ANNEXURE - A

Management Discussion and Analysis

Global Economy

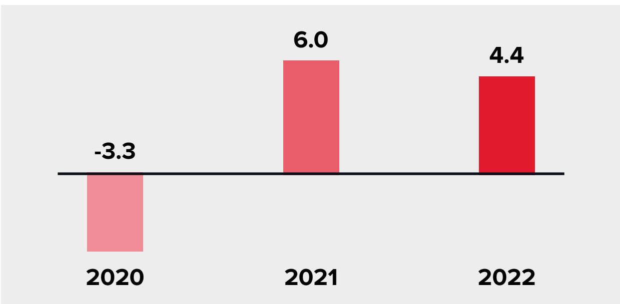
An already battered economy from 2019 was disrupted down to the ground in 2020 with the Covid-19 pandemic taking us all by surprise. Fortunately, Governments across the globe intervened and curbed its spread while also stimulating financial resources.

Towards the start of 2020, not many would have guessed that the pandemic would be fatal to life and economy alike. The prolonged restrictions, including social distancing, lockdowns, and quarantines, were necessary but worsened the economic situation globally.

Economic activities in several industries came to a temporary halt. The year under review witnessed a sharp deceleration in global growth with sluggish trade and poor investments affecting in varying degrees. As a result, the global economy contracted by 3.3% in 2020, more than over-throwing the expansion of 2.9% in 2019. Even as advanced economies shrunk by 4.9%, emerging markets and developing economies remained relatively resilient, reporting a de-growth of only 2.4%.

Despite the financial tremors, economies regained strength in the second half of the year on account of lesser restrictions, dip in Covid-19 cases, and stimuli announced by several Governments worldwide. The world Gross Domestic Product (GDP) growth is forecasted at 6% in 2021, and to moderate subsequently to 4.4% in 2022. This projection depends on trade viability as well as the hopes of additional fiscal support, expected from some Governments, coupled with the efficacy of the multiple vaccines being rolled out. However, further waves of the virus provide us a reason to maintain a cautious optimism.

Global GDP Growth



(Source: https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021)

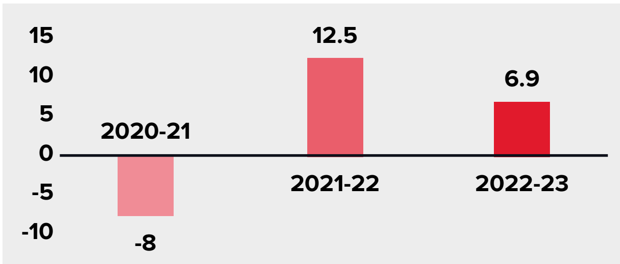
Indian Economy

Having entered into a pandemic-induced recession, India's GDP fell by 8% points in 2020, as compared to rising by 4.2% in 2019. This was on account of strict restrictions and the consequent decline in economic activity.

The Indian economy is showing early signs of a broad V-shaped recovery, owing to larger public stimulus spends, the revival of consumer confidence, robust financial markets and an uptick in manufacturing activity. Key factors that are expected to drive this rebound include normal monsoons, success in averting a full-fledged second wave of COVID, and discretionary spending staying unaffected by cost pressures. In its latest edition of World Economic Outlook published in April 2021, IMF said it expects India's GDP to grow 12.5% in FY 2021-22, the highest among emerging and advanced economies. GDP growth for FY23 is pegged at 6.9%.

(Source: https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021)

Indian GDP Growth



(Source: https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021)

Indian Automobile Industry Overview

The Indian automobile sector is one of India's principal industrial catalysts, providing jobs to more than 35 Million people, directly or indirectly. It contributes approximately 7.1% to India's overall GDP and 49% to the manufacturing sector GDP. The Indian automotive sector comprises passenger vehicles, commercial vehicles as well as two and three-wheelers.

(Source: https://www.investindia.gov.in/sector/automobile, auto.economictimes.indiatimes.com)

The Indian auto industry was unarguably hampered due to the pandemic, so much that it was amongst the most severely affected sectors. The total vehicle production and sales witnessed a de-growth of 14%. During FY 2020-21, there was a de-growth in vehicle sales of all segments compared to the previous fiscal year. Passenger vehicles, with sales of 27.11 Lakhs units, was marginally lower by 2.24% Y-o-Y. There was a 13.19% decline in two-wheeler sales with 151.19 Lakhs units sold. Commercial vehicle sales contracted by 20.77% to 5.69 Lakhs units. Three-wheeler sales had a major impact, with sales falling 66.06% Y-o-Y, to 2.16 Lakhs units.

Management Discussion and Analysis (Contd.)

Annual Domestic Automobile Sales By Segment

(No. in Thousands)

	Apr-Mar				
	FY 18	FY 19	FY 20	FY 21	CAGR %
PVs	3,289	3,377	2,774	2,711	-6.2
CVs	857	1,007	718	569	-12.8
3Ws	636	701	637	216	-30.2
2Ws	20,200	21,180	17,416	15,119	-9.2

(Source: SIAM report titled 'Production, Domestic Sales and Exports Data for the FY 2020-21 (April 2020 to March 2021)', published on 12 April 2021)

According to India Ratings and Research projections, in FY 2021-22, an 18-22% growth in the passenger vehicles segment, 25-30% in commercial vehicles, 16-20% in two-wheeler segment can be achieved. However, a sharp spike in metal (raw material) prices in recent times may impact margins. Sales in the industry are expected to rise on account of the changing customer preferences, away from ride-sharing and public transport (due to the pandemic), towards owning a vehicle.

(Source: https://www.business-standard.com/article/automobile/ind-ra-revises-outlook-of-auto-sector-to-improving-for-fy22-from-negative-121031201108_1.html)

Indian Automotive Components Sector Overview

The Indian auto-components industry comprises various product segments, such as lighting, lamps, fasteners, castings, suspension and braking parts, valves, steering parts, engine parts, electrical, weather strips, forgings, pistons, carburetors, axles, clutches, gaskets, chassis, and shock absorbers among others.

The industry has experienced a healthy growth over the last few years, expanding at a CAGR of 6% from FY 2015-16 to FY 2019-20 to reach USD 49.3 Billion in FY 2019-20. The Industry is expected to reach USD 200 Billion by FY 26. The auto-components industry accounts for 2.3% of India's GDP and employs as many as 1.5 Million people directly and indirectly. In November 2020, the Union Cabinet announced a fund of ₹57,042 Crore for the auto and auto-components industry, under the PLI scheme to be disbursed over a five-year outlay.

Automobile components' export from India are expected to grow at 23.9 % annually to reach USD 80.00 Billion by FY 26. India's export of auto components increased at a CAGR of 7.6% between FY 2015-16 and FY 2019-20, as the value increased from USD 10.83 Billion in FY 2015-16 to USD 14.5 Billion in FY 2019-20, and exports are expected to comprise 26% of the industry by 2021 end.

(Source: https://www.ibef.org/industry/autocomponents-india.aspx)

Indian Automotive Lighting Industry

Lighting is a crucial component in automotive vehicles, being directly linked to safety. Natural weather conditions, such as rain, fog, dust, and snow can lead to road mishaps, and quality lighting can save the day. Governments worldwide are taking initiatives to spread awareness on safe driving, and automotive lighting is one of the key factors in that course. The Indian Automotive Lighting Industry offers a wide range of products, such as headlights, tail lights, accessory lights, LEDs, fog lights, emergency and warning lights, off-road lights, and signal lights, in contemporary vehicles. Apart from the safety aspect, automotive lighting improves the aesthetic appearance of a vehicle, which makes it a popular accessory among millennials.

Growing concerns over vehicle safety and strict Government regulations have spurred technical innovations around the automotive lighting market. Additionally, the growing population and increase in purchasing power across the developing world might rehash lucrative opportunities in this space.

Industry Outlook

The industry has come a long way since the zero sales of April 2020 (national lockdown days). The partnership between the government and Industry has played a key role in coming out of these uncharted times. Timely re-opening of manufacturing plants, favourable monetary policies and government support packages for farmers has further supported demand revival. Preference towards personal mobility during covid, traction in rural markets, pent-up demand are some of the factors that were the growth engines of the automotive industry during the period.

The capex announcements from Indian and global players in both greenfield and brownfield will drive the momentum for the industry in the medium term, specifically in the areas of EV ecosystem and Auto Electronics. Further Production Linked Incentives for Auto will drive localisation in the country and contribute to India's emergence as a global manufacturing hub. And lastly, aggressive vaccination drives along with stringent regional lockdowns are expected to reduce the covid caseload and restore the economy again.

Key Growth Drivers

Rising Income Levels

Car penetration in India is low compared to other economies. Currently, India has a ratio of just 22 cars per thousand individuals.

Rising income levels would lead to an exponential growth in discretionary spending, which could further catalyze the automotive penetration domestically, with a special prospect for growth in passenger vehicles' industry.

Management Discussion and Analysis (Contd.)

(Source: https://auto.economictimes.indiatimes.com/news/passenger-vehicle/cars/india-has-22-cars-per-1000-individuals-amitabh-kant/67059021)

Road Infrastructure

Road transportation has gradually increased over the years with improved connectivity between cities, towns and villages in the country. In the Union Budget 2021, an investment of ₹1,18,101 Crore (USD 16.20 Billion) has been allocated towards the road transport and highway sector, which could boost the automotive sector growth.

Opportunities

Shifting Preference Towards LEDs

LED lamps have become a preferred choice over Halogen lamps. Despite higher prices, Original Equipment Manufacturers (OEMs) are willing to shift to LED lamps, as they are more efficient, and improve the style and appearance of vehicles. The increasing adoption of LEDs by famous OEMs presents tremendous opportunities for Lumax. It is mainly because manufacturing LEDs requires significant technical expertise, and Lumax gets the desired support from Stanley. Further, LEDs are prospective high-margin products for the Company.

Shift in Manufacturing from China to India

There's a shift in allegiance from China to India post COVID-19. Trade bans, border clashes, and ban on Chinese mobile applications are some of the proofs. We believe India will be the biggest beneficiary of this, owing to surplus availability of labor, suitable manufacturing conditions, low-wage costs, and abundance of raw materials.

Electric Vehicles (EVs)

The EV market in India is expected to register a CAGR of 44% between 2020 and 2027. It is expected to hit 6.34 Million-unit annual sales by 2027. The EV industry is projected to create huge direct and indirect job opportunities by 2030. The growth in EVs will help expand the automobile industry, and in a way, benefit Lumax due to transition to LEDs.

(Source:https://auto.economictimes.indiatimes.com/news/industry/electric-vehicle-market-in-india-expected-to-hit-63-lakh-units-per-annum-mark-by-2027-iesa/79878253)

Threats

More COVID-19 Waves

A third wave of the virus could adversely affect the demand trends in the domestic automobile industry, due to lower discretionary spending.

Business Overview

Lumax Industries Limited ('The Company' or 'Lumax') is the flagship company of the DK Jain Group. Over the past 70 years, Lumax has evolved as the market leader of automobile lighting in the Indian automotive industry. In 1984, the Company entered into a technical collaboration with Stanley Electric Co. Limited (SECL), Japan, which currently holds 35.77% equity stake, as a co-promoter, in the Company. Lumax offers a bouquet of automobile lighting systems and solutions, comprising complete lighting solutions for front and rear (head lamps and tail lamps), sundry and auxiliary lamps, among other lighting-related products. It also makes accessories for four-wheelers, two and three-wheelers, trucks, buses, tractors, farm equipment, and for various other diverse applications. Lumax has 10 manufacturing facilities spread across 5 states in India.

Operational and Financial Overview

Standalone:

The year under review was a challenging year on account of Covid-19. The first quarter observed a dry spell, marked by negligible revenue. However, the second quarter registered slight recovery, and during the third and the fourth quarter, the charts forecasted a 'V-shaped' recovery, which not only followed but also compensated for the majority of the losses suffered in the preceding quarters. During the year under review, the Company achieved revenue of ₹1,42,598.07 Lakhs, registering a decline of 10.96% from the last financial year.

For the FY 2020-21, the profit before tax (PBT) stood at ₹3,151.98 Lakhs as compared to ₹8,195.26 Lakhs in the last year. The Profit after Tax (PAT) stood at ₹1,703.85 Lakhs as compared to ₹7,230.69 Lakhs in the last year. The Total Comprehensive Income declined to ₹1,830.39 Lakhs as against ₹7,136.31 Lakhs in the last year.

Consolidated:

At the consolidated level, the Revenue from Operations declined by 10.96%, whereas the Profit before tax (PBT) and Profit after tax (PAT) for the Period stood at ₹3,306.07 Lakhs and ₹1,815.23 Lakhs respectively. The Total Comprehensive Income stood at ₹1,957.35 Lakhs.

Details of Key Financial Ratios

Debtors Turnover (Avg)	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	10.91	7.78	(29)%

Reason: Lower Sales in March 2020 due to Covid-19

Management Discussion and Analysis (Contd.)

Inventory Turnover	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	5.49	4.06	(26)%

Reason: Negligible Sales in Q1 of FY 2020-21.

Interest Coverage Ratio	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	4.74	2.11	(56)%

Reason: Increase in working capital utilisation due to lower sales/profitability on account of COVID-19.

Current Ratio	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	0.59	0.64	9%

Reason: There is no significant change

Debt Equity Ratio (long term debt)	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	0.14	0.00	(100)%

Reason: Decrease in long-term borrowings

Creditor T/O ratio	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	3.68	2.84	(23)%

Reason: Less Purchase in March 2020 due to Covid-19.

Operating Profit Margin (%)	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	6.45	4.13	(36)%

Reason: COVID-19 impacted the sales resulting in lower profitability.

Net Profit Margin (%)	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	4.49	1.17	(74)%

Reason: COVID-19 impacted the sales resulting in lower profitability.

Return on Net Worth	FY 2019-20	FY 2020-21	Change in %
Based on year closing data	18.81	4.29	(77)%

Reason: COVID-19 impacted the revenue resulting in lower profitability and net worth.

Key Risks and Mitigation Strategies

The objective of risk management activities is to recognize, assess, and manage risks early on, and to implement appropriate measures to mitigate them. Risk management at Lumax is a continuous process of analyzing and managing all the risks posed to the business.

Risk	Impacts	Mitigation
Competition risk	Rise in competition could negatively impact our market share, margin profile, and return on capital employed.	Being the market leader, our technological expertise, strategic alliances, and long-standing customer relationships help us to mitigate this risk.
Foreign currency exchange rate risk	2.65% of our revenue comes from exports and 19.07% of our raw material comes from imports.	We mitigate this risk by way of our robust foreign exchange hedge mechanism and systems. Further, there is back to back arrangement for compensation from most of the customers.
Raw material price risk	India's Wholesale Price Index inflation hit an eight-year high at 7.39% in March 2021. Any further increase in steel prices could adversely impact our margin profile.	The Company has various ongoing improvement initiatives, on cost optimisation, product localisation, supply chain efficiency improvement and material yield improvement. Furthermore, by commanding pricing power with customers, we are most often able to pass on any raw material price increases. The backward integration into the PCB business helps us to further mitigate this risk.
Labor disputes risk	Industrial disputes lead to industrial action, which impacts our ability to meet clients' demand.	We maintain an open and positive relationship with all employees, subcontractors, workers, and others with constant and continuous communication.
Customer concentration risk	Top 3 customers account for 50% of total revenue.	We mitigate this risk by strengthening customer relationships, increasing wallet share, and adding new clients.

Management Discussion and Analysis (Contd.)

Internal Control Systems and Their Adequacy

The Company maintains an adequate and synchronized system of internal controls. It strictly adheres to various procedures, laws, rules, and statutes. Keeping the nature and business complexity of operations in mind, periodic risk assessment, mitigation and monitoring is done to ensure operational efficiency. The Company's independent auditors carry out internal audit ensuring proper recording and reporting. In case of discrepancies, the issue is immediately reported to the management and audit committee for timely correction. The Company's comprehensive IT system assures the safety of sensitive data and ease in audit processing. Accounting standards are strictly followed at the time of recording transactions. The MIS on the other hand, strengthens the real-time reporting and assists in controlling the expenses. The variance in the actual and budgeted allocation are promptly reported and corrected to ensure strict compliance.

Human Resources

Our human resources' wing functions dually by creating a safe and engaging work environment while enhancing productivity. As part of this plan, security is of utmost priority, not only inside the organization but also externally, with our suppliers, especially from Tier 2 cities.

Out of our 53 suppliers, 32 fall in the 'OK' category as per MSIL Safety Check sheet. We organize relevant training programs focused on effective personal productivity for the senior management.

A structured leadership-development initiative has helped us decorate our robust talent pipeline with qualified professionals at all levels. Our HR department is well-geared to promote retention of talented employees with an ecosystem that provides long-cycle professional development opportunities.

The management believes in teamwork and a corporate environment that is self-motivating. Over the time, we have successfully developed a well-motivated workforce, by imparting training, rewarding superior performance, and building a creative workplace. We will continue to remain focused on being the employer of choice, building an inclusive culture, a strong talent pipeline and capabilities in the organization. As always, we will continue to focus on drafting progressive employee-relation policies. Accordingly, our HR policies are centered around creating an environment that attracts, nurtures, and rewards high-caliber talent.

As on 31 March 2021 a total of 2,493 employees were on the Company's payroll.

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. The Company assumes no responsibility to publicly amend, modify, or revise any forward-looking statements based on any subsequent development, information, or events.