"Lumax Industries Limited
Q4 FY19 Earnings Conference Call"

May 17, 2019

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Moderator: Ladies and gentlemen good day and welcome to the Q4 and FY19 earnings conference call Lumax Industries Limited. This conference call may contain forward-looking statements about the company, which are 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. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference, please signal an 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 & Managing Director of Lumax Industries Limited. Thank you and over to you Sir!

Deepak Jain: Good afternoon ladies and gentlemen. A very warm welcome to the Q4 and FY2019 earnings calls of Lumax Industries Limited. Along with me on this call, I have Mr. Anmol Jain – Joint Managing Director, Mr. Vineet Sahni – CEO & Senior Executive Director, Mr. Tadayoshi Aoki, Senior Executive Director and Representative of Stanley, Japan, Mr. Naval Khanna – Executive Director of Lumax Management Services, Mr. Sanjay Mehta – Group CFO & Mr. Shrutikant Rustagi - CFO along with SGA Investor Relation Advisors. The results and investor presentation are uploaded on the Stock Exchange and Company Website & I hope everybody had a chance to look at it.

Before we start with discussions on the financial performance of the company, I would like to share a few highlights of the automotive industry of India. After a good start to the last financial year, the second half turned out to be tough for the auto sector. Various reasons can be attributed to the slow down. The festive season did not see a pickup in demand, which resulted in inventory getting accumulated at the dealer's end. The OEMs had to offer huge discounts in order to liquidate the stock. Further, Kerala floods in August, high insurance cost, liquidity crunch, regulatory changes and higher crude prices were the few more reasons for the slow down.

The Indian automobile sale declined 8% year-on-year in February 2019 resulting into a huge inventory build up and in order to address this in March 2019, the OEMs resorted to destocking of inventories by lowering their production for the month. The sales in the month of March remained mixed with dispatches at most company either being muted or negative. The passenger vehicles sales in March 2019 grew at the slowest pace in the last five years despite the discounts offered by carmakers to counter act the slowdown. The global markets also witnessed slow demand due to the issues relating to Brexit and US China trade war.

The short-term outlook for the industry looks bleak given the high base of previous year and revival in demand expected to only revert by the second half of the current fiscal on the back of stability in the macroeconomic environments post the elections and pre-buying in H2 FY20 on account of BSVI implementation next year. As per the industry body, SIAM, the PV sales are projected to grow between 3% and 5% and CV at about single high digit during FY20. Further the two-wheeler segment is also expected to grow at about 5% and three-wheeler to grow somewhere between 5% and 7%.

Companies with a focus on research and development, innovation and good financial discipline shall stir through the slow down. Our company, Lumax Industries Limited is engaged in production and delivery of automated lighting solutions for all segments of mobility. We are preferred suppliers to OEMs in India and continue to be the market leaders. We are manufacturers of automotive lighting and LED is bought out component. Lighting products have transformed from functional product to a styling product for all the vehicles and automobiles. Being technically competent with in-house R&D design center and manufacturing capabilities we continue to serve our customers well.

Our top 6 clients include Maruti Suzuki, HMSI, Hero Motocorp, Mahindra & Mahindra, Honda cars and Tata motors. In Q4 FY19, the following models have been launched which consists of Lumax Lighting mainly of two-wheelers, Hero Motocorp Maestro Refresh and Xpulse. The products were head lamp, position lamp for Maestro and tail lamp, winker lamp and license lamp for Xpulse. As we have been mentioning during our previous calls, as our industry moves towards adoption of BSVI norms the demand for LED lighting will increase at a faster pace. This is clearly evident from FY19 sales figures of LED products of our company. LED constitutes about 33% of our sales currently as compared to 25% during FY2018. We foresee LED contributing over 50% of our total sales in the coming years.

On the operational front, our focus has always been towards rationalizing cost and improving margins through constant innovation & improvement as a result of which the company was able to deliver a 20% annual growth in our manufacturing business in FY19 over FY2018. Despite the tough industry environment, our margins have improved. The difficult times faced by the auto sector is reflected in our Q4 performance. We firmly believe despite the short-term shocks, our long-term outlook remains positive and we are confident to outperform the industry.

During Q4 FY19, I am happy to inform that we have received the **Overall Performance** Award from our esteemed customer Maruti Suzuki India Limited in its vendor conference held in Macau on May 1st & 2nd, 2019.

We reiterate that LED is the future of automotive lighting and we continue to be at a forefront of this change. With addition of new clients and ongoing discussions with existing as well as new customers we are optimistic to maintain a healthy order book.

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

Sanjay Mehta: Good afternoon everyone. Update on Q4 and FY19 consolidated performance.

The FY19 total revenue stood at Rs.1851 Crores as against Rs. 1649 Crores last year and this figure are excluding excise duty, thus recording a growth of 12% year-on year basis. Similarly, the total revenue for Q4 FY19 stood at Rs.433 Crores against Rs. 559 Crores in Q4 FY18, degrowing almost around 23% year-on year basis. The split between our manufacturing and mould revenue is as follows: the manufacturing revenue during FY19 stood at Rs. 1802 Crores as against Rs. 1507 Crores during FY18, basically a growth of 20% on annual basis. For Q4 the corresponding manufacturing revenue is Rs. 418 Crores as against Rs. 450 Crores in the Q4 last year showing degrowth of 7%.

Revenue from sale of mould for FY19 is Rs. 49 Crores as against Rs. 142 Crores in FY18. The corresponding figure for Q4 is Rs. 15 Crores as against Rs. 109 Crores Q4 last year.

The consolidated EBITDA including other income but excluding foreign exchange fluctuation stood at Rs. 168 Crores against Rs. 136 Crores last year recording a growth of 23% on year-on year. EBITDA margin including other income and excluding foreign exchange fluctuation stands at 9.1% for FY19 as against 8.3% for FY2018 last year. The foreign exchange loss is 3.5 Crores in FY19 as against foreign exchange gain of 2.8 Crores in FY18.

For Q4 FY19, the EBITDA stood at Rs. 38 Crores versus Rs. 48 Crores for Q4 FY18. The EBITDA margin including other income and excluding foreign exchange fluctuation stands at 8.9% in Q4 2019 as against 8.6% in Q4 2018. The forex gain in the current quarter was 1.2 Crores against loss of 0.7 in the same quarter last year.

The PAT for FY19 is Rs. 104 Crores against Rs. 71 Crores in FY18 up by 45%. The PAT margins are at 5.6% in FY19 versus 4.3% in FY18. The PAT figure for FY19 includes one-time gain on sale of land and building of Rs. 36.2 Crores and the tax paid on the same was Rs. 7.2 Crores. Adjusted PAT therefore stood at 75 Crores in FY19 versus 71 Crores in FY18. PAT for Q4 FY19 stood at Rs. 14 Crores where it was Rs. 18 Crores for Q4 last year.

The Board of Directors have declared a dividend of 350% for FY19 subject to shareholders' approval. The total dividend includes the special dividend of Rs.10 per share on an account of income on sale of land and building in FY19. The capex during FY19 was 94 Crores. We expect capex spend of around 50 to 60 Crores in FY20 apart from Rs.75 Crores for electronics business.

With this we now open the floor for questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question and answer session. We have a first question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, in your manufacturing revenue for the quarter and for the full year where you have a 7% decline for the quarter, if you could also tell us what would have been the volume decline and the mix LED growth and price LED growth for better understanding for Q4 and for FY19 as well?

Sanjay Mehta: In Q4, all growths had come down, there is a 7% degrowth overall. In Q3 if you compare the growth was 15%, it has grown by 9% on volume growth and almost 91% is from technological growth.

Pritesh Chheda: I am asking for a comparison of Q4 over Q4, so your Q4 over Q4 is minus 7%, in this minus what would be volume decline and what would be price increase led growth as mixed growth, mix is basically conventional to LED, so if you could break it up that way?

Sanjay Mehta: If you compare the Q4 versus the Q4, as our composition of LED and conventional was more or less same in Q4 last year and Q4 of current year, the main reason for decline is due to gap in volume growth of 1% to 2% coupled with product mix.

Pritesh Chheda: Then, if volume decline is 2% and if your revenue decline is 7% and if the LED composition in the same, then it is minus 5% on an account of price decline?

Sanjay Mehta: Yes, it could be due to variation in price and product mix also.

Pritesh Chheda: And if you go to the same comparison for FY19 over FY2018?

Sanjay Mehta: For the whole year, there has been a growth of 12%, and out of that 12%, manufacturing is 20%, mould sale is down by 66% out of that 7% is volume growth and 13% % is value growth.

Pritesh Chheda: Is there any price decline over and above the mix as you pointed out a 6% price decline for Q4, is there a price decline in the annual number?

Sanjay Mehta: In Q4 there is a price decrease, but if we take a year as a whole, there is not much impact on the total of FY19.

Pritesh Chheda: My second question is, initially you all called out that Lumax will grow faster than the industry, so based on the new orders that you would have got or higher share in the existing customers, what would be the possible volume growth that Lumax should see next year that is FY20, and I just want the volume growth figure?

Deepak Jain: We have budgeted a volume growth of 3%.

Pritesh Chheda: So, here the SIAM's growth rate is also somewhere between 3% and 5% for the industry, so you would grow in line with the industry on volumes?

Deepak Jain: All volume, yes.

Pritesh Chheda: Lastly, the clarification on capex for FY20, you said 50 Crores is what you will spend on growth and then you gave one number, which was not audible?

Sanjay Mehta: Actually, the normal capex is 50 Crores to 60 Crores which we have mentioned in the opening remarks and it is excluding 75 Crores, for which we are putting a project at Bawal for electronics manufacturing, so the total is 50 crores plus 75crores.

Pritesh Chheda: Plus, the units that you will buy from Lumax Auto Technologies right? That is additional.

Sanjay Mehta: That includes in the 75 Crores for electronic facilities.

Pritesh Chheda: And capacity utilization existing is how much for you?

Sanjay Mehta: It is around 75% in total.

Pritesh Chheda: Thank you and all the best gentlemen.

Moderator: Thank you. We have the next question from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Thank you for the opportunity. My question is related to the one to the previous question, could we have some more clarity on the fact that you said that, there is a price decline this quarter despite the mix remaining the same, so what has led to this price decline, I mean volumes have declined for 1-2% versus an industry production decline of 9%, we have outperformed on volumes, but we have underperformed on price whereas if you see I would have expected the opposite, so why has that happened?

Deepak Jain: In fact, what price decrease we mentioned is the one-time request from the OEMs because of sharp decline in Q4 production. Let me explain this, we have a strong relationship with one of the OEM, we are not taking the name yet and based on the relationship we contributed one-time credit note to OEM on the certain committed business that we would be getting in future and that is actually price decline we have got.

Vimal Gohil: This one-time credit note that you issued to the OEM, but the business is already committed from them, whatever happens to their volume, so they will?

Deepak Jain: We are a strategic partner to them so this is instead of going on a product because if we give reduction on a product it becomes lifetime damage to the company so we decided to service this request by one-time credit note.

Vimal Gohil: Secondly, my question was on your quarterly matrix that you report, the quarterly OEM numbers if I were to see some of your top customers like Maruti, so they have reported a flat production for Q4 of FY19 versus our sales decline of 14% and the same trend is for almost every client, so M&M has grown actually by 7% whereas we have declined by 16%, so could you just explain that?

Deepak Jain: So, you have missed a very important customer HMSI?

Vimal Gohil: So, HMSI side had actually declined by 30, you have declined by 38, so it is almost all customers, so if you could just explain?

Deepak Jain: HMSI contributed to lot of loss of revenue that we have had because HMSI had cut their production by nearly 33% in the month of March. Right, and that was basically they took a decision to control the inventory at dealer points and then they called a special meeting and then we have accepted that and HMSI took that decision and that is primarily contributing to the loss on revenue last quarter.

Vimal Gohil: And what about the other OEM?

Anmol Jain: I will just give you an overall picture of the Q4 sales scenario. Maruti including Suzuki Motors Gujarat had degrown 5% on a Q4 year-on year basis whereas Lumax Industries have grown 8% primarily because of the models, which we are on, have done better than the model, which we are not on. Coming to Mahindra and Mahindra, the customer has posted a growth of 9% on a year-on year basis and Lumax Industries had posted a growth of 5% on a year-on year basis it is pretty much in line with Mahindra's growth. When it comes to Honda Motorcycles in India, they had degrown 32% and Lumax Industries account in Q4 year-on year has degrown by 17% and in Hero Motocorp again the OEM has de-grown 11% in terms of Q4 year-on year on the production whereas Lumax has had a positive growth of 12% on a year-on year basis, so just wanted to give that clarity since there seems to be some gap in understanding. Overall as an industry if you see total, yes, it is pretty much in line with the industry, it is a negative 8% of the industry and negative 7% for Lumax Industries as a whole, but each OEM, the dynamics will be quite different. I hope that clarifies the matter.

Vimal Gohil: Coming to your debt position, the kind of very good cash flow you generate, would you expect that your debt has pretty much peaked over here and what about repayment, etc., going forward and if you could just comment on your working capital as well how would you see that going forward?

Sanjay Mehta: The long-term debt at present is nil, whatever that is there, is only relating to the working capital, which is normal for operating the business of the company, so way forward we expect it to continue, so far, the existing operations are concerned we will continue to remain debt free.

Vimal Gohil: Fair enough. Thank you so much.

Moderator: Thank you. We have the next question from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.

Aakash Manghani: Good afternoon. Thanks for taking my question. Sir, the first question is on the revenue mix between LED and conventional, so for this quarter my numbers seems to suggest that the LED business was down almost 40% year-on year and versus a significant growth in the first nine months, so could you just explain what happened over here?

Deepak Jain: LED the major impact is again due to HMSI Activa Model, so HMSI took a 70% cut in their manufacturing in month of March 19 because of the control of stock that they had to do at their dealer point and the main revenue growth on LED has come down due to this headlamp that we supply for HMSI Activa model and hence this will be the difference.

Aakash Manghani: Broadly in this, so on annual basis you have done close to 600 Crores on LED business, so HMSI and within that Activa would be what share of this 600 Crores?

Deepak Jain: So, around 25% will be the share of Activa.

Aakash Manghani: 25% of the LED revenue on an annual basis is from Activa, is that right?

Deepak Jain: Yes, that is right.

Aakash Manghani: Which would be the other one or two major ones if you could talk off?

Deepak Jain: Swift in Maruti.

Aakash Manghani: That would be roughly what percentage of the LED revenues?

Deepak Jain: Swift, if I take headlamp and tail lamp also would be around 35% to 40%, these are just ballpark numbers.

Aakash Manghani: So, 65% from these 2 models and the balance?

Deepak Jain: Other than that, there would be various small volume models.

Aakash Manghani: I am sorry.

Deepak Jain: Others are distributed into other small volume models, these are the key models on which LED had made that impact, these are two high selling models like Maruti Swift and HMSI Activa.

Aakash Manghani: So now, in your remarks you said that from a 33% revenue share in LED this should go to 50% next year, so which models do you see ramping up significantly over the course of the year?

Deepak Jain: First and foremost, I did not say next year's LED business contribution will be 50%, I said in the coming years, I think the spend is basically going to continue to actually shift to LED, I think we had said in probably two years that by 2020-2021 and 2021-2022, our estimation is that it would actually be about 50:50 market, I can probably give you a trend over the last 3 years, where it has gone from 80 conventional : 20 LED to currently what we are doing at our end is at about almost close to 65 conventional 35 LED, so I think we will continue to see this shift what our order books are showing is the lot of the developments what we are doing having LEDs in one way or the other in front lighting, and in rear lighting in almost across all segments, so it not just that one model is actually leading it of course Swift and Activa if you look it as an industry per se they are basically the leaders of the industry on both the two-wheeler segment and the four-wheeler and since we are on the Swift a single source on that part of it basically contributes more towards the LED part, we cannot give you a detailed list of breakdown because of some competitive scenarios in the future, but I think fundamentally the view would be that there are more and more order books are showing and reflecting that LEDs are actually put enough.

Aakash Manghani: I had one more questions, one is on the operating margins this quarter excluding of the other income year-on year and sequentially they were down quite a bit, could you comment on what happened, looks the raw material pricing scenario went against you, so one is what happened during the quarter and what is the outlook for the remainder of the year?

Deepak Jain: So, let me talk about outlook of the year as such.

Aakash Manghani: Operating perspective I am saying.

Deepak Jain: I am talking about margin as well as revenues, basically I am talking about the year and then we can talk about the quarter and finance team can talk about the quarter that is okay, or would like to understand first the quarter?

Aakash Manghani: That is okay either ways.

Deepak Jain: I think fundamentally, the outlook for the year, we probably are maintaining about 5% increase in revenue as such and in the margins per se, we are probably on the EBITDA levels we expect that the company should actually get double digit, fundamentally the reason why we were talking about having a double digit performance is because of the insourcing of PCBs, which you have already carried downwards and this would actually help for the localization and basically maintaining and getting the company for the double digit. Now, for the quarter basically just request the finance team to actually talk about it.

Sanjay Mehta: As we clarified in the investor release we are taking the other income as the revenue, I mean the operating income because most of it is of recurring in nature, so considering that our EBITDA margin during this quarter is 8.95% versus last year Q4 is 8.6%.

Aakash Manghani: So, the source of the other income is what exactly?

Sanjay Mehta: In other income, there are conglomeration charges, which we are receiving every year, it is a normal kind of industry phenomenon of operating income and also the provisions, which we keep on creating for price increase to vendors which past negotiation we are not supposed to carry, it is treated as a part of other income, although it is relating to operating income. As per

Ind-AS, the auditor has opined it to be shown as other income and not in the operating income, but a large portion is relating to operating income.

Aakash Manghani: The last question from my end is on the working capital scenario, it has deteriorated significantly in this financial year in FY19, so cash generation was working, drawdown was quite a bit almost between of 95 Crores to 100 Crores, could you comment on what happened exactly and whether this will reverse to what it was FY19 for example, the number of days at least?

Sanjay Mehta: So, I will first clarify the working capital cycle. We are carrying inventory of 41 days against the last year of 51, debtors at 30 days and creditors we have reduced substantially from 154 days last year, to 101 days. This is largely because of the market condition of the last Q4 where we have to support to the creditors, so we have made the payment at an early date by taking some of working capital loan on our books, which will be the normal way forward.

Aakash Manghani: This working capital cycle you were at negative 3% as of FY2018, which has come to positive 2.4%, so this would be the way going forward?

Sanjay Mehta: Traditionally, if you see all the years' financials, we always work on the negative working capital that means on creditor's payment terms, we enjoy good payment terms, longer period of credit, so the working capital current ratio was 0.69 in the last year vs 0.65 in current year. The way forward it will continue like that.

Aakash Manghani: The cash generation may deteriorate for this year as well?

Sanjay Mehta: I could not understand how the cash generation is deteriorating?

Aakash Manghani: The change in working capital is negative Rs.95 Crores for FY19 from that perspective I was saying?

Sanjay Mehta: I think if you see the five-year data it is like that only. I am enjoying that cash generation.

Deepak Jain: If you see the inventory and debtors' number of days, inventory is 41 days and debtors are 30 days and credit is 101, so we still are having a negative Working capital cycle.

Aakash Manghani: Ok .Thanks a lot.

Moderator: Thank you Sir. The next question is from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Thank you for the opportunity. I think in the previous comment you said that FY20 you were building about 3% kind of a volume growth right and Sir EBITDA for FY19 excluding whatever adjustments you made including the other income and excluding the forex thing that was how much in FY19 and what is your target for FY20?

Sanjay Mehta: FY19 it is 9.1% EBITDA we have reported and in FY20 we are expecting double digit margin.

Bharat Gianani: Sir what would be the driver of that because if I see the volume growth was muted for FY19 as a whole and it will continue or even it may slightly deteriorate also, so given the pressure from the OEM side, we saw pricing action or let us say some pricing correction in Q4 also so what gives you the confidence that we will be able to reach that double digit kind of a margin?

Anmol Jain: This is Anmol Jain here. The major contributor for that would be the insourcing of the electronic production, which has happened with effect from April this year.

Bharat Gianani: That will be the sole contributor you think?

Anmol Jain: Not the sole, but for the most part, yes.

Bharat Gianani: What is your topline guidance for FY20 because if you are building a volume growth of 3% definitely given the pricing mix and as you pointed out that share of the LED will go on a higher side so any revenue contribution that you would like to highlight for FY20 what is the target?

Anmol Jain: Considering the industry scenario, I do not have a number, but I would say it would be between 5% and 8%.

Bharat Gianani: Sir mould business lastly is very fluctuating and we saw a considerable drop in the mould business in FY19 so like from about Rs.150 Crores it was like down to about Rs.45 Crores to Rs.50 Crores so FY20 given whatever new business that you have in mind do you expect mould business revenue to further come down or like how that would be because that is pretty lumpy in nature so any guidance on a full year basis would be really helpful?

Anmol Jain: It will continue to remain lumpy given the nature of the business because it actually depends on when the moulds are completed, when it is sold and when the SOPs are in place. Simply put I think for FY20, we expect it to be around Rs.100 Crores.

Bharat Gianani: Fair enough Sir. Thank you and all the best.

Moderator: Thank you Sir. We have the next question from the line of Prayesh Jain from Yes Securities Limited. Please go ahead.

Prayesh Jain: Good afternoon Sir. Sir the first question is on the credit note could you quantify the amount?

Deepak Jain: It is approximately Rs.6 Crores.

Prayesh Jain: Rs.6 Crores and given the kind of slowdown that we are witnessing, and the inventory is still on the higher side for quite a few players do you expect or say what kind of commentary that you are getting from OEMs with regards to Q1 performance?

Deepak Jain: You already know the media reports were out in April. I mean the Q1 performance probably may be quite muted, so I think probably in Q1 results actually may be worse than in March, so I think we would consider a Q1 as a muted performance. The expectation as I made in my commentary is that post elections may be Q3 and Q4 we probably would see something better. Last time I had mentioned that there is something, which we have already planned for, because if you see last financial year, you had an amazing performance in H1, but then it actually started slowing down and H2 actually was the negative performance. The same way I think H1 here would be a negative performance and hopefully if the macroeconomics and some stability come in to the system H2 actually should start looking up, so that is actually the thing. And hence we were looking at even if there is a negative performance during H1 then probably for the full year we expect the industry to still grow at about 3% to 7% that is the range what we are looking at. If that grows, we are actually talking about 8%.

Prayesh Jain: Sir also could you talk about SL Lumax and the future performance or expectations from SL Lumax?

Deepak Jain: Well I think on SL Lumax we have been maintaining that we should not look on a quarter-to-quarter basis, but as an overall year. I think Hyundai has also not been isolated in this downturn, over and above that I think SL Lumax has also been impacted adversely by the foreign exchange so they have basically concluded their, let us say annual discussions with Hyundai Motor Corporation in Korea and based on that they have actually taken a hit in Q4.

Prayesh Jain: What will be the guidance for next year on SL Lumax?

Deepak Jain: Well I think SL Lumax guidance is again not very encouraging. We are still seeing that Hyundai is probably going to be looking at flat growth per se, but again we feel that the profit margins and PAT level for basically the year should be somewhere around about 4% to 5% that is what we are expecting.

Prayesh Jain: 4% to 5% is PAT margin?

Deepak Jain: PAT margin I am talking about because currently for 2018-2019 they did about 3.4%. I think 2017-2018 was probably round about 5.8%, but if you see previous years as well that was also in this similar range.

Prayesh Jain: Sir with regards to LED penetration what would you say that with the penetration levels in India are at currently in terms of passenger cars?

Deepak Jain: It is difficult again to answer as I said last time as well. I think our estimation is somewhere round about 30% or so.

Prayesh Jain: This would basically be head lamp and taillight combined?

Deepak Jain: Well primarily yes lighting, head lamp and taillights. Taillight is more. As I have also said when we talk about penetration it is very difficult to talk about a specific number because depending on the functionality there could be partial LED usage, but in revenue breakup we take it as a LED penetrative product.

Prayesh Jain: Sir final question this backward integration or the insourcing of electronics how much in terms of savings you will be doing in terms of some numbers, if you are purchasing right now and what will it be possibly at the end of FY20 or in FY21 and how would that change?

Deepak Jain: Well first and foremost let me say whatever we basically procure we will be insourcing that is the intent. The idea here as mentioned before in my last previous call was that I think we are insourcing for quality stability and also for the engineering application because we are seeing that more and more lighting is getting complicated and because of that PCB design and quality process control becomes extremely, extremely critical. When we are insourcing, it we see that the raw material consumption should improve about 1% on an overall basis.

Prayesh Jain: Thank you so much.

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

Sunil Kothari: Thank you very much Sir. Sir question is this SMT transformation from Lumax Auto to now everything insourcing, so during this last two to three months was there, any disruption in terms of products and related to that I think when we were sourcing from Lumax Auto, it was I think roughly 170 Crores to 180 Crores per year and around 12% EBITDA margin, so hopefully we were expecting around those type of numbers to be added to Lumax Industries, so combined this point, your guidance margin, which is double-digit, hopefully it should be 10% plus because of in-house efficiency, this transformation from Lumax Auto to Lumax Industries in-house production and looking at everything is under control so please some comment on this thing?

Deepak Jain: So, thank you first. I think you have answered your own question. I think first let me clarify, there is no disruption, since this is also another group company, so it is a very smooth transition. What we have done on all the four M's i.e. man, material, method as well as the machines, it is pretty much as per process. Also, more important for us is customer, so there is no disruption at customer side as well. So, it is a smooth quality process what we have done. In terms of as I mentioned before that we have about 1% probably benefit, in terms of the RMC and hence because of that, obviously we expect that it should come to a double digit 10% plus kind of margin. I mean of course other factors are contributing because as Anmol has mentioned that this is one of the key factors because they have been insourcing. We expect good profitable year even when there are headwinds in terms of revenues and slowdown generally.

Sunil Kothari: Right Sir. And are we expecting any write off toward any old assets or any old inventories, or have we done anything in quarter four, anything about these assets?

Deepak Jain: On the SMT business?

Sunil Kothari: Yes.

Deepak Jain: For SMT business, no.

Sunil Kothari: Sir my last question is normally whenever we talk to you, your confidence and your expectation always says that even if there is no volume growth, we will be able to grow by 10% in value terms and I understand the industry is also challenging, so in the medium-to-long term your views remain same or you feel there is no difficulty,?

Deepak Jain: No. I think I maintain, let me put it in this way; I do not think there is such a fundamental shift in the Indian macroeconomics in just one year. We were taking this call last year similar time it is a very difficult kind of environment. I think this is a downturn definitely, this is a consumer spent issue definitely, the automotive industry is expecting headwinds going forward, there will be BS-VI which will also bring back the industry, but if we are looking at three to five year horizon, definitely I mean, say, you will get your growth back, actually rather I was recently at Maruti and last two months I have been in the what we called it the customer conference seasons and customers too acknowledged that there is a slow down generally because various factors coupled with the consumer spent sentiment in the country have impacted demand; however, I think they are very clear that investments are ongoing. We ourselves are also having ongoing investments, so we have not stopped our investments, and based on which we expect that I mean, growth will be buoyant and back and we should be able to then have a healthy number forward FY20, but this year as I said H1 looks challenging because we have already done April and May as well, so this Q1 would be definitely challenging, but going forward, we expect that in H2 the growths will be back.

Sunil Kothari: Right Sir and Sir my last question is related to some long-term thesis, which is in 2016, we have started this Taiwan Designing Center and the thing that time, the message was that this will be a springboard for doing business in Japan, South Korea and mainly in China in future, this is a two and a half year old statement almost three years, so how you see this investment, what has benefited and any quantitative benefits if you can share with us, qualitative and quantitative?

Deepak Jain: Let me just clarify this point, I think it was not a springboard to do business in Japan, China and Taiwan, it was fundamentally to do project management, which is where basically our engineers come in. So, the Taiwan office has obviously helped us enduring our development costs and has a better good quality project management. We continued to import substantial tooling from that region and hence we need that local presence, also going forward as we see that we are insourcing now PCB, there are lot of electronics as well as electrical engineers which are sitting in Taiwan. This is also an office, which has been validated by Stanley, Japan and if there is project management, so we do multiple projects managements where let us say developments have been done in Korea, it has been done in Japan, it is done in Taiwan, and China so this gives us the edge for our people to do a lot better project management and hence we are able to do. The advantage has been clearly on terms of cost allocation and cost optimization in terms of development cost for the company as well as quality maintenance for the company.

Sunil Kothari: Right Sir. Thanks a lot. Thank you very much. Wish you good luck.

Moderator: Thank you. We have next question from the line of Apurva Mehta from AM Investments. Please go ahead. Thank you.

Apurva Mehta: Sir just wanted to know that how is this LED movement you know for next year which is currently 33%, what is your ballpark scenario, what should be your LED composition for next year?

Deepak Jain: I think it should be similar given the slow down in the industry and certain models having a very slowdown, which have got LED on it, I think it will be similar.

Apurva Mehta: On the backward integration side where we were doing lot of things, what are your plans as we import lot of components and we can localize it?

Deepak Jain: I mentioned that, I mean that you have taken sizable step of fast tracking and insourcing the SMTs as well and I think that is what is on the localization front, being that I think as I mentioned earlier, it would actually have a direct positive impact on our margins. We have also continued to invest in building R&D capability so that is what it is, so I think that the way we are fast tracking on to getting the electronics localization and insourcing. Other than that, all other parts for example wiring harnesses and all that is anyway localized.

Apurva Mehta: Okay. Thanks a lot.

Moderator: Thank you Sir. We have next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir when you talk about 3% volume growth for FY20 and we are at 5% to 7% 8% kind of revenue growth, is this only product revenue growth or this also includes mold sales?

Deepak Jain: Yes, mould sales. It is total. This is total growth.

Ashutosh Tiwari: Is it fair to assume that the transition to LED will be slower in FY20 also because most of the OEMs will be launching BS-VI model towards the end of FY20 and that is only when because of the lower model launch pipeline in FY20 transition to LED will happen in BS-VI models only?

Deepak Jain: I would say that it could be slower. You are right but it is not necessary that BS-VI all models are having LEDs. It may happen that because, again we have to understand what is the market and how market will basically conceive this price escalations. LED as of now as we have mentioning that the whole electrification, the whole norms changing for light weighting as well as for basically energy conservation has fast tracked the LEDs, especially in two-wheeler segments, but I think with the recent slowdown and also the pressure on the volumes, cost becomes imperative, so I think the transition could have a bit of slowdown, but in long term the transition will remain, it may take about two years, it may take three years for long-term it probably would not. Now if the volumes come back, if the BS-VI problem let us say what we are expecting that post BS-VI implementation, maybe next six months if the volume keep on, the market probably absorbs this kind of price escalation I am sure that LED fast track will start happening here.

Ashutosh Tiwari: So far, we have seen faster adoption of LEDs in two-wheelers in terms of what your projects of new model that you are working upon and that was same as true that you are seeing more models of two-wheelers is ready versus four-wheelers going ahead?

Deepak Jain: I think both are adopting it at quite a high space. We have to qualify this again by saying that in a two-wheeler for example because the complexity is low, you can very quickly switchover from a LED back to a conventional. And I think that is the flexibility that the two-wheeler guys have or vice versa. When they see the market is growing well, they keep on basically pushing more of a higher value perceived motorcycle, when it slows down, they actually do a lot of DABs to basically get this thing going. So, I think that is the flexibility, which the two-wheeler has which passenger cars usually do not have and we have to see how basically the two-wheelers will start adopting. In my previous calls, I mentioned that we were quite taken aback how fast the two-wheeler adopted the LED model and we were expecting it to take a lot of duration there, but I think this market was buoyant, market was growing aggressive, they expected that they started pushing the LEDs but I think going forward we have to wait and watch how it will be but my statement remains and holds for that the transition from conventional to LEDs will remain and will start fast tracking and probably over the years we will get to 50% of our topline from LED in the coming years.

Ashutosh Tiwari: Because you are sole supplier for Swift model, can you share what percentage of Swift model usually is sold?

Deepak Jain: Swift the tail lamp is 100% LED. And in headlamps it is around 10% to 12% is LED and balance is conventional at this moment.

Ashutosh Tiwari: And you mentioned of this one-time credit of 6 Crores is this entire hit taken only in Q4 or this was through the year?

Deepak Jain: It is for Q4 to couple of customers.

Ashutosh Tiwari: So, is it like one time hit in the numbers?

Deepak Jain: Regarding query, no. This is all taken in the last quarter.

Ashutosh Tiwari: This is one off item that you have taken?

Deepak Jain: Yes, it is one off items.

Ashutosh Tiwari: Lastly, the PCB, the electronic part that we will be now manufacturing in-house, it will be broadly on a LED lamp what part of the cost is related to that, your electronic content PCB?

Deepak Jain: About 50% of the raw material cost is approximately.

Ashutosh Tiwari: 50% of the RM cost.

Deepak Jain: Of the RM cost, yes.

Ashutosh Tiwari: If the lamp is sold for Rs.100 what would be that cost, this contribution?

Deepak Jain: See around 70% in two-wheeler so half of that, around 30% to 35% in two-wheeler and similar in four-wheeler.

Ashutosh Tiwari: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Sir, just wanted to understand what is the current import content in conventional versus LED and out of LED what is the import content in head lamp and tail lamp? And what is your localization targets in next one or two years?

Sanjay Mehta: Just to bifurcate conventional head lamp the import content is around 4% versus LED head lamp it is 60%. In case of tail lamp, it is 3% in case of conventional lamp and in case of LED it is around 33% or 34%.

Abhishek Jain: Sir, what is your localization target for the next two years?

Deepak Jain: 10 % of the import content we probably would be looking to localize.

Abhishek Jain: So, head lamp you would be able to localize up to 50% kind of localization?

Deepak Jain: Yes.

Abhishek Jain: Sir, just wanted to know about what new business you won in the last one or two quarters? Like last concall you said that you got some business from the MG Motors so just wanted to know the new business and what can be and how the new business will add the revenue in the coming quarters?

Deepak Jain: New businesses we have two customers announced for the next coming basically financial years. These are MG Motors it is almost close to about 10 Crores for the financial year and then we will have TVS Motors as well and there basically somewhere would be around about 35 Crores.

Abhishek Jain: So, what is the current contribution from the TVS?

Deepak Jain: Both of them are new customers. Both of these customers do not add to our revenue and MG Motors the current year will be about 10 Crores but going forward the full realization is about 30 Crores on an annualized basis.

Abhishek Jain: Sir my last question is related with the margin structure from the passenger vehicle and two-wheeler and CV. Does the CV have the higher margin versus the passenger vehicle or margins are same in all categories?

Deepak Jain: That is very difficult to answer because this is based on product-to-product basis and customer-to-customer basis. So, in certain products in one segment the margin can vary from up to 50% so four-wheeler and CV would be on a similar percentage and two-wheeler would be lower.

Abhishek Jain: That is all from my side.

Moderator: Thank you. We have the next question from the line of Pankaj Bobade from Axis Securities Limited. Please go ahead.

Pankaj Bobade: Thanks a lot for taking my question. Sir, I just wanted to understand about the new acquisition, which we have done from Lumax Auto Tech. How will it help us in reaching our indigenization targets or how will it help us in ramping up our revenue growth?

Deepak Jain: So, let me first clarify that this is not an acquisition. This was done as an asset sale basically from Lumax Auto Tech to Lumax Industries. The reason for that was fundamentally to in source to get a better-quality control and also get a better support from Stanley Electric Corporation, Japan who has been a partner for 35 years. Going forward complexities of LEDs are actually being more and more and hence we believe that the in-source basically this part and we are able to get a better-quality control. We also will then challenge the localization of this part internally and based on efficiencies we believe that it will also substantially improve the current profitability levels of the company. Obviously, it will not add to the revenue because since it is an in-sourced part it is just basically going to have a nil effect on the revenue, but whatever impact we are having will be on a better realization on the raw materials.

Pankaj Bobade: How much was the price consideration paid?

Deepak Jain: We have paid 22.45 Crores for that.

Pankaj Bobade: For 100% assets buy?

Deepak Jain: Plant and machinery.

Pankaj Bobade: Sir, going forward as you said it will not help us in ramping our sales, but will it help us increase or improve our margins given that we will be improving or we will be sourcing it from say domestic rather in-house and also having complete quality control over it?

Deepak Jain: Let me clarify again. I think I mentioned there will be a margin improvement because of the insourcing and control because it contributes straight to the raw material consumption improvement. Obviously since it is an in sourced item there is no impact on the revenue.

Pankaj Bobade: Thank you Sir.

Moderator: Thank you. We have the last question from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir, just one clarification, now we have taken up the PCB SMT line how is the performance for the last one month maybe? Have all the quality issues been solved and the customer supply is back to the original levels?

Deepak Jain: As I mentioned, I think we had very smoothly transited. It is pretty much stable and we continue to further expand on to the business and invest in this business so that we have a good quality and we can improve our efficiencies to improve the margins on this.

Ronak Sarda: Second question on TVS. I mean, now we have got the first order how is the interaction level with the TVS and they are also forerunners in shift to LED?

Deepak Jain: So, we have basically got three models from them and we will continue to grow this business. It is a start for us. So, we will be using our southern facility to actually cater for this business and maybe when the volume grows up, we will invest with TVS maybe locally.

Ronak Sarda: But do you see any major success over the next one or two years? Are there any signs for that?

Deepak Jain: Well, I think, first we need to actually perform on this opportunity what TVS has given and then probably take it from there, but as I said, we have been successful in making inroads in TVS for the zero account for us. So, I am sure we will actually start growing with TVS Motor account as they keep growing.

Ronak Sarda: One more question if we even do not see a shift, a major shift to LED, assuming things are not industry does not see a major recovery, but is it still over the last five years, the light content or the lighting system module the value of those have increased let us say in the fog lamps have increased in Lumax or how has that content grown say over a five year period and do you see that shift or the trend continuing?

Deepak Jain: I think lighting continues to be one of the most key valuable part in the vehicle and I think it will remain so, more so even in global phenomenon if there is a disruptive trend, which is going on in terms of connected and electric, lighting does basically occupy the premium spots in a passenger vehicle as such. On a two-wheeler as I mentioned before it is very aesthetic, styling and it has energy efficiency to drive, so we definitely believe that this product is a premium product and continue and keeps on adding value. I may not have figures currently, but definitely in five years before let us say 2013-2014 and 2019 the value addition per vehicle on the lighting has increased and significantly over the last two years and as LED starts getting adopted fast and faster, the value creation would be much more.

Ronak Sarda: Thank you. And all the best.

Deepak Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Sir over to you!

Deepak Jain: We would like to thank everyone for joining on this call. I hope we have been able to respond on your queries adequately. For any further information, I request you to kindly get in touch with SGA, our investor relation advisors. Thank you once again for joining.

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