"Lumax Auto Technologies Limited Q4 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY19 earnings conference call of the Lumax Auto Technologies 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 questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anmol Jain, Managing Director of Lumax Auto Technologies Limited. Thank you and over to you Sir!

Anmol Jain: Good morning ladies and gentlemen. A very warm welcome to the Q4 and FY19 earnings call of Lumax Auto Technologies Limited. Along with me on this call, I have Mr. Deepak Jain, Director, Mr. Vineet Sahni, Lumax CEO, Mr. Naval Khanna, Executive Director of Lumax Management Services, Mr. Sanjay Mehta, Director and Group CFO, Mr. Ashish Dubey, CFO for the company, and Ms. Priyanka Sharma, Head Corporate Communications along with SGA our investor relations advisors.

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

The financial year 2019 started on a good note for the auto industry where all the segments posted good growth during the first five months of the fiscal. From September 2018, onwards, the industry started facing challenges in terms of demand pickup which continued till March. This resulted into a lower single digit growth for most of the segments in FY19. In addition to this various regulatory measures plus mandatory insurance, ABS, CBS, and BS-VI adoption have also led to an increase in cost. The auto companies have taken price hikes in January to meet the increasing raw material prices and costs related to the regulatory measures.

For FY20, the auto industry foresees a sluggish first half and expects the demand to come back during the second half on the back of pre-buying before the BS-VI norms come into play. Stable monsoons, improving macroeconomic factors and several new launches in various segments are expected to provide relief to the industry. Further, a number of foreign OEMs are setting up shops in India. The entry of these new companies is good news for the Indian economy. This would lead to a higher focus on localization and export of vehicles from India.

About the company, Lumax Auto Technologies Limited is a part of Lumax DK Jain Group, which is a leading automotive component manufacture. LATL has expanded organically and manufactures a diversified range of products catering to major OEMs through our subsidiaries and associates. We have seven international partnerships, a strong marketing presence and 14 manufacturing facilities across the country. We have mentioned this earlier that lighting modules will be supplied only to Bajaj Auto and the aftermarket from Lumax Auto Technologies Limited while the remainder of the OEM lighting business remains with Lumax Industries Limited and would continue as it is.

Let me take you through the performance of each business entity. The standalone entity caters to aftermarket business, Bajaj lighting, manufacturing of chassis, swing arm for two-wheelers and trailing arm for three-wheelers under the metallic business, Integrated plastic modules for two-wheelers and PCB assembly which has been discontinued from April 1, 2019. The new facility for metallic business in Pune and Aurangabad for Bajaj Auto has been now operational.

Bajaj Auto and Honda Motorcycle and Scooter India continued to be major customers. Also rebranding exercise has enhanced brand visibility in the aftermarket. Currently we have 300+ channel partners and 15000 plus retailers. We have added 300 new SKUs in FY19. The standalone entity contributes 61% to the consolidated revenues. Aftermarket represents 15% of our consolidated revenue.

Lumax DK Auto Industries is a 100% subsidiary, which manufactures lights and plastic modules. Bajaj is one of the major customers for the subsidiary. Lumax DK contributes around 23% of the total consolidated revenue. During the year, the Company's Board of Directors has approved the merger of Lumax DK Auto Industries the wholly owned subsidiary company with your company. On approval of the schemes by the Jurisdictional Honorable Company Law Tribunal, it will be effective from April 1, 2018.

Lumax Cornaglia Auto Technologies is a 50% subsidiary, which manufactures air intake systems and the major customers are Volkswagen, Tata, Fiat and Skoda. The JV commands 100% share of business with Volkswagen and Tata. The company has acquired the business of MG Motors which will start SOP in FY20 for the Hector SUV and has also recently added a new Japanese two-wheeler customer for the supply of air intake, the SOP of which will start in Q4 FY20. Lumax Cornaglia currently contributes around 3% to the total consolidated revenue. The company is in the process of putting up new plants for urea tank for the commercial vehicle segment, which will support growth of the company in the times to come.

Lumax Gill-Austem Technologies is a 50% subsidiary which manufactures seat frames and is Tier II supplier through Lear and Taco Magna Seating is added recently. This company contributes around 3% of the total consolidated revenues.

Lumax Mannoh Allied Technologies is a 55% subsidiary, which manufactures gear shifter systems. The company has a market leadership position and has the capability to manufacture manual AMT and AT gear shifters. This company contributes around 10% of the total consolidated revenues.

Lumax Ituran has generated business enquiries from OEMs preparing for regulatory norms to implement track and trace devices with additional features for their future models. Trial phase has started and response is encouraging. We expect to realize revenues in FY20.

Lumax FAE has generated business confirmation from one major OEM for supply of oxygen sensors, which will be mandatory under forthcoming BS-VI norms in April 2020 for two-wheeler. The commercial production is expected to commence from Q4 FY20.

The company has also entered into a 50:50 joint venture with Jopp, Germany. This JV will engage in designing, development and production of gear shift towers, AMT kits, control housing and AGS sensors. The commercial production is expected to commence from Q4 of FY20 from an existing Lumax facility in Manesar, Haryana.

Our continued focus on cost control measures has also brought operational efficiencies and has been consistently improving our EBITDA margins. The margins for FY19 stood at 10.7% compared to 10.5% in FY2018 an expansion of around 20 BPS. This is despite the challenging times seen in H2 of FY19.

We continue to focus on rationalizing our costs and bringing in operational efficiencies. We are constantly evaluating new opportunity in fresh product lines with the forthcoming regulations and future trends towards electrification and light weighting of vehicles. The expected capex for FY20 is projected around Rs.35 to Rs.40 Crores excluding any Greenfield investment.

The company has also made new launches during the quarter for Maruti Suzuki India Limited, the gear shift lever for both the Ciaz and the Ertiga.

Our subsidiary company Lumax Mannoh Allied Technologies received two awards namely “Improvement in Quality Performance” and “Part Design and Development” award from its esteemed customer Maruti Suzuki India Limited in its vendor conference recently held on May 1st & 2nd, 2019.

We at Lumax Auto Technologies are increasing our product portfolio, sharpening our skill sets and elevating our association with JV partners and customers to enhance our leadership position. Our focus is clearly to increase the content per vehicle and thereby increasing the profitability.

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

Sanjay Mehta: Good afternoon everybody.

The consolidated revenue from continued and discontinued operations stood at Rs.1358 Crores as against Rs.1111 Crores in FY2018 up by 22% year-on-year basis led by strong volume growth from the OEMs and supported by growth in aftermarket.

As already disclosed, the company has decided to discontinue its PCB business with effect from April 1, 2019 and accordingly the financial figures have been bifurcated into continuing and discontinuing operations in published results which are in accordance with Ind-AS 105. However, in order to have better understanding, all figures to be mentioned are inclusive of discontinuing operations.

EBITDA including JV profits and other income stood at Rs.145 Crores as against Rs.116 Crores in FY2018, a growth of 25%.

EBITDA margin for FY19 has increased by 20 BPS to 10.7% as against 10.5% in last year largely on account of better operating efficiencies and improved performance of aftermarket.

The profit after tax and minority interest stood at Rs.66 Crores as against 49 Crores in FY2018 registering a growth of 35% on year-on-year basis.

EPS stands at Rs.9.67 per share as compared to Rs.7.15 in FY2018.

The Board of Directors has recommended a final dividend of 150% i.e. Rs.3 per equity share subject to approval of shareholders at the Annual General Meeting.

Company wise revenue breakup:

Lumax Auto standalone
FY19 revenue stood at Rs.824 Crores as against Rs.596 Crores in FY2018 witnessing a growth of 38% with EBITDA margin at 8.7%.

Lumax DK Auto
FY19 revenue stood at Rs.316 Crores as against Rs.338 Crores in FY2018 with EBITDA margin of 13.7%. The reduction in revenue to the tune of Rs. 63 Crores is on account of bill to ship change with customer.

Lumax Cornaglia
The revenue stood at Rs.44 Crores as against Rs.47 Crores FY2018 with EBITDA margin at 6.6%. During the year, the company has taken an impairment loss of Rs. 6 Crores on account of closure of its one product line.

Lumax Mannoh
The revenue stood at 143 Crores as against 133 Crores in FY2018 with EBITDA margin of around 13%.

Lumax Gill-Austem
The revenue stood at 36 Crores with a single digit EBITDA margin.

Now we open the call for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Just a couple of questions. First question is relating to PCB business which we are now discontinuing that mean about loss of revenue of Rs. 270 Crores taking 20% of 1358 Crores. Now how are we planning to recoup this loss because it will be a significant amount, so in the published results of LATL going ahead, will there be a dip in revenue or do you think that the other JVs etc., there will be some more traction in aftermarket, etc.?

Anmol Jain: Firstly, there is a slight correction. The revenue loss because of SMT going away is 170 Crores and not 270 Crores. If you look at the financials actually even without the SMT business we have grown at about close to 20% year-on-year basis, if I remove it from FY18 and FY19. Going forward if I remove an apple-to-apple comparison without the SMT on a FY18 to FY19 from a data analysis point of view, I would have grown at about 18%. What I am trying to tell is that even if I remove the SMT business the company has grown at about 17% to 18% in the last financial year. Going forward we expect to continue that because of the other JVs and the aftermarket entities, aftermarket division performing better than what we had anticipated, we registered double-digit growth to continue even for FY20 without the SMT, if I were to take out SMT.

HR Gala: Just wanted a data figure, SMT you said 170 Crores in FY19. How much was it in FY2018?

Anmol Jain: It was 98 Crores in FY2018.

HR Gala: The turnover numbers which we have reported are all inclusive of Rs.170 Crores and Rs.98 Crores I believe?

Anmol Jain: Yes.

HR Gala: Okay, you have always been saying Rs.1358 Crores but we do not see that figure in the P&L. P&L number says about Rs.1200 Crores total revenue including other income, so how do you arrive at 1358 Crores?

Sanjay Mehta: Rs. 1200 Crores is revenue from continuing operations. If you see the one pager, in the disclosure note, revenue from the discontinued operations is mentioned separately with the total expenses. It will be either note number 6 or 7. In one pager we have disclosed the details of revenue, expenses & PBT separately of discontinued business. So, this is as per Accounting Standard Ind-AS 105, the disclosure has been made.

HR Gala: My second question is other expenditure in Q4 has significantly increased from 33.8 Crores to 42 Crores, so is there any particular reason?

Sanjay Mehta: There is no particular reason. It is a regrouping of expenses and income by the auditors in Q4 for the year as a whole. The previous quarter figures could not be re-casted under Ind-AS, hence all necessary adjustments has been done in Q4. Due to this in Q4, operating expenses are higher by 12 cr vs Q3 FY19 & correspondingly, operating income is higher by Rs. 6 crores & around Rs. 4 crores expenses have been taken in the employees' cost. So, you will see that the employee cost is slightly lesser in Q4 FY19. There is no change in operating expenses & income on annual basis.

HR Gala: I understand. Sir, last question on Jopp what kind of revenue visibility will you have? I believe they do have some manufacturing operations in India with Ramsons?

Deepak Jain: They used to have some alliance with Ramsons which has now been discontinued. So, the only partnership which basically Jopp currently has is with Lumax Group. We have just basically signed a joint venture as we mentioned for the shift towers and AMT kits. We are still in the process of revenue estimation, but we have received interest from two OEMs to do that and Anmol can still give more details.

Anmol Jain: The market size currently for shift towers and related parts is approximately 600 to 700 Crores and we would anticipate to garner about a 15% market share in the forthcoming years as a part of this JV. So again, as I said our endeavor always is to try and achieve a 100 Crores threshold in the first three to four years of the JV startup.

HR Gala: Now is this revenue of 600 to 700 Crores market size is mainly catered to by the imports? Are there local manufacturers also?

Anmol Jain: There are local manufacturers as well.

HR Gala: Thank you very much. Wish you all the best.

Moderator: Thank you Sir. The next question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Thanks for the opportunity. Sir, my question was more on this Lumax Jopp side, which has been replied, but just to have a certain insight regarding there Jopp has many other products, like electronics and automation solutions and many other things so are we planning to go with all the products or only one we have just joined for the gear shifter?

Anmol Jain: We have very specifically stated, the JV agreement is for gear shift towers. I would like to correct you it is not gear shifter. Gear shifter is something, which the company is already manufacturing under Lumax Mannoh. It is an extension, it is gear shift towers, it will also be doing AMT kits. It will also do control housing then it will also do the All Gas Sensors (AGS). All of them are a part of the gear shift transmission system and right now the JV would encompass these products in phase I; however, we go with a fundamental philosophy of one geography, one partner all products and going forward should the need arise in the Indian automotive industry where we find synergies with Jopp's other product lines we will surely be bringing that as well.

Sanjay Shah: Great. Sir, as we are running through a very rough weather for our auto industry and we have already hived off our electronic division, then on your guide of 20% growth, can you highlight on which are the verticals we feel or which JVs should give us a good business this year?

Anmol Jain: I would like to just re-state that there is some misunderstanding. The 20% growth which I had mentioned is from FY2018 to FY19. In FY20 even despite the SMT business going away, we are still expecting a flat growth, which means if you actually look at the growth without SMT, I would still grow in double-digits. So, I hope I have made that clear that even after 170 Crores revenue has gone away from the company in FY20 the other businesses are still and continue to grow and thereby this loss of 170 Crores is not reflecting. We are not going to be degrowing in FY20. This is compensating for this business going away and hence that the other businesses would still grow at about double-digits percentages. So again, to give you a feeler it is all; Bajaj Auto being one of the largest customers of the company continues to grow well. They are reporting good numbers. They have reported good numbers in FY19 and they have a pretty strong outlook for FY20. The company continues to enjoy its wallet share with Bajaj Auto on the products which we supply to, so that would be one growth avenue and apart from that the aftermarket where we are pretty much on track to achieving our doubling the turnover in a matter of three to four years target we grew at 21% last year and we are looking at a similar growth in FY20 as well. So, these two were the growth drivers and of course some of the JVs which contribute to almost 16% of the total consolidated revenues would also be taking shape in the FY20.

Sanjay Shah: Sir, are you still sticking to your guidance regarding that all our JVs are very small, that is 100 to 200 Crores turnover size from our angle and you were of the view to have some big JVs also in future. So, is that still on the way?

Anmol Jain: Absolutely. The company continues to be deeply engaged with discussions with multiple potential partners both Japanese and non-Japanese for inking new joint ventures. Lumax Jopp was one outcome of such discussions in the past and you will definitely hear more in the times to come.

Sanjay Shah: Thank you for answering my questions. Good luck to you Sir.

Anmol Jain: Thank you.

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

Bharat Gianani: Thank you for the opportunity. While you pointed out that even after excluding the SMT business our topline growth will be double-digit and if we take with SMT it will be flat. Then my question is on the margin side, if we see the operating margins as you pointed out where there was a slight improvement, so what is your target for FY20 on the margin front?

Anmol Jain: We would continue to sustain double-digit EBITDA. In FY19 we clocked 10.7% EBITDA which was in FY2018 also in a similar 10.5% bracket. We do expect a double-digit EBITDA to be sustained going forward in FY20 despite the SMT business going or getting carved out. And again on the revenue side, we clocked 1358 Crores in FY19 which was up 22% from FY2018 and in FY20 we are not anticipating a double-digit growth on 1358 Crores, we expect a muted revenue on 1358 Crores but if you were to take out 170 Crores from 1358 Crores and then look at FY20 numbers, you will probably expect a double-digit growth.

Bharat Gianani: So, this double-digit EBITDA obviously, that will be excluding the SMT business, the guidance that you pointed out. This 10.7% in FY19 that number you gave that included the SMT thing, is it the right way to put it?

Anmol Jain: That is right. Even if you remove the SMT from FY19 that number is 10.4%.

Bharat Gianani: So, that you are saying basically that kind of a number will be sustained in FY20?

Anmol Jain: Yes, a double-digit EBITDA would be sustained.

Bharat Gianani: And any colour on the profitability of the JVs, and minority interest, if you can just give that colour because it appears below the reported PAT, so any colour on the profitability of the joint ventures or the minority interest? How should we look into that number?

Anmol Jain: Well on the JVs I think Mr. Sanjay Mehta had explained on the entities, but again Lumax Mannoh Allied Technologies we continue to have a strong double-digit margin in terms of the EBITDA and we continue to enjoy the market leadership position in the gear shift levers. Lumax Cornaglia we are in about a late single digit EBITDA margins currently, but with the urea tank coming in we do expect a sizeable change both in our topline as well as our EBITDA margins and as I mentioned earlier, we will start commercial production in FY20 of the urea tank. Lumax Jopp I had already given a guidance that we should be able to garner up 15% of the market share in phase I for the shift towers business.

Bharat Gianani: Thank you Sir. All the best.

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

Abhishek Jain: Thanks for taking my question. Just a lighting business that degrew 2% YOY, despite the 25% growth in the volume of Bajaj Auto, so just wanted to understand is it because of the change in the accounting policy or you lost some SOP in the business.

Anmol Jain: So, it is only because of the change of the accounting policy. If I were to remove the accounting change, we would have actually grown by 22%, which is pretty much in line with the customer growth of 24%.

Abhishek Jain: My second question is related to the sheet metal business that has gone up by around 110% during this year. So, what kind of a growth in the next two years because the base has gone up, so just I wanted an outlook for this growth?

Anmol Jain: You are right we have grown almost double in the metallic business compared from FY18 to FY19. In the current year, obviously, we will not have a 2x growth, but we will still have a strong double-digit growth which will be backed by the guidance given of Bajaj Auto which is our single largest customer for the metallic business. And we are also in advance stages of discussions to perhaps add a new OEM to our metallic business. I do expect that there could be some announcement and firming up of that by the Q2 of this fiscal year. So, if that was to happen then going forward in the corresponding quarters we will be able to capture new revenues from the new OEMs as well.

Abhishek Jain: Sir, as Lumax Auto Technologies do aftermarket for Lumax Industries. So, investors have concern that there maybe some possibility that Lumax Industries start their own after market business as has happened in the SMT business right now.

Deepak Jain: I think Lumax Industries, is very clearly written, it is an OEM play, so Lumax Auto Technologies has its own aftermarket distribution networks which basically progresses. So Lumax Industries is a supplier to Lumax Auto Technologies on the potential aftermarket lighting products which they can cater into the aftermarket, so I think Lumax Auto Technologies will continue to do the lighting aftermarket business and as you know that in the future and also currently we are estimating a good growth coming in from the aftermarket and we are also investing in making the product lines more robust for new products specifically targeted for the aftermarket segment.

Anmol Jain: I would like to just add to that if you look at the aftermarket revenue which is upwards of 200 Crores for FY19 only 33% to 35% of that revenue is supplied by Lumax Industries. Two-thirds of the parts are either manufactured within Lumax Auto Technologies or is being purchased from suppliers dedicated for our aftermarket business.

Abhishek Jain: Thank you Sir. My last question is related to the new orders from the plastic molded parts. So, you had announced a few days back, so just wanted to understand the potential of that business and when we will start the supply on that, because right now you supply only to the HMSI?

Anmol Jain: That is right. So, we did announce that we have got a business confirmation from one of the other OEMs and we are expecting a realization of revenue in FY2021 wherein we would be looking at upwards of 100 Crores revenue should the industry and volumes continue to grow in a similar manner and for that the company would be making some initial investments in FY20 to prepare the necessary infrastructure required to service this growth.

Abhishek Jain: So, this supply will be in the two-wheelers space or the four-wheeler space?

Anmol Jain: It will be in two-wheeler space.

Abhishek Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP. Please go ahead.

Resham Jain: Thank you. On the capex front, you mentioned 75 Crores is, that right?

Anmol Jain: In FY19 we did about 79 Crores that is correct.

Resham Jain: And for FY20?

Anmol Jain: Well in FY20 we do not anticipate any Greenfield trails, so we will be actually almost halving this capex to close to about 40 Crores, 35 Crores to 40 Crores would be my guidance. We have certain committed projects and orders in pipeline which we will continue to service, but we would not be entailing any Greenfield capex or any significant capex because of the industry slowdown trend, which we have started to see.

Resham Jain: And also, if we can just give a broad outlook in the BS-VI transition, from FY21 how are you looking at your business and what are the incremental businesses which we are expecting from that particular transaction?

Anmol Jain: We are very bullish about the BS-VI. As you rightly know that there are two specific product lines which have emerged as a result of BS-VI for Lumax Auto Technologies one being the oxygen sensor under Lumax JV which will start production in Q4 and the other one is the urea tank under Lumax Cornaglia which is again an outcome of BS-VI and both we have continued to be very bullish. Obviously FY20 we will only have a very minimal revenue, but in FY2021 we will actually realize the full year revenue for both these products.

Resham Jain: Overall you mentioned the double-digit margins for FY20, but with these new products, which it seems to be having much better value additions and all, is the mix not getting improved and that is why the overall margins just if you add the cumulative proportion of all the other divisions which are now contributing like obviously in FY20 you have already guided, but two, three year trajectory what kind of margins you are looking at?

Anmol Jain: As I had mentioned earlier, we have currently just entered the double-digit EBITDA margins over the last two years or so, going forward the guidance is obviously to first and foremost try and stabilize our EBITDA margins in the vicinity of 12% to 13%, over the next couple of years based on the new products and also expanding our aftermarket business and obviously once we achieve and sustain that then we will probably have a guidance to further how to up that EBITDA margins as well.

Resham Jain: The final question is on aftermarket. You are quite bullish on the aftermarket business. You are expecting doubling this number, so if you can broadly explain what will drive this? Which all products will drive this? And how is this business different in terms of capital employed versus your OE business?

Anmol Jain: Well, simply, number one let me start with saying the growth in the aftermarket is only restricted to the sales. For example, in the OEM business the growth is restricted to the number of vehicles, the OEM produces. Here the market or the segment works on the vehicle parts, the number of vehicles which are already on the road. Here the growth is pretty much limited by you and yourself, how much you are able to invest, how many new products you are able to introduce and what is the kind of brand equity you enjoy in the aftermarket. Fortunately, Lumax has a very, very strong brand equity and as I mentioned we had launched almost close to 300 SKUs in FY19 which have resulted in this almost 22% growth and going forward we have very robust developmental plans between our engineering and our manufacturing teams to sustain this double-digit 22% to 25% growth in the coming years as well. Just to give you information, lighting would be close to about 70% of our total aftermarket business. When I say lighting, I mean complete head light, tail light, etc., and the rest 20% of the business actually comes from the non-lighting products, which is filters, mirrors and some other businesses as well. Lumax is known as a strong brand in the aftermarket for six to seven product lines and we want to expand our position in all of them as much as possible.

Resham Jain: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Jinal Fofalia from Turtle Star Portfolio Managers. Please go ahead.

Jinal Fofalia: Good afternoon Sir. I have a few questions. First question is could you please provide the industry wise outlook that we cater to, like two-wheelers, four-wheelers, CV, aftermarket and others?

Anmol Jain: In FY19 if you look at my growth, I grew at 26% in the two-wheeler and three-wheeler space. In the passenger cars, I grew at about 26% and in the aftermarket space I grew at about 20%. If you look at the segment wise breakup, then 55% of my revenue comes from the two-wheeler and three-wheeler space. 27% of the revenue comes from the passenger cars, 15% from the aftermarket and commercial vehicles and agro is at about 3% of the consolidated revenue. And we do not expect a major change in this pie going forward in FY20 at least.

Jinal Fofalia: Second question is, the JVs that we have which is the most profitable JV and which contributes more to Lumax Auto Technologies?

Anmol Jain: Well, the biggest JV we have currently is the Lumax Mannoh Allied Technologies, which is into the gear shifter, which contributes almost more than half of the complete JV revenues and operates in middle double-digit EBITDA margin, but also you have to understand that this JV is perhaps the longest JV which the company has had in terms of the partnership because prior to the JV it also had enjoyed a two years of technical agreement with the same partner, so it has had that longevity. Some of the other JVs which the company has got into are more recent ones than Lumax Mannoh, so we do anticipate on the verge of BS-VI coming in we do anticipate that these JVs will also become a sizable contributor to Lumax Auto Technologies in totality.

Jinal Fofalia: Sir other question is how much revenue did we earn from Ituran Technology, Israel JV for telematic products and services?

Anmol Jain: Right now, we do not have any revenues being realized under Lumax Ituran. As I mentioned in my opening address, we have got a lot of enquiries which have started to get into detailed discussions with certain OEMs to evaluate the products going forward for their track and trace device requirement, so we set that revenue should start to come in either in the end of FY20 with full year realization in FY2021.

Jinal Fofalia: So, how much revenue can we expect from this telematic research?

Anmol Jain: Nothing significant which is worth mentioning?

Jinal Fofalia: Significant revenue will come from FY21 for this telematics business?

Anmol Jain: It will be probably more like end of FY20 where we would have some revenue coming in, but again it is very difficult to give you a figure right now because we do not have a business confirmation yet.

Jinal Fofalia: Sir, any outlook on Oxygen sensors business like for FY20 what is our expectation and for FY2021?

Anmol Jain: In FY21 we should be looking at upwards of 50 Crores to 60 Crores of revenue. Again, this is something which is still under discussions with the OEMs in terms of which models we finally will get allotted our products on, so just to give you a range, it could entail anywhere between 50 Crores and 60 Crores or higher in FY21. Obviously, we will start commercial production in Q4 FY20 and hence in FY20 this number would be very minimal.

Jinal Fofalia: Sir, my last question is on your client's revenue breakup that you have given in your presentation is at HMSI was 14% in Q4 FY18 and in Q4 FY19 it has in fact come down to around 8%. What is the reason for it?

Anmol Jain: Well, I hope you have tracked HMSI's own volumes over Q4 FY18 to Q4 FY19. They have taken a significant beating. They are down by 32% in Q4 by themselves in terms of their production numbers and in March alone based on what their forecast and actual was, they have only realized 25% to 30% of the volume of what their forecast was. So, that is the reason that obviously because their volumes went down, our revenues have also dipped in Q4 specifically, but if you look at the full year, I have had almost a flattish sale with HMSI compared to FY2018.

Jinal Fofalia: That I can see. Sir, my other question is on Maruti. In Q4 FY18 we had 8% and in Q4FY19 it was at 6%. So, is it because of the auto slowdown from festive season or any other reason?

Anmol Jain: That is correct. It is primarily because of the slowdown because Maruti also had production cuts and adjustments in Q4. If you look at Maruti's own numbers, in Q3 they degrew by 6% YOY and in Q4 they degrew by 5% year-on-year so it is a resultant of their production cuts as well, which is reflecting in our Q4 and Q3 numbers.

Jinal Fofalia: Sir, how much revenue contribution will we have from HMSI for this FY20 and FY2021? Do you have any visibility?

Anmol Jain: It would be in the similar vicinity of close to 6% to 7% as consolidated revenue.

Jinal Fofalia: 6% to 7% of consolidated revenue, right?

Anmol Jain: That is correct.

Jinal Fofalia: Fine Sir. Thank you. We will get back in the queue for further queries.

Moderator: Thank you. The next question is from the line of Rupen Masalia from RN Associates. Please go ahead.

Rupen Masalia: Good afternoon. Thanks for the opportunity. My question is slightly pertaining to our long-term outlook, maybe three or four years. Like in three to four years, where do you see the company as a consolidated entity in terms of overall business mix, client concentration, and more importantly capital efficiency in terms of ROCE, especially in the light of number of operational joint ventures and proposed JVs for futuristic components?

Anmol Jain: To give you a very broad based perspective, I mean, today we are at a level of let us say around 1350 Crores and as I mentioned in FY20 we expect a muted growth primarily because of carving out of the SMT business, so let us say we will continue to be at a base of a similar revenue. I think considering the next three four years, five years we are still very bullish about this company because number one the kind of new joint ventures which are on the verge of being signing and I am not talking about only the recent ones, which are signed like Lumax Jopp or Lumax FAE but I am talking about the ones which are currently in discussions, those can be significant contributors to the future needs of the industry and these are needs which will emerge as the industry matures and moves more towards the BS-VI and electrification of vehicles. So, that would be one growth driver. Aftermarket we are very bullish as I have always mentioned to double the revenues and even grow forward. Thirdly, as I mentioned earlier, we are also not ruling out inorganic growth. We are currently still evaluating certain opportunities in the inorganic space. So, all of these put together I frankly foresee that at least in the next three to four years we should be able to double our topline revenues and if the EBITDA margins should not only be sustainable in double-digits, but as I mentioned earlier, the endeavor would be to expand the EBITDA margins to close to middle double-digits or so. So, that would be my guidance in the next let us say three to four years for this company.

Rupen Masalia: The thing is currently your at least FY19 reported ROCE stood at around 28% including discontinued PCB business so you know if you are going in for inorganic growth and the proposed futuristic products JVs so in any case, how much scope do you see to enhance ROCE beyond 28%?

Anmol Jain: Well, I would be happy if we are able to maintain and grow the company with those growth levels and sustain our EBITDA margins with between 25% and 30% ROCE levels. I would not be hesitant even if my ROCE levels are maintained at 25%.

Rupen Masalia: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: Good afternoon Anmol and team. I have a few questions. One is regarding the observation you said about the down cycle of the investments what the company is undertaking, so I am just wondering that if you could throw some number that how we would grow at 20%, which is our wish list, if we are reducing our investment, or do we need to double our investments way back may be when we see the industry growing back or maybe if you can explain that how much we can grow with the current level of investments what we are going to envisage in FY20 and FY21 max?

Anmol Jain: When I said, we are cutting down on investments; it does not necessarily mean we are cutting the growth as well. I think the growth for FY20 is going to be muted. As I mentioned, we are looking at a flattish growth on the topline. Here it is only because of two reasons. One is the industry sentiments by themselves coming very different, playing out than what it was last year and also because of the SMT business getting carved out. The majority part of the investments, which we are doing in FY20 will actually be going towards gearing up for FY2021 revenues be it Urea tank, be it Lumax FAE all these investments will start SOP in Q4. So, a lot of these investments will go in FY20 but the realization of the revenues and the advantage of this investment will actually come into FY21. We do see that going forward and aftermarket which continues to grow at 20% plus for the company and is close to 15% of the consolidated it does not entail any sizable investments, but does give back in terms of the growth in revenues and also has a better margin than most of the other businesses. So, that is one division, which adds and helps us in maintaining our balance in terms of the numbers.

Manish Bhandari: My other question is regarding your relationship with OEMs, does this relationship in terms of its legality offers Lumax Auto the right to market assuming oxygen sensors in the aftermarket under Lumax brand or there has to be some separate agreement and how this area is structured in the next two or three years or so?

Anmol Jain: Very clearly, as Deepak had mentioned earlier Lumax Industries is where the complete OE relationship rests with respect to the lighting. And as I mentioned earlier, lighting is almost two-thirds of our aftermarket revenues and I do not anticipate that changing substantially even in the next three to five years. Lighting still it might go from 70% to 60% or so but it will still be the biggest contributor of the aftermarket business and hence the complete aftermarket rests in a different company, Lumax Auto Technologies where we actually invest in our own design, we invest in our own tooling and with few OEMs we also have the comfort and our relationship where we actually get our aftermarket products approved by their R&D team so as to ensure that there is no infringement of IPR issues. So, it is a sustainable and further growing business model. I do not anticipate those challenges to stem up or fuel in the coming times as well. Till the aftermarket grows, currently, we do not foresee any such strong demand because it will automatically regulated by the OEs on all the vehicles starting April 20.

Manish Bhandari: Even our joint venture agreement allows us to brand the products under our branding?

Anmol Jain: Well that is correct. Most of the joint ventures are again for the OEM play, but for example in Lumax Cornaglia where we do air intake system, and if we were to explore and go ahead looking at the aftermarket potential, our joint venture agreement would support that, yes.

Manish Bhandari: My last question regarding you have mentioned about the new addition of the customer. Is there any customer loss in FY19 to us?

Anmol Jain: No, there has not been any customer loss in FY19.

Manish Bhandari: Maybe just taking a liberty on another last question which came up in my mind. The margin profile what you have indicated, we would like to move from 10.67% to 12.5% to 13%. Ideally, if I were to look at your business, then the margins would expand in a non-linear way once your JV crosses a certain threshold and that threshold could be a 200 Crores for certain JV and 250 Crores for another JV. Is that my observation right in this process?

Anmol Jain: That is correct as in scale is everything and as the JVs do scale up they would also start to add significantly to the margins. And again, as I said if you look at the pie of the division wise, the plastics will continue to grow as I mentioned, we have already acquired some new customer there, Bajaj Auto is still a big part of the pie and because of their export volumes they are so much insulated from the BS-VI chain because only 50% of their portfolio goes into the domestic industry, about 50% to 60% is actually exported out and we enjoy their export model volumes more in this company. So, I think it is a mixed bag and that is the beauty of this company because it has got a diversified product and customer basket. It can insulate itself from the industry slowdown completely but yes I think the JVs would continue to grow in the times to come and add to the margins as well.

Manish Bhandari: Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Hardik Sodha from Crescita Investments. Please go ahead.

Hardik Sodha: Sir, my question is what is the current margin in aftermarket?

Anmol Jain: The current margin in aftermarket would be close to middle double-digit EBITDA.

Hardik Sodha: Do you expect it to be maintaining going forward?

Anmol Jain: Yes, we do expect it to be maintained going forward despite the topline growing by almost 20% year-on-year. The margin should be remaining the same.

Hardik Sodha: That is it from me. Thank you.

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 the revenue potential of the urea tank? And how much revenue we can expect in FY21 from this segment?

Anmol Jain: The market size of Urea Tanks, as I had mentioned, is approximately almost 400-odd Crores currently and we expect that in the first space at least 10% to 15% of this market size should be captured. We already have different business and in FY2021 we do anticipate that we should be able to take 10% of the market.

Abhishek Jain: And what is the margin in this business?

Anmol Jain: It would be a middle double-digit EBITDA margin to start with.

Abhishek Jain: Sir, my second question is related to the plastic molded part, the capacity utilization is around 90% to 100% so are you looking for the capex, as you are targeting around 100 Crores from this business through acquisition of the new business through supply to other two-wheeler OEMs, which requires a substantial capex. So just throw some light on this?

Anmol Jain: The capacity utilization on our plastic mould currently for the full year rests at about 65% and not at 90%. And that is primarily because of Honda Motorcycles Scooter India the production cut in Q4. In Q4 our capacities came down as low as 40% utilization. So going back whenever we see a bounce back of HMSI volume towards the end of FY20, we anticipate the capacity to be better used and the revenues to be normalized; however, the business which I had anticipated will be in a new location altogether so it will entail fresh investments and that investments as I mentioned earlier, we will be very cautious to possibly reduce any Greenfield expansion, Greenfield investments in FY20 and once the volumes were to get realized and stabilized then we will look at further capital investments towards the business, but we will still service the customer needs from other locations until the Greenfield site is put up.

Abhishek Jain: Sir, my last question is with relative to the SMT business. You have transferred the entire assets to Lumax Industries, so what value you got, is it 13 Crores or 22 Crores?

Sanjay Mehta: We have already disclosed the value of Rs. 22.45 crores in our declarations to stock exchange & also to the Investors.

Abhishek Jain: You have shown this amount in the cash flow this year in your balance sheet or you will show it in FY20?

Sanjay Mehta: It will be shown in FY20 as the transaction took place in the month of April.

Abhishek Jain: Thank you. The next question is from the line of Rupen Masaria from RN Associates. Please go ahead.

Rupen Masaria: Thanks for the followup. The question is on dividend payout strategy like you increased it by 50% from Rs.2 per share to Rs.3 in FY19, so going forward what would be the payout strategy?

Anmol Jain: The company continues to have a very clear policy of maintaining a minimum 35% dividend payout ratio and based on the performance of the company, we do debate at the board level and right now for FY19 our payout ratio was maintained at about 54%.

Rupen Masaria: 54% standalone?

Anmol Jain: Yes, in FY19 it was 54% payout ratio, in line with maintaining a minimum 35%. If you look at the last 10 years data, the company has always maintained its 35% payout ratio every year.

Rupen Masaria: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now hand the conference over to the line of management, which is Mr. Anmol Jain for closing comments.

Anmol Jain: I would like to thank you all for joining into the call. I hope that we were able to answer all your questions. For any further queries, you may please get in touch with us or SGA. We will be happy to address all your queries. Thank you very much for your participation again.

Moderator: Thank you. On behalf of Lumax Auto Technologies Limited that concludes this conference. Thank you for joining with us. You may now disconnect your lines.