

Annexure - A

Management Discussion and Analysis

Economy

Global Economy

Following a robust growth of 3.6% in 2018, the global economy witnessed a tough 2019. Despite tender signs of improvement at the beginning of 2019: stabilization of manufacturing and service sectors, strengthening of financial conditions and improvement of monetary policies, the current expectation of global economic growth is being dragged down. This is due to the carryover of a weak quarter of the last fiscal year in several key economies, along with an unprecedented health crisis caused by Covid-19.

Despite headwinds, the growth in the pre-COVID-19 phase was expected to be 2.9% in 2019. However, the disruption led by the Coronavirus right from supply-chain, dip in commodity prices (specially oil), substantial dip in capital expenditures to decline in travel, automobile industry, hospitality and decline in durable purchase has further dragged the GDP estimates downwards for the near future.

The advanced economies were estimated to grow at 1.7% in 2019. However, along with the virus attack, various other challenges such as geopolitical tensions and significant fiscal challenges in selective economies also continued slowing the trade. Despite these, advanced economies are predicted to stabilize at 4.5% in 2021. Growth of Emerging Markets and Developing Economies (EMDE) are expected to remain subdued at -1.0% in 2020 and grow at 6.6% in 2021. In Emerging economies, China is forecasted to be further impacted by the ongoing Covid-19-related developments, leading to 1.2% growth for 2020 compared to 6.1% in 2019. India's 2020 GDP growth is revised down to 1.8% for 2020 compared to 4.2% in 2019, largely due to ongoing domestic challenges and a worsening external environment.

Factors such as improved global trade relations in combination with fiscal stimulus measures in China, Japan, Italy and other economies, as well as ongoing accommodative monetary policies will support the growth of the economies.

(Source: [cnbc.com](https://www.cnbc.com), Fitch ratings, IMF)

Indian Economy

According to IMF, the growth rate of Indian economy has moderated for past three consecutive years. The growth was estimated to be 5% in 2019-20 before coronavirus took over India. However, the growth has been drawn down to 1.8% due the fast spreading of this pandemic. The strong effect of COVID-19 has brought the economic activities to a

standstill and has impacted the major contributors of the GDP – consumption, investments and external trade.

COVID-19 pandemic has become a full-blown credit crisis for India. Corporates are finding difficult to stay afloat, banks are struggling with the balance sheet fallout, rising unemployment and loss of income may even lead to social unrest. On a positive note, RBI and GOI are taking steps for policy easing. Additionally, to revive consumption, Government has lowered the corporate taxes and RBI has reduced repo rate by 75 basis point, reverse repo rate by 25 basis point(bps)-now standing at 3.75% and CRR by 100 bps points.

Outlook

India's GDP is expected to contract by 4% in FY2020 before rebounding by 5% in FY2021. The growth would be supported by the reduced corporate tax cuts, implementation of various financial reforms, increase in private consumption, support measures to automobile industry and rise in food prices. This has shifted the terms of trade in favour of agriculture, supporting rural incomes. Further, easing of global trade uncertainties will encourage exports and spur investment activity. It will also help reduce lending rates and financial flows will spur both consumption and investment demand in the country.

(Source: moneycontrol.com, economictimes.com, business-standard.com, cnbc.com)

Automotive Industry Overview

Global Perspective

The global automotive industry is on the brink of a major transformation. While the trends suggest that the consumer interests in electric vehicles has accelerated, overall opinion for autonomous vehicles has stalled. Technology is driving this shift, shaped by demographic, regulatory and environmental factors. The market was expected to grow by and reach US\$ 8.75 billion in 2024. But the widespread of the Covid-19 has impacted the growth of the automobile sectors. The impact of Covid-19 has been so swift on this sector that it led to large scale disruption of manufacturing, adding intense pressure on supply chain.

Trends show the vehicle will grow smarter and more efficient, with high-efficiency engines, lighter materials and autonomous driving systems. The industry will evolve, with new competition from tech companies and suppliers capable of producing high-tech parts at low prices. In future, factors such as increase in demand for fuel-efficient, high-performance, technological advancements and low-

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emission vehicles, along with stringent government rules and regulations toward vehicle emission, will supplement the growth of the electric vehicle market.

(Source : [statista.com](https://www.statista.com), [businesswire.com](https://www.businesswire.com), [prnewswire.com](https://www.prnewswire.com), [alliedmarketresearch.com](https://www.alliedmarketresearch.com))

Indian Structure and Developments

Indian Automobile Industry

The Indian automobile is the pillar of the manufacturing sector. It contributes nearly 7.5% to the Indian GDP. Being an economic multiplier, it provides employment to a large pool of around 8 million people. Festival season was expected to contribute some alleviation, however it failed to attract buyers. New launches in the utility vehicle segment did bring in some buyers, but weaker consumer sentiments due to economic slowdown, liquidity crisis and increased ownership

cost of vehicle contributed to the overall slump. Just when the Government was taking steps to revive the industry demand, Covid-19 outbreak further aggravated the market. The pandemic made the production and dispatches come to a halt. Going forward, the industry players are anticipated to re-strategise the blueprint of their operations and activities related to sourcing of auto-components in future.

According to SIAM data, production of PVs – fell 14.76 % to 34,34,013 units in the year ended March 2020. The hardest blow was felt in March as volumes saw sharp decline of 34 % due to the subdued demand and weak consumer sentiment. This was further aggravated by the Covid-19 outbreak in the country.

Cumulative production across all vehicle types (PVs, CVs, 2W and 3W) declined 14.73 % to 2,63,56,187 units, a stark contrast from driving past the 25-million-vehicle mark for the first time in FY19.

Segment-wise automobile production trends in 2019-20

Category	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Passenger vehicles	32,21,419	34,65,045	38,01,670	40,20,267	40,28,471	34,34,013
Commercial vehicles	6,98,298	7,86,692	8,10,253	8,95,448	11,12,405	7,52,022
Three-Wheelers	9,49,019	9,34,104	7,83,721	10,22,181	12,68,833	11,33,858
Two-Wheelers	1,84,89,311	1,88,30,227	1,99,33,739	2,31,54,838	2,44,99,777	2,10,36,294
Grand total	2,33,58,047	2,40,16,068	2,53,29,383	2,90,92,734	3,09,09,486	2,63,56,187

Auto-component Industry

The domestic auto-components industry is driven by strategic technological alliance and in-house R&D setup of the industry players. The automobile demand has led to advancement and introduction of innovative solutions enabling industry to grow into a massive one. The industry now contributes 2.3% to the total GDP. Despite weak turnover, the auto-components exports rose by 2.7% to \$7.5 billion in H1 2019-20 from the previous year. Wherein, Europe accounted for 32% of exports followed by the North America and Asia. The H2 2019-20 was expected to be smooth, but it suffered a demand shock both in domestic and overseas market. Majorly, this shock was caused by the Covid-19 outbreak across the globe in the Q4 of 2019-20.

The lockdown led to shutdown of factories and supply chain disruption. Given the current slowdown, auto-components makers are expected to be piled up with inventories for a couple of more quarters. However, in medium-term export opportunities, competencies and policy support is expected to be played in India's favour.

(Source: acma, [economictimes.com](https://economictimes.indiatimes.com/sluggish-demand-in-h1-auto-components-sales-fall-record-10-tors-1-87-lakh-crore/articleshow/72399484.cms?from=mdr) - <https://economictimes.indiatimes.com/sluggish-demand-in-h1-auto-components-sales-fall-record-10-tors-1-87-lakh-crore/articleshow/72399484.cms?from=mdr>)

Outlook

Stringent emission and safety standards, coupled with growing digitalization in vehicles will make Electric Vehicles, connected cars and Autonomous Vehicles the key focus areas for automakers post Covid-19. However, demand for auto-components is expected to decline, given the production disruption and muted demand prospects. Volume demand from OEMs is estimated to decline 7% to 15% across asset classes. Export demand is expected to decline 15% in value terms, as over 50% of exports are to Europe and the US, and demand from those markets is expected to decline owing to Covid-19. Replacement demand is expected to log a modest growth of 3% (in value terms), as people refrain from buying new vehicles.

(Source: [business-standard.com](https://www.business-standard.com))

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Opportunities

Increase in emerging and middle-class segment

This segment is going to open new opportunities for businesses. The Indian Auto industry is likely to benefit from this growth. This is because a majority of the Indian middle-class population aspires to own a car. As the economic prosperity spreads across demographics, mobility will no longer be a luxury but a necessity for people.

Shifting industry landscape

As OEMs seek to develop alternative powertrain technologies, suppliers are likely to provide more of the value-added content per car. In addition, OEMs need to ensure that their suppliers' production footprints – especially in emerging markets – match future market demands and their own production plans.

Continued Government support

With regulatory updates coming up, India's emission standards will match global markets. The leap from BS IV to BS VI (corresponding to Euro VI) standards, will rapidly push down the acceptable emission limits for NOx and CO². The Corporate Average Fuel Efficiency (CAFE) regulations have already been enforcing fuel efficiency. So far, they have clamped down CO² emissions and mandated the acceptable CO² limits to be 13% lower than 2017 levels by 2022. Since 2016, the Government has announced various steps to accelerate the adoption of safety features in vehicles. Some examples are pre-installed Fire Detection and Alarm Systems (FDAS) and Fire Detection and Suppression Systems (FDSS) in buses. Goods and passenger vehicles have implemented Electronic Stability Control Systems (ESCS) and Brake Assist Systems.

Electrification

Electrification has just started to take off in Indian automotive space. Factors such as declining prices of batteries and supportive policies from the government are stimulating the EV's growth. Reduction in emissions and less dependency on oil imports are clear advantages of electrification. People carriers like buses, two- and three-wheelers, luxury passenger vehicles and light commercial vehicles could see maximum penetration by 2030. This will be followed by other passenger vehicles, medium- and heavy-commercial vehicles and also construction equipment, which will take longer for EVs to penetrate.

Connected vehicles

Connectivity is still in the early stages of adoption in India. A minuscule share of vehicles sold in India come with factory-fitted connectivity features. However, the mass adoption of smartphones, coupled with low data costs, could aid connectivity features to proliferate. There are several connectivity-linked applications that are picking up in India. Basic in-car entertainment, navigation and in-car connectivity have evolved rapidly over the last decade. More advanced telematics features that utilize car sensor data, driving behavior, and vehicle-health parameters are also evolving, particularly with aftermarket solutions.

Threats

Complexity and cost pressure

The increase in regulations with respect to environmental and safety standards will raise costs and complexity. This is because they need to be managed apart from domestic markets. The growing number of different vehicle segments and markets, based on a single platform, also raise complexity. At the same time, OEMs will have to develop alternative powertrain technologies for lower-emission vehicles. This will require significant investment. Given all these pressures, plus flat net price development due to less budget available for new features, it will be more difficult for OEMs to differentiate themselves.

Digital demands

Consumers want more connectivity and are focused on active safety and ease of use. A growing number of consumers are increasingly using digital sources to make their purchase decisions. This might be an opportunity for OEMs, but it also means the potential threat of competition from online retailers. Hence putting pressure on the existing dealership structure. The growing role of digital also applies to the driving experience. Consumers want to combine mobility with communication.

Government Initiatives

The Government of India recently undertook initiatives and developments favouring the automotive industry. These initiatives can further boost the potential growth of the industry. Some of the initiatives are listed below:

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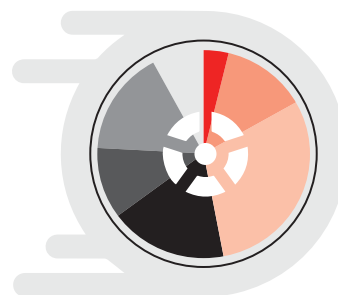
Budget announcement	Likely implication
The Government increased Basic Custom Duty on electric vehicles in commercial and passenger segment for Complete Built Ups, Semi Knock Down and Completely Knock Down.	This will help promote manufacturing in the country. It will also help in checking imports of electric vehicles, something which India is going to adopt in a major way.
The Government had earlier formulated a Partial Credit Guarantee scheme for the NBFCs, further supported by devising a mechanism.	NBFCs are the major source of finance for auto loans. Credit guarantee for NBFCs will further ease liquidity for auto sector.
<ul style="list-style-type: none"> Introduction of BS-VI emission norms is a positive step to reduce emissions significantly, but the initiative would lead to an 8-10% increase in vehicle cost, leading to enhanced GST collections for the Government An incentive-based scrappage policy and an increase in re-registration charges of vehicles to discourage use of old vehicles Scrapping duty on import of lithium-ion battery cells so that battery packs can be manufactured locally and progressively cell manufacturing can also be established in the country 	

(Source: businessToday.in)

Business Overview

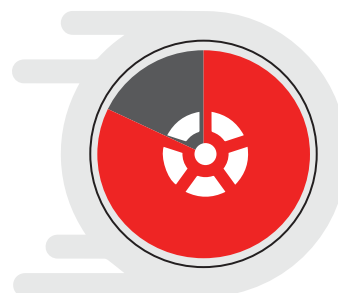
Founded in the year 1981, Lumax Auto Technologies Ltd is a part of the D.K. Jain Group of companies. It has carved a strong position in various automotive parts for two-wheeler and three-wheeler industry. With more than three decades of rich experience, LATL has emerged as a preferred supplier to leading OEMs. The Company's organic expansion has led it to manufacture a diverse range of products catering two-, three- and four-wheeler segments, along with its Subsidiaries and Associates.

Product-wise revenue mix FY19



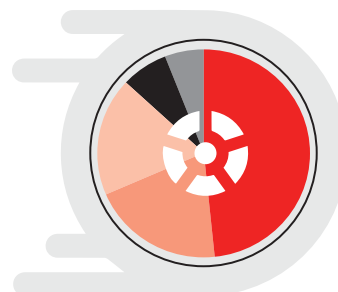
Product	%
● Intake Systems	4
● Lighting	13
● Integrated Plastic Modules	30
● After Market	18
● Gear Shifters	11
● Chasis	16
● Other Misc.	8

Channel-wise revenue mix FY19



Channel	%
● OEM	82
● After Market	18

Segment-wise revenue mix FY19



Segment	%
● 2/3-Wheeler	48
● Passenger Car	20
● After Market	18
● CV	7
● Others	7

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With its 15 state-of-art manufacturing facilities spread across 5 states, the Company excels in faster execution of the deliveries. Strong R&D capabilities, technological prowess, design skills and manufacturing abilities are some of the prime factors behind the Company's established leadership in gear shifters. The Company manufactures and supplies automotive lighting equipment and automotive components. Its product portfolio includes two-wheeler lighting, two-wheeler Chassis, three-wheeler Fabricated Parts, Electrical & Electronics Components, Gear Shift Lever, Gear Shift Tower, Intake System, Integrated Plastic Modules, Oxygen Sensors, Seat Structures, Telematics Products & Services and After Market.

Financial Performance

The Company, on a consolidated basis and from continued operations, registered a revenue of ₹1140.91 Crores in 2019-20. This was declined by 3.88% against the consolidated revenue of ₹1186.98 Crores in 2018-19. The Company reported EBITDA of ₹108.75 Crores in 2019-20 as against ₹123.86 Crores in 2018-19. The Profit After Tax after Minority Interest stood at ₹49.79 Crores in the 2019-20 as against ₹53.23 Crores in 2018-19. EPS stood at ₹7.30 in 2019-20 as against ₹7.81 in 2018-19 on the face value of ₹2 per equity share.

Debtors Turnover	2018-19*	2019-20	%change
Based on year closing data	5.05	6.98	38%

Reason: Better realization

Inventory Turnover	2018-19*	2019-20	%change
Based on year closing data	13.82	11.99	-13%

Reason: No significant change

Creditors Turnover Ratio	2018-19*	2019-20	%change
Based on year closing data	3.97	5.79	46%

Reason: Early payment to creditors

Interest Coverage Ratio	2018-19*	2019-20	%change
Based on year closing data	30.45	7.76	-75%

Reason: Increase in working capital utilization

Current Ratio	2018-19*	2019-20	%change
Based on year closing data	1.28	1.29	1%

Reason: No significant change

Debt (Long Term) Equity Ratio	2018-19*	2019-20	%change
Based on year closing data	0.03	0.05	85%

Reason: Increase in Term Loan

Operating Profit Margin	2018-19*	2019-20	%change
Based on year closing data	8.15	6.51	-20%

Reason: Lower Profitability in Subsidiaries

Net Profit Margin	2018-19*	2019-20	%change
Based on year closing data	4.48	4.36	-3%

Reason: No significant change

*From Continued Operations

Details for Changes in Return on Net Worth:

	2018-19*	2019-20	%change
Based on year closing data	11.09%	11.16%	1%

Reason: No significant change

*From Continued Operations

Risks and Mitigation

Lumax recognizes that management of risks is an important process. It empowers the Company with necessary tools for identifying potential risks. It then makes it easier to mitigate such business risks. This helps the Company achieve its strategic objectives and sustainable development. The Company follows a specific and well-defined risk management process. This system is integrated with its operations for identification, categorization and prioritization of operational, financial and strategic business risks.

Competition risk: The Company operates in a highly competitive environment. There are risks of pressure on pricing. Today, multinational OEMs are deeply entrenched in the Indian market across all vehicle segments. They have local development centers, a strong local supplier base along with good channel penetration.

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Mitigation: The Company aims to maintain its competitive relevance and sustain leadership in the market. It continually invests in: new product development, technology upgrades, increasing channel reach and the focus on delivering customer-centric products, services and brand building.

Customer concentration risk: The Company's performance is majorly dependent on its key customers. Any decline in the demand for its final products by customers might adversely affect the Company's performance both, financially and operationally.

Mitigation: The Company has been offering a robust range of products while proactively looking for new clients. Additionally, the Company is also planning to gradually increase its client base by offering customised products to its existing customers. There are different customer-relationship-enhancing strategies also in place, to help retain existing clients while trying to gain prospective new ones.

Economic risk: Economic slowdown, adversely impacting the Indian economy, can affect the automobile markets as well. The Company's revenue stream may get affected from certain unfavourable macroeconomic slowdown across the globe.

Mitigation: With an efficient Government stimuli, India is expected to grow in the coming years. The Company's impressive portfolio with a wide range of products and a firm footprint across the country will help it survive such risks.

Regulatory risk: Due to changes in the international and domestic laws, tax regulations, technical standards and trade policies, the Company might face regulatory risk. This risk particularly comprises those related to more stringent vehicle safety and environmental norms.

Mitigation: LATL stringently follows all the due policy and regulatory requirements. The Company constantly monitors the changing regulatory scenario and makes necessary modifications as needed.

Significant Development in Human Resources

At Lumax, people are our key differentiators. It is their determination, dedication and dependability that gives us a competitive advantage. We focus on bringing talented people on-board, sharpen their skills through training and motivate them to collaborate and innovate with experts to upgrade their skills. Our team is dynamic and diverse; and we value the suggestions of every individual.

Last year, we successfully rolled out key HR initiatives and talent management practices. These reinforced the principles to help employees realize their potential.

- Motivating workforce to deliver quality output
- Building a culture of participation that will enable us to relish our customers
- Promoting the culture of innovation and belonging to help make a difference

For the overall development of employees, training and skill development is very important. A comprehensive training structure is laid down for all employees. In addition to the induction training, regular training on job-related modules is also provided to help employees improve continually in the performance of their duties. Such initiatives help attract and retain best talent across the industry. The strength of the group thus lies in working and growing together as a team.

Quality Control Circles constitutes an essential part behind the growth of Lumax. It has helped in the overall development of numerous employees. The practice of Quality Control Circles connects people, processes and products to deliver noteworthy results. Kaizen, Quality Circles, Total Productivity Maintenance, Total Quality Management, 5-S, 6 sigma, 7-W and other international shop floor improvement initiatives are adopted and followed to enhance processes and productivity. In the financial year 2019-20, employee relations remained cordial and the total no. of employees stood at 926.

Environment, Health, Safety

A safe and healthy workplace has always been one of the highest priorities of Lumax. The Company emphasises on the key factors of Environment, Health & Safety (EHS) and believes all three parameters are crucial for a safe and sound work environment. The 'Safety Management System' of the Company is designed to reduce the risk of incident and injuries. This system includes safety rules, safety procedures, safety training, hazard identification, correction, incident reporting and investigation, capturing near miss accidents, safety communications and safety suggestions.

During the year 2019-20, the Company undertook the following initiatives and activities to main EHS:

1. ST/ Duct cleaning for locations where paint material & chemicals are being used
2. Safety Gemba Audit and monitoring all critical Points
3. Regional Safety Meeting at all regions

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4. KYT - Kiken Yochi Training (Identifying hazard and taking corrective measures with the help of actual users)
5. Hazards specific Safety training (Fire Fighting, First Aid, Electrical Safety, Chemical & Machine Safety, Risk Assessment & Evacuation Drill)
6. Prepared Safety manual for Standard Operating Procedures
7. Identified probable emergency and prepared Emergency Response Manual
8. Prepared standard KYT Manual
9. Performed Comprehensive Inspection of all chemical storage areas according to the check point and necessary display system
10. Comprehensive review / surveillance audit done as per ISO 14001 (Environment Management System) and ISO 18001 (Occupational Health & Management system)

Regular safety trainings and workshops are conducted by the organisation for all its employees. These trainings aim to educate the employees and raise awareness about the importance of their safety. They also inform the employees about various safety programs and policies of the organisation. Safety audits are carried out at regular intervals across all units.

Internal Control Systems

The internal control structure is designed to operate as a well-integrated system. It comprises regular risk assessment, mitigation and monitoring. The Company first identifies key

business risks using its analysis and then takes mitigating steps towards the same. The Company's internal team and an independent internal audit firm keep a close eye on business operations. Deviations, if any, are immediately brought to the notice of the Management and Audit Committee for timely action and correction. Well-documented policies and procedures enable the Company to strictly adhere to all applicable procedures, laws, rules and statutes. The Company's robust IT systems safeguard its sensitive data and ease out audit process. Accounting Standards are strictly followed while recording transactions. A host of strategies are devised in addition to robust MIS systems, for real-time reporting, so as to control expenses. Any variance from budgetary allocations are promptly reported and corrected to ensure strict compliance.

Cautionary statement

Statements in the Management Discussion and Analysis Report describing your Company's projections, estimates and expectations may be interpreted as "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to its operations include economic conditions affecting demand/supply, price conditions in the domestic and international markets in which it operates, changes in Government regulations, tax laws and other statutes. Your Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements on the basis of any subsequent development, information or events.