2020?

Deepak Jain: We are looking for around 14% to 15% of growth because certain revenue has come up this year and next year there is no major SOP of new model. This year we had two like Swift and Activa, so next year, we do not have any new production model coming in, so we are targeting around 14% to 15% growth.

Rajesh Kothari: In FY2019?

Deepak Jain: Yes.

Rajesh Kothari: But that will be the base in even conventional business will keep growing by that percent am I right, so the full effect of the Maruti as well as the expansion what you have done in January 2018 do you not think that should add growth to become 20% to 25%?

Deepak Jain: No certain models are also going down because there is end of life of certain models. So certain models go down and some models come up, so that is normal and therefore the net growth should be around 14 - 15%.

Rajesh Kothari: And FY2020?

Deepak Jain: I mean we will have to keep our fingers crossed that we continue growing at this pace.

Rajesh Kothari: Super Sir. Wish you all the best. Thank you.

Moderator: Thank you. The next question is from the line of Prayesh Jain from IIFL Wealth. Please go ahead.

Prayesh Jain: Good morning Sir. Congrats on a good set of numbers. Just one question on the LED front, Where are we in terms of localization and what parts are to be importing now and what is the quantum of those imports and how do we plan to reduce that?

Deepak Jain: At this moment we are importing around 40% content. We have started simple localization work in the sense that we are setting up our own electronic facility and PCB SMT boards, we will localize. For the complex localization we are in talks with our customer because that has to be taken up jointly because of the quality validation and those programs are on in discussion with customers.

Prayesh Jain: Actually what would be the optimal level of your localization that you will reach? You will aim to do it at 100% or certain part would still be imported over a longer period of time?

Deepak Jain: I do not see this happening 100% because technology also would keep upgrading itself like it has happened in conventional. When conventional lamps started, there was lot of import content and we brought it down to nearly I think 10% level, but with new technology we are going up again, so it will not become 0% because most of the electronics is made outside India even the components. Today, India does not produce electronic components. It is 100% imported across all industries. It is not only us. All industries import electronic component because India does not produce. So a lot of it depends on our electronic strategy in the country, which is also in focus. So we are following that localization plan, so it will not become 0%. We do not see that happening.

Prayesh Jain: Sir in a three-year time frame do we see this localization for LED particularly reaching that 75% to 80% mark or what will be the range?

Deepak Jain: No I do not see even that in three years as 60% to 70%. It should come to around 35% to 45% localization in three years.

Prayesh Jain: That is all. Thanks.

Moderator: Thank you. The next question is from the line of Kunal Pawaskar from IND Growth. Please go ahead.

Kunal Pawaskar: Good morning. My question was on unit price movements that you see over the next year FY2019 and FY2020 on conventional and LED respectively, so for a certain model that you might be selling to an OEM typically what kind of unit price movement do you foresee on a whole new budget car? Thanks.

Deepak Jain: You are talking about comparative unit price.

Kunal Pawaskar: Suppose a particular you said that you are supplying to an OEM typically what kind of unit price does it stay constant decrease, increase, how are you seeing it over the next two years on conventional and LED? I am sure on LED probably the rate it is a faster pace of decrease, but what might those numbers be?

Deepak Jain: I tell you with most of the OEMs we have a fixed contract where the price decreases are planned in the purchase order itself by negotiating the contract. Even the raw material prices, there are fixed rules with most of the customers not with all, but most of the customers where they compensate for increase or decrease of the raw material cost. So every quarter the price keeps changing based on these rules.

Kunal Pawaskar: Understood and what might that range of number be the price decrease if at all? What might that range be in conventionally and LED respectively?

Deepak Jain: Normally 2%. Year-on-year is what we have agreed with the customer 1.5% to 2%

Kunal Pawaskar: Is it higher on LED?

Deepak Jain: No, it remains similar on that because value of LED is higher so as far as rupee content we pass more.

Kunal Pawaskar: Understood. Thanks.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir can you highlight what was the tooling revenue relating to Honda two-wheelers like the way you highlighted for Maruti?

Sanjay Mehta: The tooling revenues mentioned not specifically for the Maruti. It was for all the customers.

Ronak Sarda: Then what was HMSI revenue. Can you highlight, just give the absolute numbers for HMSI, so the 9% and 12% how does it moved?

Deepak Jain: The manufacturing revenue for HMSI Rs.108 Crores for the last financial year, which comes out as 9% of manufacturing sales of Rs.1165 Crores and for the current financial year, it is Rs.176 Crores, which comes out as 12% of Rs.1507 Crores.

Ronak Sarda: Just wanted to check for the Honda Activa 5G, have we started production in Q4 of FY2018 or that would purely come from Q1 of FY2019?

Deepak Jain: No, we have started production.

Ronak Sarda: You have started production and Sir if you can just assume that you are supplying to Honda Activa for the conventional lamps as well what is the kind of price increase are we…the content increase have we seen for the Honda Activa headlamps?

Deepak Jain: We will not be able to give you the exact pricing for that, but just for your information it is around 3.5 to 4 times the conventional.

Ronak Sarda: Sir this is largely dependent on import content as well? As the localization increases there can be price reduction as well or that will not be the case with?

Deepak Jain: If we localize normally we share the benefit, so there could be price reduction as well as margin improvement if we localize.

Ronak Sarda: Perfect, but otherwise there will not be any major erosion in price as such?

Deepak Jain: Because this Activa being very high volume it is already very competitively priced.

Ronak Sarda: The competitive prices you are saying is 3.5 times?

Deepak Jain: Yes.

Moderator: Sorry to interrupt Mr. Sarda. Sir may we request that you return to the question queue. There are participants waiting.

Ronak Sarda: I have one question and I am done. Sir TVS you have mentioned you have had as a customer for the LED can you highlight have we got any significant share of business or we the second source of supply? What were the efforts involved in getting into TVS?

Deepak Jain: In LEDs we are a significant player and are preferred supplier to all customers at this moment and for TVS also the entry is through technology, so a lot of work has been done by our company on LED technology.

Ronak Sarda: Any target here on TVS? Where do we see TVS as a percentage of our total revenues in the next let us say three to five years? Any target do we have?

Deepak Jain: We are working out with TVS and we see a start of production in Q4 for TVS first model.

Ronak Sarda: Q4 FY2019?

Deepak Jain: Yes.

Ronak Sarda: Sure Sir. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Deepak Jain from Subhkam Ventures. Please go ahead.

Deepak Jain: Sir I have two questions. One is what is your expectation of the value growth for FY2019 when you said 15% revenue growth is what you are expecting, so what is it that you are assuming let us say OEMs are expecting 10% to 12% volume growth, so are you expecting 4% to 5% value growth? Is this what you are expecting?

Deepak Jain: In fact most the growth we are expecting from value because the industry as such passenger cars we are expecting around 2% to 3% or 4% growth, but value growth is higher that we are expecting next year FY2019.

Deepak Jain: Basically of this 15%, major is what you are expecting is the value growth and the second question is on this double digit margin target do you think by first quarter of FY2020 is it possible or it is more beyond that?

Deepak Jain: Yes. We wish. We are trying to reach that target.

Deepak Jain: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: You mentioned that to calculate the share of revenue one needs to exclude the tool sales from the numbers, which are given in presentation? In that case it is possible for you to share the tooling revenue for each quarter of this year?

Deepak Jain: Yes. We can do that.

Kashyap Jhaveri: As of now do you have available probably at least 9M number do you have available? Like Rs.141 Crores you mentioned for the full year of which Rs.109 Crores was for Q4?

Deepak Jain: Yes.

Kashyap Jhaveri: 9M last year number can you, 105 was for the full year and 64 was for Q4 last year?

Deepak Jain: Exactly.

Kashyap Jhaveri: Okay. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Akash Manghani from BOI AXA Investment. Please go ahead.

Akash Manghani: Sir two questions. What was the operating cash flow in FY2018 post taxes and working capital?

Sanjay Mehta: Actually the working cycle is in negative, so we have that advantage of larger long relationship with creditors where we are enjoying the larger credit period. It is Rs.140 Crores for FY17-18.

Akash Manghani: This is post taxes and working capital right?

Sanjay Mehta: It is net cash flow to company Rs.140 Crores.

Akash Manghani: What was the capex amount in FY2018?

Sanjay Mehta: It is around 160 Crores.

Akash Manghani: Now this working capital this year was negative Rs.102 Crores versus last year was a positive Rs.33 Crores? There is a big change in the company generated working capital cash flow? This is one-off or how should one read on to it because the payables increased significantly? We have been able to sort of generate working capital?

Sanjay Mehta: The current ratio was 0.69 in this current year, against last year of 0.65. When you take inventory, debtors and creditors all together, the ratio is almost similar to last year. The debtors have increased because of Q4 higher sales. The inventory has increased because of higher imported content & on account of higher LED sales in Q4 and creditors also increased as a result of this.

Akash Manghani: The other question is what was the revenue from the new plant in Q4?

Sanjay Mehta: Around Rs.25 Crores for this quarter. This is only for two and a half months.

Deepak Jain: In January, it has started, two and a half months only, yes.

Akash Manghani: Rs.24 Crores for two and a half months?

Sanjay Mehta: Rs.25 Crores to Rs.30 Crores.

Akash Manghani: What would be the LED revenue share from this plant? For the overall company we know, but from this specific plant what would that be?

Deepak Jain: It is around 50%.

Akash Manghani: 50% and do you expect this to go up further in the following year?

Deepak Jain: Yes we are expecting further.

Akash Manghani: Any number that you can talk about based on what contacts you have?

Anmol Jain: This plant should grow to about 70% LED going forward

Akash Manghani: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sailesh Raja an Individual Investor. Please go ahead.

Sailesh Raja: Thanks for the opportunity. Congrats for the good set of numbers and also for receiving many awards from the customers. Sir my question is what is our wallet share…?

Moderator: Sorry to interrupt Mr. Raja. Excuse me Sir your voice is echoing. Can you use the handset mode while speaking and not the speaker phone?

Sailesh Raja: Sir what is our customer wallet share?

Deepak Jain: Customer wallet share?

Sailesh Raja: Yes, wallet share? Share of business with each of the customers can you please share, key customers Maruti and HMSI?

Deepak Jain: Maruti overall we are at around 40% and in HMSI we are at around 35% and with Hero we are approximately 45%.

Sailesh Raja: Mahindra & Mahindra Sir how much?

Deepak Jain: Mahindra & Mahindra, we are around 55% to 60%.

Sailesh Raja: Sir what was it last year compared in FY2017?

Deepak Jain: FY2017 we have gained around 2% to 4% at almost all customers.

Sailesh Raja: Sir what is the key competitiveness we have over the peers? Is there a price difference between us and our competitors and because of the capacity we are getting more business or because of the design support? What are the key reasons?

Anmol Jain: I think there are two or three aspects of it and we have to take it segment wise. In the passenger car segment I think price is not really the key differentiator. What it is, is mainly the relationship what we enjoy with Stanley in terms of the technology as well as developments support especially in Japan. Second also our manufacturing footprint is all over India vis-à-vis competition which may not have that deep manufacturing footprint all over India both in four wheelers as well as in two wheelers and that becomes a competitive advantage and of course I mean to say then you are engaging the customer at different levels, so I think technology play as I mentioned before, Stanley is probably one of the only auto lighting companies also manufactures its own LEDs, so that gives us the head in technology. In two wheelers the shift in LEDs is giving us better wallet share with customers primarily because of technology shift, so I think these are the reasons.

Sailesh Raja: Sir you mentioned about Maruti SOB is around 40% and HMSI with each of the customers, how would the mix change in the next two years? By FY2020 what would be our wallet share with each of our customers because if you see in previous con calls you mentioned that the last five launches from Maruti only 2 to 3 models, we were there, but now you are increasing the capacity in line with Suzuki, so we can expect more wallet share increase with each of the customers? Can you please share how the mix will be?

Deepak Jain: Usually what happens is that the model wise or base platform wise. I am especially talking about passenger cars are mostly fixed however going forward depending on market dynamics, the platform volume of RFQ changes and hence your share may go up and down, but then in long term they keep on adjusting, so we expect to be stable in the passenger cars. Of course, I said as new customers entering like MG Motors and all that stuff is overall market. We plan to enhance that, but with the current customers especially on leaders like Mahindra and Maruti we expect to basically maintain those market shares or wallet share. Two wheelers we expect to actually penetrate a bit more as I said TVS we have added as a client and also this will be completely new this thing and of course with Hero and HMSI, we continue to engage very closely. With Hero, we expect our wallet share to actually increase by 100 bps probably in the next three to four years.

Sailesh Raja: Very good Sir and also in the balance sheet side if you see our payables have gone up substantially, so what is the reason and what is our ROCE target in FY2020? Right now, it is around 25%?

Anmol Jain: If you see the overall side, the current ratio has improved from 0.65 to 0.69, but inventory and the creditors both have increased as we already communicated the imported content is being increased in every quarter, so in case of imported content if inventory would increase, then automatically, payables will also increase, that is the main reason basically.

Sailesh Raja: Last question Sir. On newly inaugurated that LED lamp zone could you please throw some light on that? Is there any scope for margin improvement because of this, so what is the long -term strategy here?

Deepak Jain: The basic idea of improving the LED zone was actually, this was inaugurated by Mr. Anupam Mahendru who is the director responsible for purchase of ASEAN region including Bangladesh. This was primarily to showcase to the customer our competence on LEDs. I think quality stabilization is one of the key aspects, which is there and also automation. So these are the two elements, which we wanted to showcase to customer. What I have mentioned in my speech was of course this we are now going to be showcasing in all our plants and all our plants will probably be adopting these LED skills and electronic skills into plant, so I think that is what it is. Of course, it is not just this zone, which is really contributing, but the shift to LEDs would actually be contributing to overall benefit of the organization.

Sailesh Raja: Thanks Sir.

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

Sunil Kothari: Thank you very much. Sir we are talking about 14% to 15% value growth current year and out of it majority is from value, so which may be models or customer you feel will be going down, which models of the customers because volume growth we are expecting is just may be 1% or 2%?

Anmol Jain: The new models that are coming in are Grazia and Activa, which is going up. We have certain models in commercial vehicles that are going down and for example, Ace has gone down from last year, so these models are going down and other models that are going up or not similar are like Swift, but since Swift and all are having a lamp with a higher value content that is why value is going up. The total number of vehicles remains the same.

Sunil Kothari: This is a realistic expectation volume growth of just 2% or 3%.

Anmol Jain: We have been a little conservative on this because the markets are changing fast. If the volume growth happens it is better for us.

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

Moderator: Thank you. Ladies and gentlemen, due to time constraints that would be the last question. I now hand the conference over to the management for their closing comments.

Deepak Jain: Well I would like to thank everyone for joining on this call. I hope we have been able to respond to your queries adequately. If you have any one on ones or in case of any further information, I request you to do get in touch with SGA, our investor relations advisors. Thank you for all your support and best wishes.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Lumax Industries Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.